

Aldar Properties PJSC

**BOARD OF DIRECTORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2018

REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2018

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Aldar Properties PJSC

BOARD OF DIRECTORS' REPORT

31 DECEMBER 2018

Aldar Properties PJSC

BOARD OF DIRECTORS' REPORT

On behalf of the Board of Directors, I am delighted to present the consolidated audited financial statements of Aldar Properties PJSC (the "Company") and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018.

Principal activities

The principal activities of the Group are property development, investment and management of its real estate assets including offices, malls, hotels, schools, marinas, golf courses, restaurants, cooling assets and beach clubs.

Financial results

The financial results of the Group have been presented on page 10 of these consolidated financial statements.

Financial statements

The Directors reviewed and approved the consolidated financial statements of the Group for the year ended 31 December 2018.

Directors


The members of the Board of Directors as of 31 December 2018 are:

H.E. Mohamed Khalifa Al Mubarak	Chairman
H.E. Abubaker Seddiq Al Khoori	First Vice Chairman
H.E. Waleed Ahmed Al Mokarrab Al Muhairi	Second Vice Chairman
Mr. Ali Saeed Abdulla Sulayem Al Falasi	Director
Mr. Mansour Mohamed Al Mulla	Director
Mr. Ahmed Khalifa Mohamed Al Mehairi	Director
Mr. Mohammed Haji Al Khoori	Director
Mr. Martin Lee Edelman	Director
Eng. Hamad Salem Al Ameri	Director

Release

The Directors release from liability the external auditor and management in connection with their duties for the year ended 31 December 2018.

On behalf of the Board of Directors



Mohamed Al Mubarak
Chairman

13 February 2019

Aldar Properties PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ALDAR PROPERTIES PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Aldar Properties PJSC (the "Company"), and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

(a) Recognition of revenue on property development and sales and valuation of unbilled receivables

Revenue recognition on property development and sales and valuation of unbilled receivables involves significant judgements and use of estimates. The Group assesses for each of its contracts with customers, whether to recognise revenue over time or at a point in time based on a consideration of whether the Group has created a real estate asset with no alternative use and whether the Group has an enforceable right to payment for performance completed at any time during the life of the contract (see note 3.7 and 4.2 to the consolidated financial statements).

Where revenue is recognised over time, the Group estimates total development and infrastructure costs required to meet performance obligations under the contract and recognises proportionate revenue to the extent of satisfaction of performance obligations as at the end of the reporting period.

Revenue recognition on property development and sales was assessed as a key audit matter due to the significance of the assessment of satisfaction of performance obligations, estimation of total cost of project completion and judgements made in assessing the timing of revenue recognition. Furthermore, the valuation of unbilled revenues on completed as well as on-going development projects required management judgement due to the specific risks associated with each development project.

We reviewed a sample of contracts with customers for property development and sale and assessed the management identification of performance obligations and determination of whether the revenue shall be recognised over time or at a point in time. We assessed the satisfaction of performance obligations and where appropriate we corroborated it with external available evidence.

We examined approved project cost budgets for significant on-going real estate developments and reviewed the projects' completion percentages in light of costs incurred and also reviewed invoices, on a sample basis, to substantiate the costs incurred. For a sample of significant projects, we recalculated the amount of revenue to be recognised.

We inspected the contracts and tested the governance around approval of project budgets and held discussions with management where significant variances against the approved budgets were noted to understand the underlying reason.

We evaluated the adequacy of the valuation of unbilled revenues on completed as well as on-going development projects. In addition, we evaluated the adequacy of the Group's disclosures regarding unbilled revenues and the related risks such as credit risk as disclosed in note 34.6 of the consolidated financial statements.

(b) Valuation of investment properties

The Group's investment properties consist mainly of retail, residential and office properties, which are measured and recognised at fair value in the consolidated financial statements.

The valuation of investment properties is a key audit matter given the degree of complexity involved in valuation and the significance of the judgements and estimates made by management. The property valuations were carried out by external valuers (the "Valuers"). In determining a property's valuation the Valuers take into account property-specific information such as the current tenancy agreements and rental income and apply assumptions for yields and estimated market rent, which are influenced by prevailing market yields and comparable market transactions, to arrive at the valuation (see note 4.2 and 8 to the consolidated financial statements).



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

(b) Valuation of investment properties continued

We read the valuation reports for properties and assessed that the valuation approach for each was in accordance with the established standards for valuation of properties and suitable for use in determining the carrying value for the purpose of the consolidated financial statements.

We assessed the Valuers' independence, qualification and expertise and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work.

We involved our internal valuation specialists in reviewing the valuation of a sample of properties. The review included discussions with management, consideration of overall reasonableness of the assumptions and assessment of movement in valuations against our expectations. Where the assumptions were outside expected ranges or otherwise unusual, we obtained further audit evidence to support the explanations provided by management.

We compared the investment yields used by the Valuers to an estimated range of expected yields, assessed via reference to published benchmarks and research reports. Moreover, we analysed assumptions such as estimated rental values, service charges and occupancy levels against historical trends, published benchmarks or recent transactions. For break options, we inquired from management their assessment, based on correspondence with the tenants, whether these options would be exercised and corroborated management assessment with assumptions used by Valuers in valuation reports. Where assumptions were outside the expected range or otherwise unusual, and/or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with the management.

(c) Impairment assessment of hotel properties classified under property, plant and equipment

Hotel properties classified under property, plant and equipment had a carrying amount of AED 2,278 thousand as at 31 December 2018. The Group undertakes a review of indicators of impairment and wherever indicators of impairment exist, an impairment review is carried out by determining the recoverable amount which takes into account the fair value of the property under consideration (see note 4.2 and 6 to the consolidated financial statements).

The estimation of recoverable amounts of Hotel properties was assessed as a key audit matter due to the degree of complexity involved in valuation and the significance of the judgements and estimates made by the management.

We assessed the qualifications and expertise of independent third party Valuers and read their terms of engagement to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work. We involved our internal valuation specialists in reviewing the valuation of Hotel properties. The review included discussions with management, consideration of overall reasonableness of the assumptions and assessment of movement in valuations against our expectations. Where the assumptions were outside the expected range or otherwise unusual, we obtained further audit evidence to support the explanations provided by management.



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

(c) Impairment assessment of hotel properties classified under property, plant and equipment continued

We compared the investment yields used by the Valuers to an estimated range of expected yields, assessed via reference to published benchmarks and research reports. Moreover, we analysed assumptions such as average daily rate and occupancy levels against historical trends or published benchmarks. Where assumptions were outside the expected range or otherwise unusual, and/ or valuations showed unexpected movements, we undertook further investigations and, when necessary, held further discussions with the management.

(d) Business combination

The Group has acquired a portfolio of real estate assets and operating businesses from Tourism Development & Investment Company P.J.S.C ("TDIC"), for a total consideration of AED 3,625 million, resulting in a gain of AED 132.8 million. The assets and operating businesses acquired are involved in the hospitality, retail, residential, district cooling, education and infrastructure development businesses. This acquisition is part of the Group's strategic plan to expand its portfolio. On 1 May 2018, the conditions precedent under the Agreement were substantively met, resulting in the Company gaining control of these assets and the operating businesses. (see note 4.2 and 5 to the consolidated financial statements).

An independent external valuation specialist ("valuers") was engaged by the Group to perform the purchase price allocation exercise, fair valuation of required assets and liabilities, and identification and valuation of the TDIC assets/ businesses. The acquisition of assets/ businesses is a key audit matter as this is a significant transaction during the year which requires significant judgement regarding the allocation of the purchase price to the assets and liabilities acquired and adjustments made to align accounting policies of the newly acquired assets/ businesses with those of the Group.

We obtained the purchase price allocation report prepared by management and the independent valuers engaged by the Group. We involved our internal valuation specialists in reviewing the report. The review included discussions with management and consideration of overall reasonableness of the assumptions and valuations in line with our expectations. Further, we assessed the key assumptions including cash flows focusing on revenues and earnings before interest, tax depreciation and amortisation ('EBITDA') and appropriateness of discount and growth rates, whilst considering the risk of management bias.

We read the valuation reports for properties acquired as part of business combination and assessed that the valuation approach for each was in accordance with the established standards for valuation of properties and suitable for use in determining the carrying value for the purpose of the consolidated financial statements.

We obtained a confirmation from TDIC regarding the completeness of the assets and liabilities acquired as part of the business combination.



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Other information

Other information consists of the information included in the Group's 2018 Annual Report and Board of Directors' report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2018 Annual Report after the date of our auditors' report. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and Board of Directors for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the Company's Memorandum and Articles of Association and of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Auditors' responsibilities for the audit of the consolidated financial statements continued

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ALDAR PROPERTIES PJSC continued

Report on the Audit of the Consolidated Financial Statements continued


Auditors' responsibilities for the audit of the consolidated financial statements continued

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 and the Memorandum and Articles of Association of the Company;
- iii) the Group has maintained proper books of account;
- iv) the consolidated financial information included in the Board of Directors report is consistent with the books of account and records of the Group;
- v) investments in shares and stocks are included in note 9 and 10 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2018;
- vi) note 32 reflects material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company has contravened, during the financial year ended 31 December 2018, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2018; and
- viii) note 37 reflects the social contributions recorded during the year.


Signed by:
Anthony O'Sullivan
Partner
Registration No: 687

13 February 2019
Abu Dhabi

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	6	3,600,971	2,930,941
Intangible assets and goodwill	7	198,117	5,104
Investment properties	8	16,408,303	16,076,549
Investment in associates and joint ventures	9	993,531	957,631
Available-for-sale financial assets	10	-	119,389
Investment in financial assets at fair value through other comprehensive income	10	96,116	-
Other financial asset	20	14,024	-
Trade and other receivables	11	<u>399,002</u>	<u>427,211</u>
Total non-current assets		<u>21,710,064</u>	<u>20,516,825</u>
Current assets			
Land held for sale		3,806,071	2,305,747
Development work in progress	12	2,473,374	1,476,818
Inventories	13	469,144	286,601
Trade and other receivables	11	5,070,445	4,925,449
Cash and bank balances	14	<u>5,014,607</u>	<u>6,885,486</u>
Total current assets		<u>16,833,641</u>	<u>15,880,101</u>
TOTAL ASSETS		<u>38,543,705</u>	<u>36,396,926</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	15	7,862,630	7,862,630
Statutory reserve	16	3,931,315	3,931,315
Hedging reserve		70,547	(17,024)
Fair value reserve		34,729	44,084
Retained earnings		<u>12,163,947</u>	<u>11,200,549</u>
Equity attributable to the owners of the Company		24,063,168	23,021,554
Non-controlling interests		<u>172,662</u>	<u>213,611</u>
Total equity		<u>24,235,830</u>	<u>23,235,165</u>
Non-current liabilities			
Non-convertible sukuk	17	1,810,140	-
Bank borrowings	18	4,865,481	2,376,275
Retentions payable		304,702	311,389
Lease liability		430,703	488,183
Provision for employees' end of service benefit	19	145,479	141,763
Other financial liabilities	20	<u>5,802</u>	<u>16,263</u>
Total non-current liabilities		<u>7,562,307</u>	<u>3,333,873</u>
Current liabilities			
Non-convertible sukuk	17	21,811	2,762,570
Bank borrowings	18	358,512	817,173
Retentions payable		409,493	310,175
Lease liability		99,195	70,842
Advances from customers		362,276	469,854
Trade and other payables	21	<u>5,494,281</u>	<u>5,397,274</u>
Total current liabilities		<u>6,745,568</u>	<u>9,827,888</u>
Total liabilities		<u>14,307,875</u>	<u>13,161,761</u>
TOTAL EQUITY AND LIABILITIES		<u>38,543,705</u>	<u>36,396,926</u>

Mohamed Al Mubarak
Chairman

Talal Al Dhiyebi
Chief Executive Officer

Greg Fewer
Chief Financial Officer

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Aldar Properties PJSC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Revenue	22	6,286,533	6,180,676
Direct costs	23	(3,654,846)	(3,525,171)
GROSS PROFIT		2,631,687	2,655,505
Selling and marketing expenses	24	(85,440)	(74,978)
<i>General and administrative expenses</i>			
Staff costs	25	(218,948)	(227,767)
Depreciation and amortisation	6,7	(230,142)	(185,976)
(Provisions and impairments)/ reversal, net	26	(50,048)	8,821
Others		(139,235)	(104,543)
Share of profit from associates and joint ventures, net	9	49,863	41,544
Gain on disposal of investment properties		-	3,835
Gain on disposal of joint venture		30,319	-
Fair value loss on investment properties, net	8	(671,046)	(613,107)
Finance income	27	79,735	124,642
Finance costs	28	(309,749)	(254,253)
Other income	29	767,868	632,212
PROFIT FOR THE YEAR		<u>1,854,864</u>	<u>2,005,935</u>
Attributable to:			
Owners of the Company		1,855,808	1,995,505
Non-controlling interests		<u>(944)</u>	<u>10,430</u>
		<u>1,854,864</u>	<u>2,005,935</u>
Basic and diluted earnings per share attributable to owners of the Company in AED	30	<u>0.236</u>	<u>0.254</u>

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Profit for the year		<u>1,854,864</u>	<u>2,005,935</u>
<i>Other comprehensive income not to be reclassified to income statement in subsequent periods:</i>			
Gain on revaluation of investment in financial assets at fair value through other comprehensive income	10	(9,355)	5,913
<i>Other comprehensive income to be reclassified to income statement in subsequent periods:</i>			
Changes in fair value of cash flow hedges	20	<u>87,571</u>	<u>2,112</u>
Other comprehensive income		<u>78,216</u>	<u>8,025</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>1,933,080</u>	<u>2,013,960</u>
Total comprehensive income attributable to:			
Owners of the Company		1,934,024	2,003,530
Non-controlling interests		<u>(944)</u>	<u>10,430</u>
		<u>1,933,080</u>	<u>2,013,960</u>

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Notes	Share capital AED '000	Statutory reserve AED '000	Hedging reserve AED '000	Fair value reserve AED '000	Retained earnings AED '000	Equity attributable to owners of the Company AED '000	Non- controlling interests AED '000	Total equity AED '000
Balance at 1 January 2017		7,862,630	3,931,315	(19,136)	38,171	10,069,933	21,882,913	203,181	22,086,094
Profit for the year		-	-	-	-	1,995,505	1,995,505	10,430	2,005,935
Other comprehensive income		-	-	2,112	5,213	-	8,025	-	8,025
Total comprehensive income for the year		-	-	2,112	5,913	1,995,505	2,003,530	10,430	2,013,960
Dividends paid for the year 2016	31	-	-	-	-	(864,889)	(864,889)	-	(864,889)
Balance at 31 December 2017		<u>7,862,630</u>	<u>3,931,315</u>	<u>(17,024)</u>	<u>44,084</u>	<u>11,200,549</u>	<u>23,021,554</u>	<u>213,611</u>	<u>23,235,165</u>
Balance at 1 January 2018		7,862,630	3,931,315	(17,024)	44,084	11,200,549	23,021,554	213,611	23,235,165
Profit for the year		-	-	-	-	1,855,808	1,855,808	(944)	1,854,864
Other comprehensive income		-	-	87,571	(9,355)	-	78,216	-	78,216
Total comprehensive income for the year		-	-	87,571	(9,355)	1,855,808	1,934,024	(944)	1,933,080
Dividends paid for the year 2017	31	-	-	-	-	(943,516)	(943,516)	-	(943,516)
Acquisition of a non-controlling interest (i)		-	-	-	-	51,106	51,106	(81,106)	(30,000)
Acquisition of subsidiaries	5	-	-	-	-	-	-	41,101	41,101
Balance at 31 December 2018		<u>7,862,630</u>	<u>3,931,315</u>	<u>70,547</u>	<u>34,729</u>	<u>12,163,947</u>	<u>24,063,168</u>	<u>172,662</u>	<u>24,235,830</u>

(i) This represent acquisition of remaining 40% shares in Khidmah LLC effective 25 September 2018 resulting in the Group holding 100% shares of the company. The resulting net gain of AED 51,106 thousand is recognised in equity.

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Cash flows from operating activities			
Profit for the year		1,854,864	2,005,935
Adjustments for:			
Depreciation and amortisation	6 & 7	242,807	196,539
Finance income	27	(79,735)	(124,642)
Dividend income	10	(5,415)	(5,155)
Finance costs		271,805	205,778
Amortisation of prepaid finance costs		15,715	18,017
Fair value loss on investment properties, net	8	671,046	613,107
Share of profit from associates and joint ventures	9	(49,863)	(41,544)
Provision for onerous contracts	26	12,126	-
Impairments/ write-offs on projects	26	3,348	2,064
Provisions and impairments/ (reversal), net	26	28,970	(9,544)
Receivables write-offs		26,958	-
Reversal of accruals, net		(144,751)	(200,583)
Gain on business combination	29	(132,791)	-
Reversal for impairment of property, plant and equipment, net	26	(22,507)	(1,341)
Write-off of investment in associates and joint ventures	9	49	800
Loss on disposal of property, plant and equipment		223	14
Gain on disposal of investment properties		-	(3,835)
Provision for employees' end of service benefits	19	<u>36,687</u>	<u>26,420</u>
Operating cash flows before changes in working capital		2,729,536	2,682,030
Changes in working capital:			
(Increase)/ decrease in trade and other receivables		(98,008)	61,377
Increase in development work in progress (i)		(998,350)	(203,157)
Increase in inventories and land held for sale (i)		(1,760,190)	(143,515)
Increase in retentions payable		92,630	58,806
(Decrease)/ increase in advances from customers		(107,578)	45,211
Increase/ (decrease) in trade and other payables		<u>71,247</u>	<u>(617,082)</u>
Cash (used in)/ generated from operating activities		<u>(70,713)</u>	<u>1,883,670</u>
Employees' end of service benefits paid	19	<u>(36,675)</u>	<u>(12,794)</u>
Net cash (used in)/ generated from operating activities (i)		<u>(107,388)</u>	<u>1,870,876</u>

- (i) The net cash outflows for operating activities for the year ended 31 December 2018 include AED 2,050,000 thousand relating to the acquisition of land and projects under development as part of the asset acquisition from TDIC (note 5).

Aldar Properties PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS continued For the year ended 31 December 2018

	<i>Notes</i>	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(94,170)	(154,940)
Purchase of intangible assets	7	(4,064)	(4,976)
Additions to investment properties	8	(732,277)	(944,211)
Capital call contributions made for investment in financial assets at fair value through other comprehensive income	10	(14,420)	-
Capital repayments received investment in financial assets at fair value through other comprehensive income	10	28,338	12,972
Proceeds from disposal of investment properties		-	15,094
Finance income received		125,541	74,620
Dividends received	9 & 10	34,775	66,544
Acquisition of minority interest of subsidiary		(30,000)	-
Acquisition of Operating Business, net of cash acquired	5.3	(928,337)	-
Partial swap settlement		58,466	-
Movement in term deposits with original maturities above three months		2,408,578	(71,417)
Movement in restricted bank balances		<u>(60,249)</u>	<u>(712,354)</u>
Net cash from/ (used in) investing activities		<u>792,181</u>	<u>(1,718,668)</u>
Cash flows from financing activities			
Repayment of operating lease liability	33.2	(54,851)	(25,468)
Bank borrowings and Sukuk raised		8,171,250	1,000,000
Repayment of borrowings and Sukuk		(7,075,014)	(627,592)
Finance costs paid		(283,830)	(204,631)
Dividends paid		(945,618)	(866,143)
Directors' remuneration paid	32	<u>(19,279)</u>	<u>(23,000)</u>
Net cash used in financing activities		<u>(207,342)</u>	<u>(746,834)</u>
Net increase/ (decrease) in cash and cash equivalents		477,451	(594,626)
Cash and cash equivalents at the beginning of the year		<u>916,907</u>	<u>1,511,533</u>
Cash and cash equivalents at the end of the year	14	<u>1,394,358</u>	<u>916,907</u>

The accompanying notes 1 to 38 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

1 CORPORATE INFORMATION

The establishment of Aldar Properties PJSC (the “Company”) was approved by Decision No. (16) of 2004 of the Abu Dhabi Department of Planning and Economy dated 12 October 2004. The Company’s incorporation was declared by Ministerial Resolution No. (59) of 2005 issued by the UAE Minister of Economy dated 23 February 2005. The Company is domiciled in the United Arab Emirates and its registered office address is PO Box 51133, Abu Dhabi. The Company’s ordinary shares are listed on Abu Dhabi Securities Exchange.

As of 31 December 2018, Mubadala Investment Company through its wholly owned subsidiaries has an indirect 37.33% shares of the Company.

The Company and its subsidiaries (together referred to as the “Group”) are engaged in various businesses primarily the development, sales, investment, construction, management and associated services for real estate, operation of hotels, schools, marinas, golf courses, restaurants, cooling assets and beach clubs.

2 NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS

2.1 Standards issued and adopted

The Group applied IFRS 9 for the first time. Several other amendments and interpretations apply for the first time in 2018, but do not have a material impact on the consolidated financial statements of the Group. Other than IFRS 16 “Leases”, the Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively. The impact of adoption of IFRS 9 on the financial statements of the Group has been explained in note 3.23 below.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration. This Interpretation does not have any impact on the Group’s consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments do not have any material impact on the Group’s consolidated financial statements.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The Group has no share-based payment transactions and hence these amendments do not have any impact on the Group’s consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

2 NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERPRETATIONS continued**2.1 Standards issued and adopted** continued**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

2.2 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

	<i>Effective for annual periods beginning on or after</i>
Standards, interpretation and amendments	
• IFRS 17, Insurance Contracts: IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005	1 January 2021
• Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
• Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-
• Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
• Amendments to IAS 28: Long term investment in associates and joint ventures	1 January 2019
Annual Improvements 2015-2017 Cycle	
• IFRS 3 Business Combinations - Previously held interests in a joint operation	1 January 2019
• IFRS 11 Joint Arrangements - Previously held interests in a joint operation	1 January 2019
• IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity	1 January 2019
• IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation	1 January 2019

The Group had elected to early adopt IFRS 16 with effect from 1 January 2016. Management anticipates that the adoption of the standards, interpretations and amendments issued but not yet effective will have no material impact on the consolidated financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and also comply with the applicable requirements of the laws in the UAE.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for investment properties, derivative financial instruments and investments in financial assets at fair value through other comprehensive income that have been measured at fair value. The principal accounting policies are set out below.

These consolidated financial statements have been presented in UAE Dirhams (AED) which is also the functional currency of the Group and all values are rounded to the nearest thousand except when otherwise indicated.

3.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- exposure, or rights, to variable returns from its involvement with the investee
- the ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement(s) with the other vote holders of the investee
- rights arising from other contractual arrangements
- the Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in income statement. Any investment retained is recognised at fair value.

Aldar Properties PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.3 Basis of consolidation continued

Details of the Company subsidiaries as at 31 December 2018 are given below:

<i>Name of subsidiary</i>	<i>Ownership interest</i>	<i>Country of incorporation</i>	<i>Principal activity</i>
Al Raha Gardens Property LLC	100%	UAE	Development, sale and management of properties
Al Jimi Mall LLC	100%	UAE	Development and management of investment property
Aldar Real Estate Services LLC	100%	UAE	Property development
Al Raha Infrastructure Company LLC	100%	UAE	Development, sale and management of properties
Aldar Academies LLC	100%	UAE	Investment in, and management of entities providing educational services
Aldar Commercial Property Developments LLC	100%	UAE	Ownership, management and development of buildings
Aldar Hotels and Hospitality LLC	100%	UAE	Investment in, and management of, entities providing hotels and hospitality services
Aldar Marinas LLC	100%	UAE	Managing and operating marinas, sports clubs and marine machinery
Abu Dhabi World Trade Centre LLC	100%	UAE	Development and management of, and investment in, properties and related activities
Yas Hotel LLC	100%	UAE	Ownership, development and management of hotels
Yas Links LLC	100%	UAE	Ownership and management of golf courses and golf clubs
Al Muna Primary School LLC	100%	UAE	Providing educational services
Tilal Liwa Real Estate Investment LLC	100%	UAE	Property, rental and management
Al Seih Real Estate Management LLC	91.4%	UAE	Management and leasing of real estate; real estate projects investment
Seih Sdeirah Real Estate LLC	91.4%	UAE	Property rental and management; real estate projects investment
Pivot Engineering & General Contracting Co. (WLL)	65.2%	UAE	Engineering and general construction works
Aldar Investment Properties LLC	100%	UAE	Investment, management and associated services for real estate assets and the operation of hotels
Aldar Investment Holding Restricted Limited	100%	UAE	Special purpose vehicle, Proprietary asset management company
Khidmah - Sole Proprietorship LLC (formerly Khidmah LLC)	100%	UAE	Management and leasing of real estate
TDIC Food & Beverage – Sole Proprietorship LLC	100%	UAE	Restaurant management
TDIC Education – Sole Proprietorship LLC	100%	UAE	Educational activities
Saadiyat Cooling LLC	85%	UAE	Cooling station operations
Saadiyat District Cooling LLC	100%	UAE	Cooling station operations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.4 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to income statement where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.5 Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in its associate and joint venture are accounted for using the equity method. The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate or a joint venture is initially recognised and carried in the consolidated statement of financial position at cost and as adjusted thereafter to recognise for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associate and joint venture.

The income statement reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss and non-controlling interests in the subsidiaries of the associate or joint venture.

Losses of an associate or joint venture in excess of the Group's interest in that associate or joint venture (which includes any long term interests that, in substance, form part of the Group's net investment in associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of an associate and a joint venture' in the income statement.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.6 Investment in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered conducting the transaction with other parties to the joint operation and profits and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period

Or

- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period

Or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Revenue recognition

The Group had elected to early adopt IFRS 15 “Revenue from Contracts with Customers”, from 1 January 2015.

Revenue from contracts with customers for sale of properties, construction contracts and provision of services

The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15:

- Step 1* Identify contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
- Step 2* Identify performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
- Step 3* Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
- Step 4* Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5* Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- a) The Group’s performance does not create an asset with an alternate use to the Group and the Group has as an enforceable right to payment for performance completed to date.
- b) The Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- c) The customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract-based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably.

Rental income

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Service charges and expenses recoverable from tenant

Income arising from cost recharged to tenants is recognised in the period in which the cost can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue as the Group acts as principal in this respect.

Income from hotels

Income from hotels comprises revenue from rooms, food and beverages and other associated services provided, and is recognised at the point when the goods are sold or services are rendered.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Revenue recognition continued

Income from leisure businesses

Income from leisure businesses comprises revenue from goods sold and services provided at marinas and golf course, and is recognised at the point when the goods are sold or services are rendered.

Income from schools

Registration fee is recognised as income when it is received. Tuition fee income is recognised over the period of tuition. Tuition fees received in advance are recorded as deferred income.

Revenue from cooling assets

Revenue is recognised for supply of chilled water based on the agreements. The revenue in respect of the contracted capacity is recognised at the fixed rate, whereas the revenue in respect of the consumption of chilled water is recognised as these are consumed by the customer at agreed rates. In addition, customers are charged a one-time connection fee.

Dividend income

Dividend income from investments is recognised when the Group's right to receive payment has been established.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and effective interest rate applicable.

3.8 Leases

The Group had elected to early adopt IFRS 16 "Leases" with effect from 1 January 2016.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For a contract that is, or contains, a lease, the Group accounts for each lease component within the contract as a lease separately from non-lease components of the contract.

The Group determines the lease term as the non-cancellable period of a lease, together with both:

- a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
- b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Group considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

The Group as a lessee

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The relative stand-alone price of lease and non-lease components is determined on the basis of the price the lessor, or a similar supplier, would charge an entity for that component, or a similar component, separately. If an observable stand-alone price is not readily available, the Group estimates the stand-alone price, maximising the use of observable information.

The non-lease components are accounted for in accordance with the Group's policies.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.8 Leases continued

For determination of the lease term, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that:

- a) is within the control of the Group; and
- b) affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term.

At the commencement date, the Group recognises a right-of-use asset and a lease liability under the lease contract.

Lease liability

Lease liability is initially recognised at the present value of the lease payments that are not paid at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

After initial recognition, the lease liability is measured by (a) increasing the carrying amount to reflect interest on the lease liability; (b) reducing the carrying amount to reflect the lease payments made; and (c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Where, (a) there is a change in the lease term as a result of reassessment of certainty to exercise an exercise option, or not to exercise a termination option as discussed above; or (b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the context of a purchase option, the Group remeasures the lease liabilities to reflect changes to lease payments by discounting the revised lease payments using a revised discount rate. The Group determines the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or its incremental borrowing rate at the date of reassessment, if the interest rate implicit in the lease cannot be readily determined.

Where, (a) there is a change in the amounts expected to be payable under a residual value guarantee; or (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review, the Group remeasures the lease liabilities by discounting the revised lease payments using an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates. In such case, the Group use a revised discount rate that reflects changes in the interest rate.

The Group recognises the amount of the re-measurement of lease liability as an adjustment to the right-of-use asset. Where the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the Group recognises any remaining amount of the re-measurement in profit or loss.

The Group accounts for a lease modification as a separate lease if both:

- a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Lease modifications that are not accounted for as a separate, lease the Group, at the effective date of the lease modification: (a) allocates the consideration in the modified contract; (b) determines the lease term of the modified lease; and (c) remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.8 Leases continued

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined

Right-of-use assets

The right-of-use asset is initially recognised at cost comprising of

- a) amount of the initial measurement of the lease liability;
- b) any lease payments made at or before the commencement date, less any lease incentives received;
- c) any initial direct costs incurred by the Group; and
- d) an estimate of costs to be incurred by the Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. These costs are recognised as part of the cost of right-of-use asset when the Group incurs an obligation for these costs. The obligation for these costs are incurred either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After initial recognition, the Group applies fair value model to right-of-use assets that meet the definition of investment property. For assets that meet the definition of property, plant and equipment, right of use asset is carried at cost net of depreciation and impairment and is amortised over the term of the lease.

3.9 Foreign currencies

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.10 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in income statement in the period during which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.11 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the income statement in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**3.11 Property, plant and equipment** continued

Depreciation is calculated using the straight-line method to allocate the assets' cost to their residual values over their estimated useful lives as follows:

	<i>Years</i>
Buildings	20 – 30
Plants and machinery	15 – 20
Labour camps	5
Furniture and fixtures	5
Office equipment	3 – 5
Computers	3
Motor vehicles	4
Leasehold improvements	3 – 4

Freehold land is not depreciated.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

3.12 Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the acquisition of the property including related staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is accounted in accordance with the Group's policies.

3.13 Investment properties

Investment properties comprise completed properties and properties under development. Completed properties are properties held to earn rentals and/ or for capital appreciation and properties under development are properties being constructed or developed for future use as investment property.

Investment properties are measured initially at cost including transaction costs and for properties under development all direct costs attributable to the design and construction including related staff costs. Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair value of investment properties are included in the income statement in the period in which they arise. Fair values are determined based on an annual valuation performed by an accredited external independent valuer applying a valuation model recommended by the International Valuation Standards Committee.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.13 Investment properties continued

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Upon completion of construction or development, a property is transferred from properties under development to completed properties. Investment properties are derecognised either when they have been disposed of (i.e., at the date the recipient obtains control) or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the income statement in the period of derecognition.

3.14 Development work in progress

Development work in progress consists of property being developed principally for sale and is stated at the lower of cost or net realisable value. Cost comprises all direct costs attributable to the design and construction of the property including direct staff costs, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Net realisable value is the estimated selling price in the ordinary course of the business less estimated costs to complete and applicable variable selling expenses.

3.15 Inventories

Inventories comprise completed properties held for sale in the ordinary course of business and other operating inventories. Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method and comprises construction/ acquisition costs and other charges incurred in bringing inventory to its present location and condition. Net realisable value represents the estimated selling price less all estimated selling and marketing costs to be incurred.

3.16 Land held for sale

Land held for sale is stated at the lower of cost and net realisable value. Costs include the cost of land acquired and all direct costs attributable to the infrastructure works of the land. Net realisable value represents the estimated selling price of the land less all estimated costs necessary to make the sale.

3.17 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis and amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category that is consistent with the function of the intangible assets. An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives which is normally a period of three to five years.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Intangible assets continued

Customer contracts

Customer contracts have a finite useful life and are carried at cost less accumulated amortisation and impairment and mainly represent long term non-cancellable contracts with customers for the supply of district cooling services which were acquired during the year (note 5). Amortisation is calculated using the straight-line method to allocate the cost over their estimated useful lives, which is in the range of 22 to 29 years.

3.18 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

3.19 Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract. An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

3.21 Employee benefits

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with Group policy and UAE Labour Law, for their period of service up to the end of the year. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social security Authority in accordance with the UAE Federal Law No. (2), 2000 for Pension and Social Security. Such contributions are charged to the income statement during the employees' period of service.

3.22 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-monetary assets are recognised as deferred government grant in the statement of financial position and transferred to income statement on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses already incurred or for the purpose of giving immediate financial support to the group with no future related costs are recognised in income statement in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Land granted by the Government is recognised at nominal value where there is reasonable assurance that the land will be received and the Group will comply with any attached conditions, where applicable.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

All financial assets under the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortised cost, if both the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income, if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

On adoption of IFRS 9, the Group reclassified financial assets previously reported as available-for-sale financial assets amounting to AED 119,39 as investment in financial assets at fair value through other comprehensive income in accordance with the requirements of IFRS 9.

Financial liabilities

All financial liabilities are classified and subsequently measured at amortised cost, except for:

- financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are subsequently measured at fair value
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies
- financial guarantee contracts
- commitments to provide a loan at a below-market interest rate

At initial recognition, the Group may irrevocably designate a financial liability as measured at fair value through profit or loss when permitted, or when doing so results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the entity's key management personnel.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Financial instruments – initial recognition and subsequent measurement continued

Financial liabilities continued

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss. This category generally applies to interest-bearing loans and borrowings.

Embedded derivatives

Where a hybrid contract contains a host that is a financial asset under the scope of IFRS 9, the policy in relation to classification and measurement, including impairment relating to the financial assets applies to the entire hybrid contract.

Where a hybrid contract contains a host that is not a financial asset within the scope of IFRS 9, the embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid contract is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial liability at fair value through profit or loss is not separated).

Where a contract contains one or more embedded derivatives and the host is not a financial asset within the scope of IFRS 9, the Group may designate the entire hybrid contract as at fair value through profit or loss unless:

- the embedded derivatives do not significantly modify the cash flows that otherwise would be required by the contract; or
- it is clear with little or no analysis when a similar hybrid instrument is first considered that separation of the embedded derivatives is prohibited, such as a prepayment option embedded in a loan that permits the holder to prepay the loan for approximately its amortised cost.

Where it is required by this Standard to separate an embedded derivative from its host, but is unable to measure the embedded derivative separately either at acquisition or at the end of a subsequent financial reporting period, it shall designate the entire hybrid contract as at fair value through profit or loss.

Reclassification of financial assets and financial liabilities

Where the Group changes its business model for managing financial assets, it reclassifies all affected financial assets. An entity shall not reclassify any financial liability.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Financial instruments – initial recognition and subsequent measurement continued

Measurement of financial assets and liabilities

Initial measurement

At initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets

After initial recognition, an entity shall measure a financial asset in accordance with its classification at:

- amortised cost less impairment;
- fair value through other comprehensive income less impairment; or
- fair value through profit or loss.

Impairment is assessed on the financial assets measured at amortised cost and at fair value through other comprehensive income as disclosed below.

Hedge accounting requirements disclosed below applies to financial assets designated as hedged item.

Impairment of financial assets

In relation to the impairment of financial assets, the Group applies the Expected Credit Loss (“ECL”) model as opposed to an incurred credit loss model. Under the expected credit loss model, the Group accounts for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition of the financial assets. It is not necessary for a credit event to have occurred before credit losses are recognised.

A loss allowance for expected credit losses is recognised on all classes of financial assets, other than those that are measured as fair value through profit or loss and equity instruments classified and measured at fair value through other comprehensive income. The financial assets subject to impairment requirements of IFRS 9, include:

- debt investments subsequently measured at amortised cost or at fair value through other comprehensive income;
- trade receivables;
- lease receivables;
- contract assets; and
- loan commitments and financial guarantee contracts.

The Group has adopted the simplified approach for measuring the impairment on trade receivables, lease receivables and contract assets. Under the simplified approach, the Group measures the loss allowance at an amount equal to lifetime ECL.

For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the end of the reporting period or an actual default occurring.

In line with IFRS 9 transition provisions, the Group has elected to record any adjustment to its retained earnings as at 1 January 2018 to reflect the application of the requirements in relation to impairment and measurement at the date of adoption without restating comparative information. The adoption of IFRS 9 did not have any impact on the opening retained earnings of the Group.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Financial instruments – initial recognition and subsequent measurement continued

Impairment of financial assets continued

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the end of the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are highly doubtful of collection, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped for the assessment of the expected credit loss. The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The management reviewed and assessed the Group's existing financial assets for impairment, as at 1 January 2018, using reasonable and supportable information that is available, in accordance with the guidance included in IFRS 9, to determine the credit risk associated with the respective financial assets. Based on this assessment, the management believes that there is no material impact on the carrying values of the financial assets as at 1 January 2018.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Financial instruments – initial recognition and subsequent measurement continued

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

3.24 Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risks and interest rate risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

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3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

3.24 Derivative financial instruments and hedge accounting continued

Fair value hedges

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss as other expense. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss as other expense. For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the EIR method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of profit or loss. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI must remain in accumulated OCI if the hedged future cash flows are still expected to occur. Otherwise, the amount will be immediately reclassified to profit or loss as a reclassification adjustment. After discontinuation, once the hedged cash flow occurs, any amount remaining in accumulated OCI must be accounted for depending on the nature of the underlying transaction as described above.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

4.1 Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Discount rate used for initial measurement of lease liability

The Group, as a lessee, measures the lease liability at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in similar economic environment.

The Group determines its incremental borrowing rate with reference to its existing and historical cost of borrowing adjusted for the term and security against such borrowing.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.1 Judgements continued

Classification of properties

In the process of classifying properties, management has made various judgements. Judgement is needed to determine whether a property qualifies as an investment property, property, plant and equipment and / or property held for sale. The Group develops criteria so that it can exercise that judgement consistently in accordance with the definitions of investment property, property, plant and equipment and property held for sale. In making its judgement, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, and in particular, the intended usage of property as determined by the management.

Judgements in relation to contracts with customers

Satisfaction of performance obligations

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method for recognising revenue. The Group has assessed that based on the contracts entered into with customers and the provisions of relevant laws and regulations, the Group recognises revenue over time in the following circumstances:

- a) where contracts are entered into for development (sale of properties to customers), the Group does not create an asset with an alternative use to the Group and has an enforceable right to payment for performance completed to date;
- b) where contracts are entered into for construction (to construct an asset for the customer), the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and
- c) where contracts are entered into to provide services (property management and facility management), the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Where the above criteria are not met, revenue is recognised at a point in time. Where revenue is recognised at a point of time, the Group assesses each contract with customers to determine when the performance obligation of the Group under the contract is satisfied.

Determination of transaction prices

The Group is required to determine the transaction price in respect of each of its contracts with customers. In making such judgement the Group assesses the impact of any variable consideration in the contract, due to discounts or penalties, the existence of any significant financing component and any non-cash consideration in the contract.

In determining the impact of variable consideration, the Group uses the "most-likely amount" method in IFRS 15 whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

Transfer of control in contracts with customers

In cases where the Group determines that performance obligations are satisfied at a point in time, revenue is recognised when control over the assets is transferred to the customer or benefits of the services being provided is received and consumed by the customer. In the case of contracts to sell real estate assets this is generally when the consideration for the unit has been substantially received and there are no impediments in the handing over of the unit to the customer.

Identifying whether an acquisition is a business or an asset

For acquisitions made by the Group, the Group needs to make significant judgement to assess whether the assets acquired and liabilities assumed constitutes a business and whether it has acquired control of one or more businesses. Where such an acquisition does not constitute a business, the acquisition is accounted for as an asset acquisition. In making this assessment, the Group applies the definition of business under IFRS 3 which requires that the Group determines whether it has acquired integrated processes which when applied to inputs, have the ability to produce outputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Allocation of transaction price to performance obligation in contracts with customers

The Group has elected to apply the input method in allocating the transaction price to performance obligations where revenue is recognised over time. The Group considers that the use of the input method, which requires revenue recognition on the basis of the Group's efforts to the satisfaction of performance obligation, provides the best reference of revenue actually earned. In applying the input method, the Group estimates the efforts or inputs to the satisfaction of a performance obligation. In addition to the cost of meeting contractual obligation to the customers, these estimates mainly include:

- a) For development contracts, the cost of development and related infrastructure;
- b) For construction contracts, the certified works as evaluated by project consultant; and
- c) For services contracts, the time elapsed.

Impairment of financial assets

The Group assesses the impairment of its financial assets based on the Expected Credit Loss ("ECL") model. Under the expected credit loss model, the Group accounts for expected credit losses and changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since initial recognition of the financial assets. The Group measures the loss allowance at an amount equal to lifetime ECL for its financial instruments.

The Group measures the expected credit losses of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are measured for the maximum contractual period over which the entity is exposed to credit risk.

Fair value of investment properties and investment properties under development

The fair value of investment properties is determined by independent real estate valuation experts using recognised valuation methods. These methods comprise the Residual Value Method, and the Income Capitalisation Method.

The Residual Value Method requires the use of estimates such as future cash flows from assets (comprising of selling and leasing rates, future revenue streams, construction costs and associated professional fees, and financing cost, etc.), targeted internal rate of return and developer's risk and targeted profit. These estimates are based on local market conditions existing at the end of the reporting period.

Under the Income Capitalisation Approach, the income receivable under existing lease agreements and projected future rental streams are capitalised at appropriate rates to reflect the investment market conditions at the valuation dates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.2 Estimates and assumptions continued

Fair value of investment properties and investment properties under development continued

Such estimations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The key assumptions used are as follows:

	<i>Range %</i>
Targeted internal rate of return	9 - 16
Rental yield	7 - 12

Estimation of net realisable value for inventory and development work in progress

Properties held for sale and properties classified under development work in progress are stated at the lower of cost or net realisable value (NRV). NRV is assessed with reference to sales prices, costs of completion and advances received and market conditions existing at the end of the reporting period. For certain properties, NRV is determined by the Group having taken suitable external advice and in the light of recent market transactions, where available.

Impairment of property, plant and equipment and capital work in progress

Properties classified under property, plant and equipment and capital work in progress are assessed for impairment when there is an indication that those assets have suffered an impairment loss. An impairment review is carried out by determining the recoverable amount which takes into account the fair value of the property under consideration. The fair value of hotel properties classified under property, plant and equipment is determined by an independent real estate valuation expert using Discounted Cash Flow method.

Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discounting rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any probable impairment.

Useful lives of property, plant and equipment and intangible assets

Management reviews the residual values and estimated useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

Valuation of unquoted investments

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

Impairment of investments in/ receivable from joint ventures and associates

Management regularly reviews its investments in joint ventures and associates for indicators of impairment. This determination of whether investments in joint ventures and associates are impaired, entails Management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. The difference between the estimated recoverable amount and the carrying value of investment and/ or receivable is recognised as an expense in income statement. Management is satisfied that no additional impairment is required on its investments in associates and joint ventures (note 9) and its receivables from associates and joint ventures (note 11.5) in excess of amount already provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 BUSINESS COMBINATION

During the year ended 31 December 2018, the Company signed a framework agreement (the "Agreement") with Tourism Development Investment Company PJSC ("TDIC") to acquire a portfolio of real estate assets, including limited liability companies, operating businesses and other assets for a total consideration AED 3,625,000 thousand as given below.

	<i>AED '000</i>
Operating Businesses (notes 5.2 and 5.3) and other assets	1,575,000
Projects under development and lands	<u>2,050,000</u>
	<u>3,625,000</u>

The acquisition comprised of assets and businesses across hospitality, retail, residential, district cooling and education sectors. The aforementioned acquisition is a part of the Group's strategic plan to profitably deploy capital to expand its portfolio. Based on the Agreement, the effective date of acquisition of assets and control over the Operating Businesses acquired has been determined as 1 May 2018.

5.1 Operating Businesses

Under the Agreement, the Operating Businesses acquired, included the acquisition of certain legal entities (listed in 5.1.1 below) and other businesses (listed in 5.1.2 below) acquired from TDIC. The Operating Businesses meet the definition of "Business" under IFRS 3.

5.1.1 Legal entities acquired

<i>Name</i>	<i>Ownership interest</i>	<i>Country of incorporation operation</i>	<i>Principal activity</i>
TDIC Food & Beverage - Sole Proprietorship LLC	100%	UAE	Restaurant management
TDIC Education - Sole Proprietorship LLC	100%	UAE	Educational activities
Saadiyat District Cooling LLC	100%	UAE	Cooling station operations
Saadiyat Cooling LLC	85%	UAE	Cooling station operations

5.1.2 Other businesses acquired

<i>Name</i>	<i>Principal activity</i>
Saadiyat Beach Club	Beach club
Eastern Mangroves Hotel & Spa	Hotel and hospitality services
The Westin Abu Dhabi Golf Resort & Spa	Hotel and hospitality services
Abu Dhabi Golf Club	Golf club
Saadiyat Beach Golf Club	Golf club
Eastern Mangroves Retail and Marina	Retail units and marina
Marsa Al Bateen Retail and Marina	Retail units and marina

For the above Operating Businesses, control has been transferred to the Group under the Agreement from the effective date. The country of operation of all the other businesses is UAE.

The Operating Businesses acquired represent business combinations under IFRS 3 "Business Combinations" and have been accounted for using the acquisition method of accounting, and accordingly, the identifiable assets acquired and liabilities assumed forming part of business combination, has been recognised at its respective fair values, as of 1 May 2018. The remaining assets were accounted for and classified as additions of assets by their nature.

The Group elected to measure the non-controlling interest in the acquiree at the proportionate share of its interest in the acquiree's identifiable net assets at fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 BUSINESS COMBINATION continued**5.2 Assets acquired and the liabilities assumed of the Operating Businesses**

Acquisition date fair values of the identifiable assets acquired and liabilities assumed of the operating Businesses, as well as the fair value of the non-controlling interest in one of the acquired entities, Saadiyat Cooling LLC were determined as follows:

	<i>Notes</i>	<i>Fair values recognised AED '000</i>
Assets		
Property, plant and equipment	6	810,145
Intangible assets (iv)	7	179,809
Investment properties	8	166,053
Inventories		6,220
Trade and other receivables		103,190
Cash and bank balances		<u>136,663</u>
Total assets		<u>1,402,080</u>
Liabilities		
Advances from customers		8,110
Trade and other payables		<u>167,562</u>
Total liabilities		<u>175,672</u>
Total identifiable net assets at fair value		1,226,408
Non-controlling interest measured at fair value (i)		<u>(41,101)</u>
Group's share of net assets acquired		1,185,307
Less: Purchase consideration		<u>(1,070,376)</u>
Bargain purchase gain, net of goodwill		<u>114,931</u>
Goodwill (ii)	7	(17,860)
Gain on business combination (iii)	29	<u>132,791</u>
		<u>114,931</u>

(i) This represent non-controlling interest in Saadiyat Cooling LLC which is measured at 15% of net assets at fair value.

(ii) Goodwill of AED 17,860 thousand arising from the acquisition comprises largely of the sales growth, new customers and expected synergies. Goodwill is allocated to asset management segment only.

(iii) The gain on business combination is included in other income and arises from the difference between the fair value of the net assets acquired of the Operating Businesses forming part of business combination and consideration paid.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 BUSINESS COMBINATION continued**5.2 Assets acquired and the liabilities assumed of the Operating Businesses** continued

- (iv) The fair value of the acquired identifiable intangible assets of AED 179,809 thousand recognised as part of business combination, represents long term non-cancellable contracts with customers for the supply of district cooling services that are valued based on the present value of expected future cash flows that will be generated over its remaining useful life.

As of 1 May 2018, the fair value of the trade receivables acquired amounts to AED 73,411 thousand. None of the trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

5.3 Analysis of cashflow on acquisition for the Operating Business

	<i>AED '000</i>
Cash paid for the acquisition	(1,065,000)
Net cash acquired on business combination	<u>136,663</u>
Acquisition of Operating Business - net of cash acquired (included in cash flows from investing activities)	<u>(928,337)</u>
Transaction costs of the acquisition (included in cash flows from operating activities)	<u>(4,406)</u>
Net cash outflow on acquisition	<u>(932,743)</u>

The fair value of the contingent consideration of AED 40,898 thousand was estimated by applying an income approach. The fair value measurement is based on significant inputs that are not observable in the market, which IFRS 13 "Fair Value Measurement" refers to as level 3 inputs. Key assumptions include a discount rate of 9.7% and probable revenue of AED 60,990 thousand. As of 31 December 2018, neither the amount recognised for the contingent consideration arrangement, nor the range of outcomes, or the assumptions used to develop the estimates, had changed.

Acquisition related costs amounted to AED 4,406 thousand in relation to acquisition of Operating Businesses were expensed during the period and are included in general and administrative expenses.

From the date of acquisition, the Operating Businesses, forming part of business combination, contributed revenue of AED 269,096 thousand and net loss of AED 2,887 thousand towards the operations of the Group. If the acquisition had taken place at the beginning of the year, revenue would have been AED 415,386 thousand and net profit would have been AED 19,728 thousand. These numbers represent the amounts before intra group and consolidation adjustments.

The net assets recognised in the 30 June 2018 and 30 September 2018 interim condensed consolidated financial statements were based on a provisional assessment of their fair values. In December 2018, the assessment was finalised and there were no material differences between the provisional and final fair values to be adjusted and disclosed in these consolidated financial statements.

Aldar Properties PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6 PROPERTY, PLANT AND EQUIPMENT

Cost:	Land and buildings AED '000	Labour camps AED '000	Furniture and fixtures AED '000	Plant and machinery AED '000	Office equipment AED '000	Computers AED '000	Motor vehicles AED '000	Leasehold improvements AED '000	Capital work in progress AED '000	Total AED '000
1 January 2017	6,144,722	1,654,047	682,444	-	76,944	139,486	5,982	16,273	31,868	8,741,766
Additions	82,189	-	18,709	-	9,906	9,667	354	-	34,115	154,940
Transfers	-	-	-	-	-	69	-	(69)	-	-
Transfers from development work in progress (note 12)	-	-	-	-	-	-	-	-	8,150	8,150
Transfers to investment properties (note 8)	-	-	-	-	-	-	-	-	(26,849)	(26,849)
Disposals	-	-	(2,190)	-	-	-	(643)	-	-	(2,833)
31 December 2017	6,226,911	1,654,047	698,963	-	86,850	139,222	5,693	16,204	47,284	8,875,174
1 January 2018	6,226,911	1,654,047	698,963	-	86,850	139,222	5,693	16,204	47,284	8,875,174
Additions	3,059	-	31,477	14,243	7,773	14,572	840	146	22,060	94,170
Acquisition of subsidiaries (note 5)	447,220	-	2,054	293,259	7,365	373	-	53,654	6,220	810,145
Transfers from development work in progress (note 12)	-	-	2,148	-	-	-	-	-	1,070	3,218
Transfers to investment properties (note 8)	-	-	(10,585)	-	-	(924)	(126)	-	(25,700)	(35,700)
Disposals	(5,206)	-	-	-	(287)	-	-	-	-	(17,128)
31 December 2018	6,671,984	1,654,047	724,057	307,502	101,701	153,243	6,407	70,004	50,934	9,739,879
Accumulated depreciation and impairment:										
1 January 2017	3,368,782	1,653,137	555,470	-	63,160	97,615	5,338	12,191	-	5,755,693
Charge for the year	127,603	853	38,407	-	12,535	11,004	786	1,512	-	192,700
Transfers	-	-	-	-	-	69	-	(69)	-	-
Impairment/(reversal) (note 26)	32,716	(34,057)	-	-	-	-	-	-	-	(1,341)
Disposals	-	-	(2,190)	-	-	-	(629)	-	-	(2,819)
31 December 2017	3,529,101	1,619,933	591,687	-	75,695	108,688	5,495	13,634	-	5,944,233
1 January 2018	3,529,101	1,619,933	591,687	-	75,695	108,688	5,495	13,634	-	5,944,233
Charge for the year	150,398	45	40,173	12,677	11,318	11,395	148	7,935	-	234,087
Impairment/(reversal) (note 26)	(29,416)	6,909	(10,362)	-	(287)	(924)	(126)	-	-	(22,507)
Disposals	(5,206)	-	-	-	-	-	-	-	-	(16,905)
31 December 2018	3,644,877	1,626,887	621,498	12,677	86,726	119,157	5,517	21,569	-	6,138,908
Carrying amount:										
31 December 2018	3,027,107	27,160	102,559	294,825	14,975	34,086	890	48,435	50,934	3,600,971
31 December 2017	2,697,810	34,114	107,276	-	11,155	30,534	198	2,570	47,284	2,930,941

All of the Group's property, plant and equipment are located in the United Arab Emirates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

6 PROPERTY, PLANT AND EQUIPMENT continued

The depreciation charge for the year has been allocated as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Direct cost	12,665	10,563
General and administrative expenses	<u>221,422</u>	<u>182,137</u>
	<u>234,087</u>	<u>192,700</u>

During the year, the Group carried out a review of recoverable value of its property, plant and equipment. The review led to a net reversal of impairment of AED 22,507 thousand (2017: AED 1,341 thousand) (note 26), which has been recorded in the consolidated income statement. The recoverable value of relevant assets has been determined by reference to the discounted cash flow method using a yield of 7.0% to 9.0% (2017: 7.5% to 9.0%) and a discount rate of 10.25% to 15.0% (2017: 10.25% to 13.0%).

The Group conducted a sensitivity analysis for all its hotel properties classified under property, plant and equipment. The sensitivity has been conducted on the Revenue Per Available Room (RevPAR), and discount rate and exit yield. Based on this sensitivity analysis:

- a decrease in the Discount Rate & Exit Yield by 50bps would result in AED 167,820 thousand or 7.3% increase in the recoverable value, whilst an increase in the Discount Rate & Exit Yield by 50bps would result in AED 147,640 thousand or 6.4% decrease in the recoverable value.
- an increase in the RevPAR by 10% would result in AED 277,980 thousand or 12.0% increase in the recoverable value, whilst a decrease in the RevPAR by 10% would result in AED 266,370 thousand or 11.5% decrease in the recoverable value

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7 INTANGIBLE ASSETS AND GOODWILL

	<i>Goodwill</i> AED	<i>Customer contracts</i> AED'000	<i>Computer software</i> AED'000	<i>Total</i> AED'000
2018				
Cost:				
1 January 2018	-	-	82,949	82,949
Additions	-	-	4,064	4,064
Acquisition of subsidiaries (note 5)	17,860	179,809	-	197,669
Disposals	<u>-</u>	<u>-</u>	<u>(1,101)</u>	<u>(1,101)</u>
31 December 2018	<u>17,860</u>	<u>179,809</u>	<u>85,912</u>	<u>283,581</u>
Accumulated amortisation:				
1 January 2018	-	-	77,845	77,845
Charge for the year	-	5,648	3,072	8,720
Disposal	<u>-</u>	<u>-</u>	<u>(1,101)</u>	<u>(1,101)</u>
31 December 2018	<u>-</u>	<u>5,648</u>	<u>79,816</u>	<u>85,464</u>
Carrying amount:				
31 December 2018	<u>17,860</u>	<u>174,161</u>	<u>6,096</u>	<u>198,117</u>
2017				
Cost:				
1 January 2017	-	-	77,973	77,973
Additions	<u>-</u>	<u>-</u>	<u>4,976</u>	<u>4,976</u>
31 December 2017	<u>-</u>	<u>-</u>	<u>82,949</u>	<u>82,949</u>
Accumulated amortisation:				
1 January 2017	-	-	74,006	74,006
Charge for the year	<u>-</u>	<u>-</u>	<u>3,839</u>	<u>3,839</u>
31 December 2017	<u>-</u>	<u>-</u>	<u>77,845</u>	<u>77,845</u>
Carrying amount:				
31 December 2017	<u>-</u>	<u>-</u>	<u>5,104</u>	<u>5,104</u>

Goodwill

Goodwill primarily comprises sales growth, new customers and expected synergies arising from the acquisition. Goodwill is allocated to asset management segment only. The calculation of value in use was sensitive to the following assumptions:

Gross margins - Gross margins were based on the expectations of management based on past experience, new initiatives and expectation of future market conditions.

Discount rates - Discount rates reflected management's estimate of the specific risks. The discount was based on the risk free rate of the investment's country, market risk premium related to the industry and individual investment related risk premium/ discount. Management estimated that such discount rate to be used for the evaluation of the investment should be between 12 to 13%.

Growth rates - Management prepared five year budget based on their expectations of future results, thereafter a growth rate of 3% was assumed.

Customer contracts

These mainly represent long term non-cancellable contracts with customers for the supply of district cooling services which were acquired during the year as part of the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

7 INTANGIBLE ASSETS AND GOODWILL continued

Sensitivity to changes in assumptions

With regard to the assessment of value in use of the Goodwill, management believes that no reasonably possible change in key assumption would cause the carrying values to materially exceed its recoverable amount.

8 INVESTMENT PROPERTIES

Investment properties comprise completed properties (buildings and retail centers) and investment properties under development (IPUD). The movement during the year is as follows:

	2018			2017		
	Completed properties AED'000	Properties under development AED'000	Total AED'000	Completed properties AED'000	Properties under development AED'000	Total AED'000
Balance at the beginning of the year	15,126,457	950,092	16,076,549	14,929,374	843,908	15,773,282
Addition during the year, net	549,425	182,852	732,277	623,006	271,205	894,211
Acquisition of subsidiaries (note 5)	166,053	-	166,053	-	-	-
Finance cost capitalised (note 28)	-	-	-	-	213	213
Fair value loss, net	(671,046)	-	(671,046)	(613,107)	-	(613,107)
Disposals	(102)	-	(102)	(11,259)	-	(11,259)
Transfers from/ (to):						
Completed properties/ IPUD	-	-	-	165,234	(165,234)	-
Inventories	83,544	-	83,544	-	-	-
Property, plant and equipment (note 6)	25,700	-	25,700	26,849	-	26,849
Development work in progress (note 12)	-	(4,672)	(4,672)	6,360	-	6,360
Balance at the end of the year	<u>15,280,031</u>	<u>1,128,272</u>	<u>16,408,303</u>	<u>15,126,457</u>	<u>950,092</u>	<u>16,076,549</u>

All investment properties are located in the United Arab Emirates.

The fair values of the investment properties including properties under development are arrived at on the basis of a valuation carried out by independent valuers not connected with the Group. The valuers are members of professional valuers' associations and have appropriate qualifications and experience in the valuation of properties at the relevant locations. The valuations were mainly determined by using the Income Capitalisation Method. The valuation has been conducted as at 31 October 2018; management believes that there have been no significant changes to the fair values of investment properties' fair values from 31 October 2018 to 31 December 2018. Refer to note 4.2 for the key assumptions used.

The Group conducted a sensitivity analysis for eleven largest assets in its investment property portfolio with an aggregate value of AED 12,352,336 thousand. The sensitivity has been conducted on the Capitalisation Rates and Rental Values. Based on this sensitivity analysis:

- a decrease in the capitalisation/ discount Rate by 50bps would result in a AED 1,402,782 thousand or 11.4% increase in the valuation, whilst an increase in the capitalisation/ discount Rate by 50bps would result in AED 1,109,153 thousand 9.0% decrease in the valuation.
- an increase in the rental rates by 10% would result in an AED 1,335,042 thousand or 10.8% increase in the valuation, whilst a decrease in the rental rates by 10.8% would result in AED 1,334,044 thousand or 10.8% decrease in the valuation.

It should be noted that discount rates and capitalization rates are different than interest rates as commonly applied to borrowing rates or cost of short term and long-term debt. Discount rates and capitalization rates are carefully derived by professional values in determining the fair market value of properties by using multiple valuation factors. There are interrelationships between the unobservable inputs which are generally determined by market conditions. The valuation may be affected by the interrelationship between the two noted unobservable inputs; for example, an increase in rent may be offset by an increase in the capitalisation rate, thus resulting in no net impact on the valuation. Similarly, an increase in rent in conjunction with a decrease in the capitalisation rate would amplify an increase in the value. The investment properties are categorised under Level 3 in the fair value hierarchy.

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9 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	Ownership interest	Voiting power	Place of registration	Share in underlying net assets at 1 January 2018 AED '000	Share in current year's profit/ (loss) AED '000	Share in hedging reserve AED '000	Dividends received AED '000	Allocated to current account of the associate / ventures AED '000	Disposals AED '000	Share in underlying net assets at 31 December 2018 AED '000
INVESTEE										
Associates										
Abu Dhabi Finance PJSC	32%	32%	Abu Dhabi	146,934	4,258	-	(3,360)	-	-	147,832
Al Sdeirah Real Estate Investment LLC	30%	30%	Abu Dhabi	54,731	2,921	-	(21,000)	-	-	36,652
Dimarco Electronic Systems LLC	34%	34%	Abu Dhabi	-	-	-	-	-	-	-
Bunya LLC	33%	33%	Abu Dhabi	-	-	-	-	-	-	-
Iskandar Holdings Limited	19%	19%	Cayman Islands	6,086	-	-	-	-	-	6,086
				<u>207,751</u>	<u>7,179</u>	<u>-</u>	<u>(24,360)</u>	<u>-</u>	<u>-</u>	<u>190,570</u>
Joint ventures										
Aldar Besix LLC	51%	50%	Abu Dhabi	16,238	75	-	-	-	-	16,313
Al Raha International Integrated Facilities Management LLC	50%	50%	Abu Dhabi	21,067	5,430	-	(5,000)	-	-	21,497
Aldar Etihad Investment Properties LLC	50%	50%	Abu Dhabi	531,304	43,600	4,620	-	-	-	579,524
Aldar Etihad First Investment Properties LLC	50%	50%	Abu Dhabi	80,979	4,836	-	-	-	-	85,815
Aldar Etihad Development LLC	50%	50%	Abu Dhabi	100,243	(431)	-	-	-	-	99,812
Royal House LLC	50%	50%	Abu Dhabi	-	(10,826)	-	-	10,826	-	-
S&T District Cooling Co. LLC *	50%	50%	Abu Dhabi	49	-	-	-	-	(49)	-
Galaxy Building Materials LLC (under liquidation)	45%	50%	Abu Dhabi	-	-	-	-	-	-	-
				<u>749,880</u>	<u>42,684</u>	<u>4,620</u>	<u>(5,000)</u>	<u>10,826</u>	<u>(49)</u>	<u>802,961</u>
				<u>957,631</u>	<u>49,863</u>	<u>4,620</u>	<u>(29,360)</u>	<u>10,826</u>	<u>(49)</u>	<u>993,531</u>

* During the year, the Group sold its investment and recognised a gain on sale of AED 30,319 thousand. As per the agreement, the Group is entitled to further compensation contingent upon performance of the Group, however as of 31 December 2018 the inflow of economic benefits is not certain.

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9 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

Latest available financial information in respect of the Group's associates is summarised below:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Total assets	2,050,296	2,138,509
Total liabilities	<u>(1,456,112)</u>	<u>(1,486,867)</u>
Net assets	<u>594,184</u>	<u>651,642</u>
Group's share of net assets of associates	<u>190,570</u>	<u>207,751</u>
Total revenue	<u>104,731</u>	<u>104,821</u>
Total profit for the year	<u>23,041</u>	<u>11,400</u>

Latest available financial information in respect of the Group's joint ventures is summarised below:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Total assets	2,453,647	2,511,631
Total liabilities	<u>(1,471,641)</u>	<u>(1,567,800)</u>
Net assets	<u>982,006</u>	<u>943,831</u>
Group's share of net assets of joint ventures	<u>802,961</u>	<u>749,880</u>
Total revenue	<u>307,560</u>	<u>362,095</u>
Total profit for the year	<u>84,785</u>	<u>91,838</u>

10 INVESTMENT IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

As at 31 December 2018, the below investments were classified as investment in financial assets at fair value through other comprehensive income in accordance with IFRS 9. As at 31 December 2017, these investments were classified as available-for-sale financial assets in accordance with IAS 39.

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Investment in UAE quoted securities	38,950	28,000
Investment in UAE unquoted securities	15,202	35,201
Investment in international unquoted securities	<u>41,964</u>	<u>56,188</u>
	<u>96,116</u>	<u>119,389</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 INVESTMENT IN FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME continued

Movement during the year is as follows:

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	119,389	126,448
Additions	14,420	-
(Loss)/ gain on revaluation during the year	(9,355)	5,913
Repayment of capital	<u>(28,338)</u>	<u>(12,972)</u>
Balance at the end of the year	<u>96,116</u>	<u>119,389</u>

During the year, dividend income received from these investments amounted to AED 5,415 thousand (31 December 2017: AED 5,155 thousand).

11 TRADE AND OTHER RECEIVABLES

	2018 AED'000	2017 AED'000
Non-current portion		
Receivables relating to project finance (note 11.3)	136,016	143,946
Receivables from the Government of Abu Dhabi (note 11.4)	95,000	190,000
Due from associates and joint ventures (note 11.5)	176,776	172,722
Others	<u>88,914</u>	<u>10,694</u>
	496,706	517,362
Less: allowance for expected credit loss (note 11.8)	<u>(97,704)</u>	<u>(90,151)</u>
	<u>399,002</u>	<u>427,211</u>
Current portion		
Trade receivables (note 11.1)	1,827,753	1,723,551
Refundable costs (note 11.2)	478,923	505,402
Receivables relating to project finance (note 11.3)	14,941	19,932
Receivables from the Government of Abu Dhabi (note 11.4)	279,258	439,995
Due from associates and joint ventures (note 11.5)	25,707	290,536
Gross amounts due from customers on contracts for sale of properties (note 11.6)	1,096,306	748,197
Gross amounts due from customers on contracts to construct an asset (note 11.7)	49,397	112,459
Advances and prepayments	1,109,827	979,776
Accrued interest	42,572	66,355
Others	<u>475,259</u>	<u>357,843</u>
	5,399,943	5,244,046
Less: allowance for expected credit loss (note 11.8)	<u>(329,498)</u>	<u>(318,597)</u>
	<u>5,070,445</u>	<u>4,925,449</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

11 TRADE AND OTHER RECEIVABLES continued

11.1 Trade receivables

Trade receivables mainly represent the amounts due in respect of sales of plots of land, properties and revenue from construction contracts. As at 31 December 2018, 25% of the trade receivables (2017: 18% of the trade receivables) are due from its top five customers. Concentration of credit risk is mitigated by the fact that the customers have already made instalment payments, in some cases substantial, on the plots, which the Group would contractually be entitled to retain in the event of non-completion of the remaining contractual obligations in order to cover losses incurred by the Group.

	2018 AED'000	2017 AED'000
Trade receivables	1,827,753	1,723,551
Less: provision for impairment (note 11.8)	<u>(313,367)</u>	<u>(302,466)</u>
	<u>1,514,386</u>	<u>1,421,085</u>

Interest is charged at 12% per annum on the past due amounts in respect of sales of plots and properties. The ageing of unimpaired receivables is as follows:

	2018 AED'000	2017 AED'000
<i>Ageing of trade receivables</i>		
Not past due	1,009,102	853,974
Past due (more than 180 days)	<u>505,284</u>	<u>567,111</u>
	<u>1,514,386</u>	<u>1,421,085</u>

11.2 Refundable costs

Refundable costs represent costs incurred on behalf of the Government of Abu Dhabi in relation to development of infrastructure of various projects and real estate developments.

11.3 Receivables relating to project finance

	<i>Minimum payments</i>		<i>Present value of minimum payments</i>	
	2018 AED'000	2017 AED'000	2018 AED'000	2017 AED'000
Current receivables				
Within one year	<u>24,535</u>	<u>28,915</u>	<u>14,941</u>	<u>19,932</u>
Non-current receivables				
In the second to fifth year	58,657	71,490	26,308	40,305
After five years	<u>254,401</u>	<u>243,854</u>	<u>109,708</u>	<u>103,641</u>
	<u>313,058</u>	<u>315,344</u>	<u>136,016</u>	<u>143,946</u>
Amounts receivable from project finance	337,593	344,259	150,957	163,878
Less: unearned finance income	<u>(186,636)</u>	<u>(180,381)</u>	-	-
Present value of minimum payments receivable	<u>150,957</u>	<u>163,878</u>	<u>150,957</u>	<u>163,878</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 TRADE AND OTHER RECEIVABLES continued

11.4 Receivable from the Government of Abu Dhabi

Receivables from the Government of Abu Dhabi represent the amounts receivable against assets sold and land plots handed over.

11.5 Due from associates and joint ventures

	<i>Non-current</i>		<i>Current</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Gross receivables	176,776	172,722	25,707	290,536
Less: allowance for expected credit losses (note 11.8)	<u>(97,704)</u>	<u>(90,151)</u>	<u>(16,131)</u>	<u>(16,131)</u>
	<u>79,072</u>	<u>82,571</u>	<u>9,576</u>	<u>274,405</u>

11.6 Gross amounts due from/ (due to) customers on contracts for sale of properties

	<i>2018</i>	<i>2017</i>
	<i>AED'000</i>	<i>AED'000</i>
Amount due from customers included in trade and other receivables (note 11)	1,096,306	748,197
Amount due to customers included in trade and other payables (note 21)	-	<u>(221,497)</u>
	<u>1,096,306</u>	<u>526,700</u>
Total contracts cost incurred plus recognised profits less recognised losses to date	2,858,209	3,335,293
Less: total progress billings to date	<u>(1,761,903)</u>	<u>(2,808,593)</u>
	<u>1,096,306</u>	<u>526,700</u>

With respect to the above contracts, revenue aggregating to AED 3,270,193 thousand is expected to be recognised over the term of these contracts.

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11 TRADE AND OTHER RECEIVABLES continued

11.7 Gross amounts due from/ (due to) customers on construction contracts

	2018 AED'000	2017 AED'000
Amount due from customers included in trade and other receivables (note 11)	49,397	112,459
Amount due to customers included in trade and other payables (note 21)	<u>(41,478)</u>	<u>(92,611)</u>
	<u>7,919</u>	<u>19,848</u>
Total contracts cost incurred plus recognised profits less recognised losses to date	3,859,198	5,989,379
Less: total progress billings to date	<u>(3,851,279)</u>	<u>(5,969,531)</u>
	<u>7,919</u>	<u>19,848</u>

The above amount represents unbilled revenue arising from construction contracts. With respect to the above contracts, revenue aggregating to AED 658,828 thousand is expected to be recognised over the period of these contracts.

11.8 Allowance for expected credit loss

Movement during the year in allowance of expected credit loss:

Trade receivables

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	302,466	327,556
Charge/ (reversal) for the year, net (note 26)	28,970	(9,544)
Release of provision, net	<u>(18,069)</u>	<u>(15,546)</u>
Balance at the end of the year	<u>313,367</u>	<u>302,466</u>

Due from associates and joint ventures

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	106,282	133,729
Charge for the year	7,553	7,553
Reversal of provision	<u>-</u>	<u>(35,000)</u>
Balance at the end of the year	<u>113,835</u>	<u>106,282</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

11 TRADE AND OTHER RECEIVABLES continued**11.8 Allowance for expected credit loss** continued

The Group recognises lifetime expected credit loss (ECL) for trade and other receivables using the simplified approach. To determine the expected credit losses all debtors were classified into four categories and the ECL rate for each category was determined using a provision matrix:

- Category I – government related companies (0%);
- Category II – private companies with low credit risk (1% to 20%);
- Category III – private companies with high credit risk (20% to 60%); and
- Category IV – debtors at default (100%)

These were adjusted for factors that are specific to the debtors and general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money, where appropriate.

12 DEVELOPMENT WORK IN PROGRESS

Development work in progress represents development and construction costs incurred on properties being constructed for sale. Movement during the year is as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Balance at beginning of the year	1,476,818	1,298,384
Development costs incurred during the year	2,520,606	1,345,537
Recognised in costs of properties sold	(1,307,628)	(1,144,971)
Transfers from land held for sale	144,505	107,042
Transfers from/ (to) inventories (note 13)	(359,033)	(112,600)
Transfers from/ (to) investment properties (note 8)	4,672	(6,360)
Transfer to property, plant and equipment (note 6)	(3,218)	(8,150)
Write-off of project costs (note 26)	<u>(3,348)</u>	<u>(2,064)</u>
Balance at the end of the year	<u>2,473,374</u>	<u>1,476,818</u>

All development work in progress projects are located in the United Arab Emirates.

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13 INVENTORIES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Completed properties	402,190	228,681
Other operating inventories	<u>66,954</u>	<u>57,920</u>
	<u>469,144</u>	<u>286,601</u>

During the year, properties with an aggregate value of AED 359,033 thousand were transferred to inventories upon completion (note 12).

Completed properties in inventories are located in the United Arab Emirates.

14 CASH AND CASH EQUIVALENTS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Cash and bank balances	3,313,498	2,452,164
Short term deposits held with banks	<u>1,701,109</u>	<u>4,433,322</u>
Cash and bank balances	5,014,607	6,885,486
Short term deposits with original maturities greater than three months	(878,000)	(3,286,578)
Restricted bank balances	<u>(2,742,249)</u>	<u>(2,682,001)</u>
Cash and cash equivalents	<u>1,394,358</u>	<u>916,907</u>

During the year, the Group held amounts related to one of its associates in addition to community service charges and security deposits on behalf of the owners of units in certain buildings or communities that are managed by the Group. As at 31 December 2018, cash at banks amounting to AED 624,421 thousand (2017: AED 589,214 thousand) are not included in the Group's bank balances as it is held by the Group on behalf of third parties. Restricted cash and bank include balances amounting to AED 1,159,502 thousand (2017: AED 1,167,727 thousand) which are deposited into escrow accounts representing cash received from customers against sale of development properties. The remaining balance of restricted cash balances mainly represents cash balances held against government projects and dividend payables for which separate bank accounts are maintained.

The interest rate on term deposits ranges between 0.4% and 3.5% (2017: 0.4% and 2.70%) per annum. All fixed deposits are placed with local banks in the United Arab Emirates.

15 SHARE CAPITAL

Share capital comprises 7,862,629,603 (2017: 7,862,629,603) authorised, issued and fully paid up ordinary shares with a par value of AED 1 each.

16 STATUTORY RESERVE

In accordance with its Articles of Association and the UAE Federal Law No. (2) of 2015, 10% of the profit of the Company is transferred to a statutory reserve that is non-distributable. Transfers to this reserve may be suspended whenever the reserve reaches 50% of the paid-up share capital of the Company. As the reserves reaches 50% of the paid-up capital, the Company has suspended further transfer.

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17 NON-CONVERTIBLE SUKUK

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Proceeds from issue	<u>1,836,750</u>	<u>2,755,125</u>
Gross issue costs	<u>(27,062)</u>	<u>(18,580)</u>
Less: amortisation of issue costs	<u>452</u>	<u>16,042</u>
Unamortised issue costs	<u>(26,610)</u>	<u>(2,538)</u>
Add: Accrued profit	<u>21,811</u>	<u>9,983</u>
Carrying amount	<u>1,831,951</u>	<u>2,762,570</u>
Less: current portion	<u>(21,811)</u>	<u>(2,762,570)</u>
Non-current portion	<u>1,810,140</u>	<u>-</u>
Total finance cost capitalised during the year	<u>-</u>	<u>110</u>

In December 2013, the Group issued non-convertible Sukuk (Ijarah) notes for a total value of AED 2,755,125 thousand (USD 750,000 thousand). The Sukuk had a profit rate of 4.348% per annum payable semi-annually and was due for settlement in December 2018, out of which USD 295,465 thousand was settled on 1 October 2018 and the balance of Sukuk was settled on 3 December 2018.

On 1 October 2018, the Group issued non-convertible Sukuk (Al Wakala) notes for a total value of AED 1,836,750 thousand (USD 500,000 thousand). The Sukuk has a profit rate of 4.750% per annum payable semi-annually and is due for settlement in September 2025.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 BANK BORROWINGS

	Outstanding amount		Security	Interest rate	Maturity	Purpose	Capitalised interest AED '000
	Current AED '000	Non-current AED '000					
31 December 2018							
Ijarah facility	280,000	-	Secured	relevant EIBOR + 1.40%	July 2019	General corporate purpose	-
Term loan	-	500,000	Secured	LIBOR + 1.25%	August 2021	General corporate purpose	-
Revolving Credit Facility	62,500	2,084,500	Unsecured	relevant EIBOR + 1.00%	December 2022	General corporate purpose	-
Term loan	-	400,000	Secured	relevant EIBOR + 1.80%	August 2023	General corporate purpose	-
Term loan	-	500,000	Secured	LIBOR + 1.30%	August 2023	General corporate purpose	-
Term loan	-	500,000	Secured	relevant EIBOR + 1.00%	September 2023	General corporate purpose	-
Term loan	-	500,000	Secured	relevant EIBOR + 1.00%	September 2023	General corporate purpose	-
Term loan	-	400,000	Secured	relevant EIBOR + 2.12%	August 2026	General corporate purpose	-
Unamortised borrowing cost	-	(19,019)					-
Accrual for interests and profits	16,012	-					-
	<u>358,512</u>	<u>4,865,481</u>					<u>103</u>
31 December 2017							
Term loan	-	600,000	Secured	relevant EIBOR + 1.30%	July 2019	Refinancing of debt	25
Term loan	-	280,000	Secured	relevant EIBOR + 1.30%	July 2019	Refinancing of debt	11
Term loan	-	160,000	Secured	relevant EIBOR + 1.40%	June 2019	Refinancing of debt	6
Term loan	807,389	-	Secured	3 months LIBOR + 1.40%	November 2018	General corporate purpose	35
Ijarah facility	-	280,000	Secured	relevant EIBOR + 1.40%	July 2019	General corporate purpose	11
Term loan	-	5,000	Secured	EIBOR + 1.80%	August 2023	General corporate purpose	-
Lease facility	-	80,000	Secured	relevant EIBOR + 1.40%	December 2019	General corporate purpose	3
Term loan	-	-	Secured	3 months EIBOR + 1%	December 2017	General corporate purpose	12
Term loan	-	500,000	Secured	relevant EIBOR + 1.25%	August 2021	General corporate purpose	-
Term loan	-	500,000	Secured	relevant EIBOR + 1.30%	August 2023	General corporate purpose	-
Unamortised borrowing cost	-	(28,725)					-
Accrual for interests and profits	9,784	-					-
	<u>817,173</u>	<u>2,376,275</u>					<u>103</u>

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31 December 2018

18 BANK BORROWINGS continued

The borrowings are repayable as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Current	358,512	817,173
Non-current	<u>4,865,481</u>	<u>2,376,275</u>
	<u>5,223,993</u>	<u>3,193,448</u>

As at 31 December 2017 the Group had AED 1.98 billion in committed revolving credit facilities in the form of bilateral agreements with five financial institutions all having a maturity of 31 March 2022. In February 2018, the Group exercised the final option to extend the maturity date of each of these facilities by an additional one year. Banks representing facilities totalling AED 1.76 billion agreed to extend their facilities to March 2023. As at 31 December 2018, all these facilities remained committed and undrawn.

In May 2018, the Group entered into a transaction with a financial institution (“Revolving Credit Facility”) that meets the offsetting criteria under IAS 32. The Revolving Credit Facility involves a Borrowing that is immediately offset with a Deposit resulting in the presentation of a Net Borrowing in the financial position. As of period end, the Net Borrowing was AED 2,147,000 thousand (Borrowing of AED 4,912,500 thousand less Deposit of AED 2,765,500 thousand). The Borrowing is un-secured and available for general corporate purposes and carries an interest rate of the relevant EIBOR +1%. The Borrowing includes partial principle repayments in semi-annual instalments of AED 31,250 thousand each and a final maturity date of 8 December 2022. The Deposit earns interest at 0.75% plus relevant EIBOR.

Loan securities are in the form of mortgages over plots of land and operating assets and in the case of one facility, assignment of project receivables. Certain Group’s borrowings carry a net worth covenant.

Borrowings repaid during the year amounted to AED 4,319,889 thousand (2017: AED 627,592 thousand).

19 PROVISION FOR EMPLOYEES’ END OF SERVICE BENEFIT

Movement in the provision for employees’ end of service benefit is as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Balance at the beginning of the year	141,763	128,137
Acquired through business combination	3,704	-
Charge for the year (note 25)	36,687	26,420
Paid during the year	<u>(36,675)</u>	<u>(12,794)</u>
Balance at the end of the year	<u>145,479</u>	<u>141,763</u>

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20 OTHER FINANCIAL LIABILITIES/ OTHER FINANCIAL ASSET

The Group has entered into interest rate swap contracts to hedge its exposure to future cash flows due to interest rate fluctuations. As at 31 December 2018, the notional amount of these derivatives amounted to AED 2,133,450 thousand (USD 580,530 thousand) with a positive change in fair value (net) of AED 87,571 thousand (2017: AED 2,112 thousand) recorded in the statement of comprehensive income.

21 TRADE AND OTHER PAYABLES

	<i>2018</i>	<i>2017</i>
	<i>AED '000</i>	<i>AED '000</i>
Trade payables	467,694	524,062
Accrual for contractors' costs	1,738,118	1,651,530
Advances from the Government of Abu Dhabi (note 32)	1,285,612	956,848
Deferred income	363,082	347,528
Dividends payable	91,701	102,803
Provision for onerous contracts	31,501	28,569
Gross amount due to customers on contracts for sale of properties (note 11.6)	-	221,497
Gross amount due to customers on contracts to construct an asset (note 11.7)	41,478	92,611
Due to the Government of Abu Dhabi (note 32)	640,657	937,199
Other liabilities	<u>834,438</u>	<u>534,627</u>
	<u>5,494,281</u>	<u>5,397,274</u>

The Group has financial and risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

22 REVENUE

	<i>2018</i>	<i>2017</i>
	<i>AED '000</i>	<i>AED '000</i>
Property development and management	2,440,058	2,277,888
Asset management and adjacencies	<u>3,846,475</u>	<u>3,902,788</u>
	<u>6,286,533</u>	<u>6,180,676</u>

23 DIRECT COSTS

	<i>2018</i>	<i>2017</i>
	<i>AED '000</i>	<i>AED '000</i>
Property development and management	1,344,714	1,183,242
Asset management and adjacencies	<u>2,310,132</u>	<u>2,341,929</u>
	<u>3,654,846</u>	<u>3,525,171</u>

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24 SELLING AND MARKETING EXPENSES

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Corporate advertising	19,782	27,033
Exhibitions and sponsorships	17,494	13,418
Project marketing	<u>48,164</u>	<u>34,527</u>
	<u>85,440</u>	<u>74,978</u>

25 STAFF COSTS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Salaries, bonuses and other benefits	799,943	746,625
Employees' end of service benefits (note 19)	36,687	26,420
Staff training and development	<u>2,740</u>	<u>2,108</u>
	<u>839,370</u>	<u>775,153</u>
Staff costs allocated to:		
Direct costs	604,207	523,857
General and administrative expenses	218,948	227,767
Projects under development	<u>16,215</u>	<u>23,529</u>
	<u>839,370</u>	<u>775,153</u>

26 (PROVISIONS, IMPAIRMENTS AND WRITE DOWNS)/ REVERSAL, NET

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Reversal for impairment of property, plant and equipment, net (note 6)	22,507	1,341
(Provision)/ reversal of allowance for expected credit loss, net (note 11.8)	(28,970)	9,544
Receivables write-offs	(21,143)	-
Provision for onerous contracts	(12,126)	-
Write-off of development work in progress (note 12)	(3,348)	(2,064)
Others	<u>(6,968)</u>	<u>-</u>
	<u>(50,048)</u>	<u>8,821</u>

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27 FINANCE INCOME

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Interest/ profit earned on:		
Islamic deposits	27,236	40,542
Bank fixed deposits	11,942	36,650
Call and current accounts	<u>18,536</u>	<u>6,853</u>
Total interest/ profit earned	57,714	84,045
Financing element earned on receivables, net	-	17,847
Financing income earned on		
receivables from project finance	12,904	13,373
Other finance income	<u>9,117</u>	<u>9,377</u>
	<u>79,735</u>	<u>124,642</u>

Finance income earned on financial assets, analysed by category of asset is as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Loans and receivables	22,021	40,597
Bank balances and deposits	<u>57,714</u>	<u>84,045</u>
	<u>79,735</u>	<u>124,642</u>

28 FINANCE COSTS

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Gross costs	287,547	228,222
Unwinding of finance cost on		
operating lease liability (note 33.2)	19,002	22,292
Less: amounts included in the cost of		
qualifying assets (i) (note 8)	<u>-</u>	<u>(213)</u>
	306,549	250,301
Recycling of hedging reserve loss	<u>3,200</u>	<u>3,952</u>
	<u>309,749</u>	<u>254,253</u>

(i) There was no capitalised borrowing cost during the year ended 31 December 2018. The weighted average capitalisation rate of funds borrowed in 2017 was 3.6 % per annum.

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29 OTHER INCOME

	2018 AED'000	2017 AED'000
Government grant income recorded upon handover of infrastructure assets (note 32.1)	466,932	390,745
Write back on receivables and cancellation of land plots, net	-	41,996
Recovery of amounts previously charged to consolidated income statement	-	73,871
Release of infrastructure accruals, onerous provisions and other accruals	127,088	73,130
Gain on business combination (note 5)	132,791	-
Others	<u>41,057</u>	<u>52,470</u>
	<u><u>767,868</u></u>	<u><u>632,212</u></u>

30 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. As there are no dilutive instruments outstanding, basic and diluted earnings per share are identical.

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2018	2017
<i>Earnings (AED '000)</i>		
Earnings for the purpose of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>1,855,808</u>	<u>1,995,505</u>
<i>Weighted average number of shares</i>		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>7,862,629,603</u>	<u>7,862,629,603</u>
Basic and diluted earnings per share attributable to owners of the Company in AED	<u><u>0.236</u></u>	<u><u>0.254</u></u>

31 DIVIDENDS

At the annual general assembly held on 21 March 2018, the shareholders approved the recommendation of the Board of Directors to distribute dividends of AED 12 fils per share for a total of AED 943,516 thousand. The Board of Directors propose a cash dividend of AED 14 fils per share for the year ended 31 December 2018. The proposed dividend is subject to the approval of the Shareholders at the annual general assembly.

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32 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise of major shareholder, associated companies, directors, key management personnel of the Group and their related entities. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

Related party balances:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Government of Abu Dhabi:		
Trade and other receivables	<u>1,066,984</u>	<u>1,312,092</u>
Trade and other payables	<u>(640,657)</u>	<u>(937,199)</u>
Advances received (note 21)	<u>(1,285,612)</u>	<u>(956,848)</u>
Major shareholder:		
Trade and other receivables	<u>47,685</u>	<u>-</u>
Trade and other payables	<u>(13,229)</u>	<u>-</u>
Due from associates and joint ventures (note 11.5)	<u>88,648</u>	<u>356,976</u>
Due to joint ventures for project-related work	<u>(32,692)</u>	<u>(32,692)</u>

Certain receivables from joint ventures carry interest of 9% per annum and are repayable within 2 to 5 years.

Significant transactions with related parties during the year are as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Government of Abu Dhabi:		
Revenue	<u>911,367</u>	<u>906,299</u>
Major shareholder:		
Revenue	<u>24,876</u>	<u>-</u>
Finance income	<u>6,798</u>	<u>-</u>
Finance income from project finance and joint ventures	<u>12,150</u>	<u>19,740</u>

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32 TRANSACTIONS AND BALANCES WITH RELATED PARTIES continued

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Key management compensation:		
Salaries, bonuses and other benefits	10,805	15,275
Post-employment benefits	<u>1,435</u>	<u>590</u>
	<u>12,240</u>	<u>15,865</u>
Directors remuneration paid	<u>19,279</u>	<u>23,000</u>

32.1 The amount and timing of the infrastructure cost reimbursement is subject to the completion of certain audit and technical inspections and assessments to be performed by the relevant government authority. Once these activities are completed, there will be reasonable assurance that the grant will be received and at that point it will be recognised as a deferred government grant. Once the conditions of the grant are met, i.e. infrastructure assets are handed over to the designated authorities, the deferred government grant will be recognised income statement. During the year, an amount of AED 466,932 thousand was recognised as government grant income upon handover of infrastructure assets (31 December 2017: AED 390,745 thousand).

32.2 Outstanding borrowings of AED 3,947,000 thousand (31 December 2017: AED 1,941,635 thousand) are due to the banks controlled by the Government and major shareholder. Finance cost on these borrowings amounted to AED 110,760 thousand for the year ended 31 December 2018 (2017: AED 81,404 thousand).

32.3 Deposits and bank balances of AED 3,527,049 thousand (31 December 2017: AED 4,045,294 thousand) are kept with banks controlled by the Government and major shareholder. Finance income on these deposits amounted to AED 30,415 thousand for the year ended 31 December 2018 (2017: AED 50,137 thousand).

32.4 Letter of credits and bank guarantees issued through banks controlled by the Government and major shareholder amounted to AED 361,645 thousand for the year ended 31 December 2018 (2017: AED 800,136 thousand).

33 COMMITMENTS AND CONTINGENCIES**33.1 Capital commitments**

Capital expenditure contracted but not yet incurred at the end of the year is as follows:

	<i>2018</i> <i>AED'000</i>	<i>2017</i> <i>AED'000</i>
Projects under development	4,135,230	3,468,891
Reimbursable projects works in progress	1,135,018	2,722,701
Others	<u>4,357</u>	<u>30,342</u>
	<u>5,274,605</u>	<u>6,221,934</u>

The above commitments are spread over a period of one to five years.

The Group has outstanding advances to the suppliers and contractors amounting to AED 905,749 thousand (2017: AED 784,485 thousand) against the above commitments.

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33 COMMITMENTS AND CONTINGENCIES continued

33.2 Operating lease commitments

The Group has leased out certain properties. The amounts of committed future lease inflows are as follows:

The Group as lessor

	2018 AED'000	2017 AED'000
Buildings:		
Within one year	762,555	900,147
In the second to fifth year	1,434,533	1,671,228
After five years	<u>507,262</u>	<u>598,172</u>
	<u>2,704,350</u>	<u>3,169,547</u>

Following the Group election to adopt IFRS-16, the resulting impact on the consolidated income statement and consolidated statement of cash flows is as follows:

The Group as a lessee

	2018 AED'000	2017 AED'000
Unwinding of interest expense during the period on lease liabilities (note 28)	<u>19,002</u>	<u>22,292</u>
Expense relating to short-term leases	<u>2,638</u>	<u>28,115</u>
Total cash outflow in respect of leases	<u>54,851</u>	<u>25,468</u>

33.3 Contingencies

Letters of credit and bank guarantees

	2018 AED'000	2017 AED'000
<i>Letters of credit and bank guarantees:</i>		
Issued by the Group	<u>839,167</u>	<u>784,166</u>
Group's share in contingencies of joint ventures and associates	<u>152,052</u>	<u>165,765</u>

Included in the above are bank guarantees and letters of credit amount of AED 749,584 thousand (2017: AED 720,039 thousand) pertaining to a construction related subsidiary.

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34 FINANCIAL INSTRUMENTS**34.1 Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the consolidated financial statements.

34.2 Categories of financial instruments

	<i>2018</i>	<i>2017</i>
	<i>AED'000</i>	<i>AED'000</i>
Financial assets		
Investment in financial assets at FVOCI	96,116	119,389
Loans and receivables (including cash and bank balances)	<u>9,388,251</u>	<u>11,258,371</u>
Total	<u>9,484,367</u>	<u>11,377,760</u>
Financial liabilities		
Financial liabilities measured at amortised cost	11,801,451	10,132,555
Derivative instruments	<u>5,802</u>	<u>16,263</u>
Total	<u>11,807,253</u>	<u>10,148,818</u>

34.3 Financial risk management

The Group's Corporate Finance and Treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages financial risks based on internally developed models, benchmarks and forecasts. The Group seeks to minimise the effects of financial risks by using appropriate risk management techniques including using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by management's analysis of market trends, liquidity position and predicted movements in interest rate and foreign currency rates which are reviewed by the management on a continuous basis.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group analyses financial risks under the following captions:

34.4 Capital risk management

Capital risk is the risk that the Group is not able to manage its capital structure to ensure that all entities in the Group will be able to continue as a going concern.

The capital structure comprises non-convertible Sukuk, borrowings, cash and bank balances and equity attributable to owners of the Company, comprising issued capital, share premium, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group monitors and adjusts its capital structure with a view to promote the long-term success of the business while maintaining sustainable returns for shareholders. This is achieved through a combination of risk management actions including monitoring solvency, minimising financing costs, rigorous investment appraisals and maintaining high standards of business conduct.

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34 FINANCIAL INSTRUMENTS continued**34.4 Capital risk management** continued

Key financial measures that are subject to regular review include cash flow projections and assessment of their ability to meet contracted commitments, projected gearing levels and compliance with borrowing covenants, although no absolute targets are set for these.

The Group monitors its cost of debt on a regular basis. At 31 December 2018, the weighted average cost of debt was 4.01% (2017: 3.60%). Investment and development opportunities are evaluated against an appropriate equity return in order to ensure that long-term shareholder value is created.

The covenants of seven (2017: nine) borrowing arrangements require the Group maintaining a minimum tangible net worth. Two loans require a minimum tangible net worth of AED 6 billion and five loans require a minimum tangible net worth of AED 4 billion.

34.5 Market risk management

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

a) Foreign currency risk management

The Group has no significant cross-border trading transactions and therefore, foreign exchange transaction exposure is negligible. However, it does borrow money in foreign currencies primarily in US Dollars. The Group's currency exposure therefore is in relation to the repayment of loans and also the translation risk associated with converting outstanding loan balances back into UAE Dirhams in the Group consolidated financial statements at the end of each reporting period. The exchange rate between UAE Dirhams and US Dollars is fixed and therefore the Group considers foreign exchange risk associated with repayment of loans and translation as minimum.

Foreign currency sensitivity analysis

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	<i>Liabilities</i>		<i>Assets</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
US Dollar	2,849,652	3,612,253	682,291	589,869
Saudi Riyal	9,185	4,072	42,230	10,392
Euro	89	-	-	-
Pound Sterling	60	134	-	-
	<u>2,858,986</u>	<u>3,616,459</u>	<u>724,521</u>	<u>600,261</u>

There is no significant impact of the US Dollar as the UAE Dirham is pegged to the US Dollar. Also, the Saudi Riyal is pegged to the US Dollar.

b) Interest rate risk management

The Group is exposed to interest rate risk as the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings, by the use of interest rate swap contracts.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in notes 14, 17, and 18.

34 FINANCIAL INSTRUMENTS continued

34.5 Market risk management continued

b) Interest rate risk management continued

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate assets and liabilities, the analysis is prepared assuming the amount of asset or liability outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates had been 100 basis points higher/ lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would increase/ decrease by AED 35,345 thousand/ AED 35,345 thousand (2017: increase/ decrease by AED 11,139 thousand/ AED 10,211 thousand).

Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rate on the fair value of issued fixed rate debt and the cash flow exposures on the issued variable rate debt.

Cash flow hedges

All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the payments on the loan occur simultaneously.

The Group's derivative financial instruments were contracted with counterparties operating in the United Arab Emirates.

34.6 Credit risk management

Credit risk in relation to the Group, refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group.

Key areas where the Group is exposed to credit risk are trade and other receivables and bank balances and derivative financial assets (liquid assets).

The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific non-related counterparties, and continually assessing the creditworthiness of such non-related counterparties.

Concentration of credit risk

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Details on concentration of trade receivable balances are disclosed in note 11. Management believes that the concentration of credit risk is mitigated by having received instalment payments, in some cases substantial, which the Group would contractually be entitled to retain in the event of non-completion of the remaining contractual obligations in order to cover the losses incurred by the Group.

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34 FINANCIAL INSTRUMENTS continued**34.6 Credit risk management** continued*Concentration of credit risk* continued

At 31 December 2018, 100% (2017: 100%) of the deposits were placed with 13 banks. Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are regulated by the central bank.

The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

34.7 Liquidity risk management

The responsibility for liquidity risk management rests with the management of the Group, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and committed borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial assets and liabilities at 31 December 2018 and 2017 based on contractual undiscounted maturities.

	<i>Effective interest rate</i>	<i>< 1 month AED '000</i>	<i>1 to 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 to 5 years AED '000</i>	<i>> 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2018							
Financial assets							
Non-interest bearing instruments		-	1,009,102	2,894,003	280,030	79,072	4,262,207
Receivables from project finance	6-9%	-	5,125	19,410	58,657	254,401	337,593
Variable interest rate instruments		3,436,998	658,686	961,494	-	-	5,057,178
Derivative instruments		-	-	-	14,024	-	14,024
Total		3,436,998	1,672,913	3,874,907	352,711	333,473	9,671,002
Financial liabilities							
Non-interest bearing instruments ⁽¹⁾		62,038	2,573,435	1,090,101	304,702	-	4,030,276
Non-convertible sukuk		-	-	21,811	-	1,810,140	1,831,951
Variable interest rate instruments		4,154	11,858	342,500	4,484,500	400,000	5,243,012
Operating lease liability		56,164	7,608	35,423	223,045	207,657	529,897
Derivative instruments		-	-	-	5,802	-	5,802
Total		122,356	2,592,901	1,489,835	5,018,049	2,417,797	11,640,938
31 December 2017							
Financial assets							
Non-interest bearing instruments		95,000	853,974	3,039,442	325,563	82,571	4,396,550
Receivables from project finance	6-9%	-	5,125	23,790	71,490	243,854	344,259
Variable interest rate instruments		2,452,164	158,035	4,341,643	-	-	6,951,842
Total		2,547,164	1,017,134	7,404,875	397,053	326,425	11,692,651
Financial liabilities							
Non-interest bearing instruments ⁽¹⁾		227,158	2,288,428	859,727	242,199	-	3,617,512
Non-convertible sukuk		-	-	2,755,125	-	-	2,755,125
Variable interest rate instruments		-	38,021	769,369	1,400,000	1,005,000	3,212,390
Operating lease liability		-	21,326	29,725	181,268	326,706	559,025
Derivative instruments		-	5,748	10,515	-	-	16,263
Total		227,158	2,353,523	4,424,461	1,823,467	1,331,706	10,160,315

⁽¹⁾ Including security deposits from customers.

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35 FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as disclosed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

	<i>As at 31 December 2018</i>		<i>As at 31 December 2017</i>	
	<i>Gross carrying amount</i> <i>AED'000</i>	<i>Fair value</i> <i>AED'000</i>	<i>Gross carrying amount</i> <i>AED'000</i>	<i>Fair value</i> <i>AED'000</i>
Financial liabilities at amortised cost				
Non-convertible sukuk (note 17)	<u>1,831,951</u>	<u>1,839,285</u>	<u>2,762,570</u>	<u>2,800,722</u>

Following the amendment to IFRS 7, all financial instruments that are required to be measured at fair value (subsequent to initial recognition) should be disclosed in a fair value hierarchy or grouping into 3 levels (Levels 1 to 3) based on the degree to which the fair value is observable.

Level 1 fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices, and Level 3 are those that are derived from valuation techniques using unobservable inputs.

As at 31 December 2018 and 31 December 2017, the Group's financial assets that are stated at fair value are grouped as follows:

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
31 December 2018				
Investments in financial assets at FVOCI				
Equities	<u>38,950</u>	<u>57,166</u>	<u>-</u>	<u>96,116</u>
31 December 2017				
Investments in financial assets at FVOCI				
Equities	<u>28,000</u>	<u>91,389</u>	<u>-</u>	<u>119,389</u>

The fair values of derivative instruments amounting to AED 8,222 thousand (net) pertaining to interest rate swap are determined by independent valuers (see notes 20 and 34.5) and are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates. The derivative instruments are categorised as level 2.

During the year, an unquoted investment has become listed and as a result moved from level 2 to level 1 hierarchy amounted to AED 20,000 thousand at 31 December 2018.

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31 December 2018

36 SEGMENT INFORMATION

36.1 Business segments

Segment information about the Group's continuing operations for the year ended 31 December 2018 is presented below:

	Property development and management		Asset management			Group AED'000
	Property development and sales AED'000	Development management AED'000	Investment properties AED'000	Hospitality and leisure AED'000	Adjacencies AED'000	
Revenue excluding service charges	2,359,312	80,746	1,614,580	615,342	1,479,561	6,149,541
Revenue from service charges	-	-	136,992	-	-	136,992
Gross revenue	2,359,312	80,746	1,751,572	615,342	1,479,561	6,286,533
Cost of revenue excluding service charge	(1,332,187)	(12,527)	(204,893)	(518,157)	(1,450,090)	(3,517,854)
Service charge expenses	-	-	(136,992)	-	-	(136,992)
Gross profit	1,027,125	68,219	1,409,687	97,185	29,471	2,631,687
Depreciation and amortisation	-	-	(7,419)	(134,074)	(75,014)	(216,507)
Reversal/ (provisions, impairments and write downs), net	-	-	(87,126)	29,416	793	(56,917)
Fair value loss on investment properties, net	-	-	(671,046)	-	-	(671,046)
Share of profit from associates and joint ventures, net	-	-	48,006	-	-	48,006
Other income	610,731	-	14,472	-	-	625,203
Segment profit/ (loss)	1,637,856	68,219	706,574	(7,473)	(44,750)	2,360,426
Share of profit from associates and joint ventures, net	-	-	-	-	-	1,857
Selling and marketing expenses	-	-	-	-	-	(85,440)
Provisions, impairments and write downs, net	-	-	-	-	-	6,869
Gain on disposal of joint venture	-	-	-	-	-	30,319
General and administrative expenses	-	-	-	-	-	(358,183)
Depreciation and amortisation	-	-	-	-	-	(13,635)
Finance income	-	-	-	-	-	79,735
Finance costs	-	-	-	-	-	(309,749)
Other income	-	-	-	-	-	142,665
Profit for the year						1,854,864

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

36 SEGMENT INFORMATION continued

36.1 Business segments continued

Segment information about the Group's continuing operations for the year ended 31 December 2017 is presented below:

	Property development and management		Asset management			Group AED '000
	Property development and sales AED '000	Development management AED '000	Investment properties AED '000	Hospitality and leisure AED '000	Adjacencies AED '000	
Revenue excluding service charges	2,127,655	150,232	1,581,670	506,133	1,673,706	6,039,396
Revenue from service charges	-	-	141,280	-	-	141,280
Gross revenue	2,127,655	150,232	1,722,950	506,133	1,673,706	6,180,676
Cost of revenue excluding service charge	(1,168,115)	(15,127)	(181,895)	(406,343)	(1,612,411)	(3,383,891)
Service charge expenses	-	-	(141,280)	-	-	(141,280)
Gross profit	959,540	135,105	1,399,775	99,790	61,295	2,655,505
Depreciation and amortisation	-	-	(6,556)	(115,796)	(48,333)	(170,885)
Reversal/ (provisions, impairments and write downs), net	95,310	-	(17,000)	(32,717)	(35,540)	10,053
Fair value loss on investment properties	-	-	(613,107)	-	-	(613,107)
Share of profit from associates and joint ventures, net	-	-	51,232	-	-	51,232
Gain on disposal of investment properties	-	-	3,835	-	-	3,835
Other income	506,116	-	58,410	18	5,145	569,689
Segment profit/ (loss)	1,560,966	135,105	876,609	(48,705)	(17,633)	2,506,342
Share of loss from associates and joint ventures, net	-	-	-	-	-	(9,708)
Selling and marketing expenses	-	-	-	-	-	(74,978)
Provisions, impairments and write downs, net	-	-	-	-	-	(1,232)
General and administrative expenses	-	-	-	-	-	(332,310)
Depreciation and amortisation	-	-	-	-	-	(15,091)
Finance income	-	-	-	-	-	124,642
Finance costs	-	-	-	-	-	(254,253)
Other income	-	-	-	-	-	62,523
Profit for the year						2,005,935

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

36 SEGMENT INFORMATION continued

36.1 Business segments continued

The segment assets and liabilities and capital and project expenditures are as follows:

	Property development and management		Asset management			Group AED'000
	Property development and sales AED'000	Development management AED'000	Investment properties AED'000	Hospitality and leisure AED'000	Adjacencies AED'000	
<i>As at 31 December 2018</i>						
Assets	10,967,491	2,312,197	17,712,381	2,679,330	2,274,276	38,543,705
Liabilities	(1,876,126)	(2,472,839)	(7,116,630)	(1,086,522)	(1,218,468)	(14,307,875)
<i>Year ended 31 December 2018</i>						
Capital expenditures	1,500,323	-	49,822	341,610	683,953	2,584,447
Project expenditures	2,516,898	-	898,331	-	3,710	3,418,939
<i>As at 31 December 2017</i>						
Assets	8,279,511	2,281,360	17,222,084	2,293,710	1,706,200	36,396,926
Liabilities	(1,555,201)	(2,355,518)	(2,188,271)	(148,239)	(1,156,854)	(13,161,761)
<i>Year ended 31 December 2017</i>						
Capital expenditures	-	-	29,404	14,806	104,730	154,940
Project expenditures	1,342,289	-	284,953	-	3,248	1,630,490

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

Segment profit represents the profit earned by each segment without allocation of central administration, selling and marketing costs and directors' salaries, share of profits of associates and joint ventures, other gains and losses, finance income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018

36 SEGMENT INFORMATION continued

36.1 Business segments continued

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than investment in associates and joint ventures, investment in financial assets at fair value through other comprehensive income and 'other financial assets'. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and
- all liabilities are allocated to reportable segments other than corporate borrowings and 'other financial liabilities'. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

36.2 Geographical segments

The Group operated only in one geographical segment, i.e., United Arab Emirates.

37 OTHER GENERAL AND ADMINISTRATIVE EXPENSES

Other general and administrative expenses include social contributions amounting to AED 35,000 thousand (2017: AED 40,000 thousand).

38 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 13 February 2019.