Damac Properties Dubai Co. PJSC
Dubai – United Arab Emirates

Review report and interim financial information for the six month period ended 30 June 2017

Damac Properties Dubai Co. PJSC

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Deloitte.

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax:+971 (0) 4 376 8899
www.deloitte.com

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

The Board of Directors
Damac Properties Dubai Co. PJSC
Dubai
United Arab Emirates

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of **Damac Properties Dubai Co. PJSC** (the "Company") **and its subsidiaries** (together the "Group") as at 30 June 2017 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410: "*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34.

Deloitte & Touche (M.E.)



Musa Ramahi
Registration No. 872
Dubai
United Arab Emirates
13 August 2017

Anis Sadek (521), Cynthia Corby (995), Georges Najem (809), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem Dajani (726), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practising auditors with the UAE Ministry of Economy.

Condensed consolidated statement of financial position as at 30 June 2017

	Notes	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
ASSETS			
Property and equipment		**152,212**	58,742
Investment properties	**6**	**203,114**	-
Development properties	**7**	**10,575,757**	10,245,064
Other financial assets	**8**	**943,890**	1,016,628
Trade and other receivables	**9**	**5,632,960**	4,804,278
Financial investment	**10**	**185,022**	185,022
Cash and bank balances	**11**	**8,621,458**	8,316,048
Total assets		**26,314,413**	24,625,782
EQUITY AND LIABILITIES			
Equity			
Share capital	**12**	**6,050,000**	6,050,000
Statutory reserve		**634,196**	634,196
Retained earnings		**6,006,593**	5,933,864
Total equity		**12,690,789**	12,618,060
Liabilities			
Bank borrowings	**13**	**1,447,412**	1,162,636
Sukuk certificates	**14**	**3,932,378**	2,653,598
Advances from customers		**4,003,472**	4,196,801
Trade and other payables	**15**	**4,240,362**	3,994,687
Total liabilities		**13,623,624**	12,007,722
Total equity and liabilities		**26,314,413**	24,625,782

Chairman **Director**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of profit or loss and other comprehensive income for the six month period ended 30 June 2017

	Notes	Three month period ended 30 June		Six month period ended 30 June	
		2017 (Unaudited) AED'000	2016 (Unaudited) AED'000	**2017 (Unaudited) AED'000**	2016 (Unaudited) AED'000
Continuing operations					
Revenue	**17**	**1,570,142**	1,753,861	**3,515,543**	3,372,752
Cost of sales		**(715,088)**	(763,800)	**(1,602,348)**	(1,395,770)
Gross profit		**855,054**	990,061	**1,913,195**	1,976,982
Other operating income	**18**	**130,970**	100,605	**221,201**	416,971
General, administrative and selling expenses		**(252,229)**	(196,861)	**(509,261)**	(448,181)
Depreciation		**(5,013)**	(3,648)	**(9,538)**	(7,390)
Operating profit		**728,782**	890,157	**1,615,597**	1,938,382
Other income		**16,687**	11,145	**27,973**	28,467
Finance income	**19**	**33,517**	28,650	**65,069**	56,950
Finance costs	**20**	**(77,664)**	(43,118)	**(126,879)**	(86,620)
Profit for the period from continuing operations		**701,322**	886,834	**1,581,760**	1,937,179
Discontinued operations					
Gain on disposal of a subsidiary	**21**	**3,469**	-	**3,469**	-
Profit for the period from discontinued operations		**3,469**	-	**3,469**	-
Other comprehensive income for the period		**-**	-	**-**	-
Total comprehensive income for the period		**704,791**	886,834	**1,585,229**	1,937,179
Earnings per share					
Basic and diluted (AED)	**24**	**0.12**	0.15	**0.26**	0.32

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity for the six month period ended 30 June 2017

	Share capital AED'000	Statutory reserve AED'000	Group restructuring reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2016 (Audited)	6,050,000	533,643	(4,912,810)	8,160,080	9,830,913
Total comprehensive income for the period (Unaudited)	-	-	-	1,937,179	1,937,179
Dividend (note 25)	-	-	-	(907,500)	(907,500)
Balance at 30 June 2016 (Unaudited)	**6,050,000**	**533,643**	**(4,912,810)**	**9,189,759**	**10,860,592**
Balance at 1 January 2017 (Audited)	6,050,000	634,196	-	5,933,864	12,618,060
Total comprehensive income for the period (Unaudited)	-	-	-	1,585,229	1,585,229
Dividend (note 25)	-	-	-	(1,512,500)	(1,512,500)
Balance at 30 June 2017 (Unaudited)	**6,050,000**	**634,196**	**-**	**6,006,593**	**12,690,789**

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows for the six month period ended 30 June 2017

	1 January to 30 June 2017 (6 months) (Unaudited) AED'000	1 January to 30 June 2016 (6 months) (Unaudited) AED'000
Cash flows from operating activities		
Profit for the period	**1,585,229**	1,937,179
Adjustments for:		
Depreciation on property and equipment	**9,538**	7,390
Provision for employees' end-of-service indemnity	**6,183**	5,488
Amortisation of issue costs on sukuk certificates (note 14)	**4,303**	1,317
Gain on disposal of a subsidiary (note 21)	**(3,469)**	-
Reversal of impairment on trade receivables	**(4,604)**	-
Finance costs	**126,879**	86,620
Finance income	**(65,069)**	(56,950)
Operating cash flows before changes in operating assets and liabilities	**1,658,990**	1,981,044
Increase in trade and other receivables	**(826,442)**	(167,582)
Increase in development properties	**(636,606)**	(450,211)
Increase in trade and other payables	**230,766**	68,815
Decrease in advances from customers	**(193,329)**	(999,716)
Employees' end-of-service indemnity paid	**(5,327)**	(3,173)
Net cash generated from operating activities	**228,052**	429,177
Cash flows from investing activities		
Purchases of property and equipment	**(11,150)**	(5,174)
Acquisition of financial investments	**-**	(23,562)
Net cash received on disposal of a subsidiary (note 21)	**14,410**	-
Decrease/(increase) in other financial assets	**72,738**	(108,295)
(Increase)/decrease in deposits with an original maturity greater than three months	**(251,060)**	153,726
Interest received	**67,433**	44,429
Net cash (used in)/generated from investing activities	**(107,629)**	61,124

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows for the six month period ended 30 June 2017 (continued)

	1 January to 30 June 2017 (6 months) (Unaudited) AED'000	1 January to 30 June 2016 (6 months) (Unaudited) AED'000
Cash flows from financing activities		
Proceeds from bank borrowings	**432,200**	271,626
Repayment of bank borrowings	**(147,424)**	(217,173)
Proceeds from issuance of sukuk certificates – net	**2,276,836**	-
Redemption and repurchase of sukuk certificates	**(1,002,359)**	(91,777)
Dividend paid (note 25)	**(1,512,500)**	(907,500)
Finance costs paid	**(112,826)**	(87,929)
Net cash used in financing activities	**(66,073)**	(1,032,753)
Net increase/(decrease) in cash and cash equivalents	**54,350**	(542,452)
Cash and cash equivalents at the beginning of the period	**7,188,700**	8,597,818
Cash and cash equivalents at the end of the period (note 11)	**7,243,050**	8,055,366

The accompanying notes form an integral part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017

1. General information

Damac Properties Dubai Co. PJSC (the "Company" or the "Parent") was incorporated in Dubai on 20 June 1976 as a Public Stock Company and operates in the United Arab Emirates under a trade license issued in Dubai. The Company is listed on the Dubai Financial Market. The address of the Company's registered office is P.O. Box 12265, Dubai, United Arab Emirates.

The majority shareholder is Mr. Hussain Sajwani (the "Chairman").

The Parent and its subsidiaries (collectively the "Group") are involved in the development of properties in the Middle East.

2. Application of new and revised International Financial Reporting Standards ("IFRSs")

2.1 New and revised IFRSs applied with no material effect on the condensed consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these condensed consolidated financial statements. The application of these revised and new IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses.
- Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.
- Annual Improvements to IFRS Standards 2014-2016 Cycle – Amendments to IFRS 12 *Disclosure of Interests in Other Entities.*

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures (2015).*	1 January 2018
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.	1 January 2018

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

A new measurement category of fair value through other comprehensive income (FVTOCI) will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

A new impairment model based on expected credit losses will apply to debt instruments measured at amortised costs or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contract.

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: ▪ there is consideration that is denominated or priced in a foreign currency; ▪ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ▪ the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's interim condensed consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 16, may have no material impact on the interim condensed consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 9 and IFRS 16 will be adopted in the Group's interim condensed consolidated financial statements for the annual period beginning 1 January 2018 and 1 January 2019 respectively. The application of IFRS 9 may have a significant impact on amounts reported and disclosures made in respect of financial assets and financial liabilities and the application of IFRS 16 may have a significant impact on amounts reported and disclosures made in respect of its leases in the Group's condensed consolidated financial statements. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017 (continued)

2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

2.3 New and revised IFRSs in issue but not yet effective that has been early adopted

IFRS 15 *Revenue from contracts with customers* was issued in May 2014 and is effective for annual periods on or after 1 January 2018, with early adoption permitted. The Group has reviewed the impact of IFRS 15 on its revenue from operations and has elected to early adopt it with effect from 1 January 2015.

3. Summary of significant accounting policies

As required by the Securities and Commodities Authority of U.A.E. ("SCA") Notification No.2624/2008 dated 12 October 2008, certain required accounting policies have been disclosed in the condensed consolidated financial statements.

The condensed consolidated financial statements of the Group are prepared under the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

These condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standard Board (IASB) and also comply with the applicable requirements of the U.A.E. Federal Law No. 2 of 2015.

3.1 Basis of preparation

The accounting policies used in the preparation of these condensed consolidated financial statements of the Group are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2016 in addition to policy on investment properties (note 3.3).

Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the condensed consolidated financial statements continue to be prepared on the going concern basis.

These condensed consolidated financial statements of the Group do not include all the information and disclosures required in full consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2016. In addition, results for the period from 1 January 2017 to 30 June 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

The condensed consolidated statement of profit or loss and other comprehensive income for the six-month period ended 30 June 2017 is not significantly affected by seasonality of the results.

The condensed consolidated financial statements has been prepared in Arab Emirates Dirhams ("AED") which is the Group's functional and presentation currency, and all values are rounded to the nearest thousands, except otherwise indicated.

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

3.2 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any identified impairment loss. The cost of property and equipment is the construction costs and/or purchase consideration together with any incidental costs of acquisition.

Cost includes construction costs and professional fees, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost other than freehold land and properties under construction, over their estimated useful lives, using the straight-line method. 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.

The following useful lives are used in the calculation of depreciation:

	Years
Buildings	25
Furniture and fixtures	6
Tools and office equipment	6
Motor vehicles	6

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the condensed consolidated statement of profit or loss and other comprehensive income.

3.3 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including investment property under construction for such purposes). Investment properties are measured initially at cost, including related transaction costs, less accumulated depreciation and any accumulated impairment losses in accordance with the cost model of IAS 40 *Investment property*.

Depreciation is charged so as to write-off the cost of completed investment properties on a straight line basis over the average estimated useful lives of 25 years. The useful lives and depreciation method of investment properties are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these properties.

Expenditure incurred to replace a component of an item of investment properties that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written-off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of investment properties. All other expenditure is recognised in the condensed consolidated statement of profit or loss as the expense is incurred.

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

3.3 Investment properties (continued)

Investment properties are derecognised upon disposal or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in the condensed consolidated statement of profit or loss in the period in which the property is derecognised.

Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale. Such transfers are made at the carrying value of the properties at the date of transfer.

3.4 Development properties

Properties acquired, constructed or in the course of construction for sale are classified as development properties. These are stated at the lower of cost and net realisable value.

Cost principally includes the cost of the land and construction cost and all other costs which are necessary to get the properties ready for sale. Net realisable value represents the estimated selling value, based on sales relevant in the period, less costs to be incurred in selling the properties.

Borrowing costs that are directly attributable to the construction are included in the cost of the asset.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

3.5 Revenue recognition

Revenue from contracts with customers

IFRS 15 *Revenue from Contracts with Customers* outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance found across several Standards and Interpretations within IFRSs. It establishes a new five-step model that will apply to revenue arising from contracts with customers.

Step 1 Identify the contract 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 each of those rights and obligations.

Step 2 Identify the performance obligations in the contract: A performance obligation in a contract is a promise to transfer a good or service to the customer.

Step 3 Determine the transaction price: Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and 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 will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 Recognise revenue as and when the Group satisfies a performance obligation.

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

3. Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

The Group recognises revenue over time if any one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance obligation completed to date.

The Group has elected to apply the input method. The Group considers that the use of input method, which requires revenue recognition on the basis of the Group's efforts to the satisfaction of the performance obligation, provides the best reference to revenue actually earned. In applying the input method the Group estimates the cost to complete the projects in order to determine the amount of revenue to be recognised. These estimates include the cost of providing infrastructure, potential claims by contractors and the cost of meeting other contractual obligations to the customers.

In cases where the Group determines the performance obligations are satisfied at a point in time, revenue is recognised when control over the assets is transferred to the customer.

When the Group satisfies a performance obligation by delivering the promised goods and services, it creates a contract asset based 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 consideration received or receivable, taking into account the contractually agreed terms of payment excluding taxes and duties. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent and has concluded that it is acting as a principal in all of its revenue arrangements.

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

3.6 Basis of consolidation

The Company consolidated 100% of the operations, assets and liabilities of the subsidiary listed below (together the "Group"):

Name of the entity	Country of incorporation	Principal activities	Legal and economic interest
Damac Real Estate Development Limited, DIFC ("DRED")	United Arab Emirates	Holding company	100%

3.7 Financial risk management

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2016.

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017 (continued)

4. Critical accounting judgements and key sources of estimation of uncertainty

The preparation of condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's consolidated financial statements for the year ended 31 December 2016 in addition to the following critical accounting judgements:

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 and equipment or development property. The Group develops criteria so that it can exercise that judgement consistently in accordance with the definitions of investment property, property and equipment and development property. In making its judgement, management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 40, IAS 16 and IAS 2, and in particular, the intended usage of property as determined by the management.

Fair value of investment properties

The Group's management estimates the market value of properties classified as investment properties based on market quotations of similar properties in the same location, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods, such as recent prices on less active markets or discounted cash flow projections, for the purposes of impairment reviews and disclosures of fair value of the investment properties in the condensed consolidated financial statements. In estimating the fair value of investment properties, management believes that the highest and best use of the property is their current use.

Useful lives of investment properties

The costs of completed investment properties are depreciated over the estimated useful lives of the assets. The estimated useful lives are based on the expected usage of the assets and expected physical wear and tear, which depend on operational factors. Management has not considered any residual value as it is deemed immaterial.

5. Segment analysis

Information reported to the Board for the purpose of the resource allocation and assessment of performance is primarily determined by the nature of the different activities that the Group engages in, rather than the geographical location of these operations. The Group currently comprises a single reportable operating segment, being property development.

Geographic information for the Group is split between operations in the U.A.E. "Domestic" and operations in other jurisdictions "International".

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

5. Segment analysis (continued)

	Three month period ended 30 June		Six month period ended 30 June	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000	**2017 (Unaudited) AED'000**	2016 (Unaudited) AED'000
Revenue				
Domestic	**1,560,927**	1,396,948	**3,497,211**	3,013,953
International	**9,215**	356,913	**18,332**	358,799
	1,570,142	1,753,861	**3,515,543**	3,372,752

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Development properties		
Domestic	**8,572,155**	8,438,625
International	**2,003,602**	1,806,439
	10,575,757	10,245,064

6. Investment properties

During the period, the Group transferred completed property units of AED 203 million from development properties to investment properties (note 7).

7. Development properties

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Balance at the beginning of the period/year	**10,245,064**	9,143,770
Additions	**2,233,752**	4,254,707
Transfer to cost of sales	**(1,597,146)**	(3,153,413)
Transfer to investment properties (note 6)	**(203,114)**	-
Transfer to property and equipment *	**(91,858)**	-
Disposal of a subsidiary (note 21)	**(10,941)**	-
Balance at the end of the period/year	**10,575,757**	10,245,064

* During the period, the Group transferred completed property of AED 92 million from development properties to property and equipment.

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

7. Development properties (continued)

Assets held as development properties

The development properties balance includes land held for future development, properties under development and completed properties held in inventory. The balances above are split into the categories as follows:

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Land held for future development	**639,838**	1,221,220
Properties under development	**8,919,247**	7,960,923
Completed properties	**1,016,672**	1,062,921
	10,575,757	10,245,064

No borrowing costs have been capitalised to development properties.

8. Other financial assets

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Escrow retention accounts	**925,116**	1,003,389
Margin deposits	**13,774**	11,155
Other	**5,000**	2,084
	943,890	1,016,628

In accordance with applicable laws, the Group holds funds under escrow in Real Estate Regulatory Authority ("RERA") authorised bank accounts. These funds must be held in these escrow accounts for a fixed period of one year after completion of the relevant development properties, at which point they are released to the Group. These funds earn profit or interest at relevant commercial rates.

At 30 June 2017, margin deposits are held by banks under lien against credit facilities issued to the Group and earn profit or interest at relevant commercial rates.

At the reporting date, an amount of AED 520 million (31 December 2016: AED 513 million) is held with Islamic banks and the balance is held with conventional banks.

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

9. Trade and other receivables

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Trade receivables	**4,911,720**	4,110,871
Provision for impairment on trade receivables	**(149,570)**	(154,174)
	4,762,150	3,956,697
Advances and deposits	**767,297**	766,018
Other receivables and prepayments	**103,513**	81,563
	5,632,960	4,804,278

Trade receivables represent amounts due from customers. Customers are allowed 30 days from each invoice date to settle outstanding dues. At the reporting date, an amount of AED 3,518 million (31 December 2016: AED 3,287 million) is unbilled.

10. Financial investment

The Group carries investment in Damac International Limited, a related entity, whose principal activity is property development, of AED 185 million (31 December 2016: AED 185 million) which represents 20% (31 December 2016: 20%) equity interest in the related entity.

11. Cash and bank balances

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Cash on hand	**1,104**	1,109
Cash held in escrow	**6,767,624**	7,002,061
Bank balances	**154,415**	83,501
Fixed deposits	**1,698,315**	1,229,377
Cash and bank balances	**8,621,458**	8,316,048
Fixed deposits with an original maturity of greater than three months	**(1,378,408)**	(1,127,348)
Cash and cash equivalents	**7,243,050**	7,188,700

Cash held in escrow represents cash received from customers which is held with banks authorised by the Real Estate Regularity Authority ("RERA"). Use of this cash is restricted to the specific development properties to which the cash receipts relate and, hence is considered as cash and cash equivalents.

At the reporting date, an amount of AED 4,885 million (31 December 2016: AED 4,422 million) is held with Islamic banks and the remaining balance is held with conventional banks.

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

12. Share capital

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Issued, subscribed and fully paid shares of AED 1 each	**6,050,000**	6,050,000

13. Bank borrowings

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Bank facilities	**1,342,131**	1,061,879
Overdrafts	**105,281**	100,757
	1,447,412	1,162,636

At the reporting date, an amount of AED 521 million (31 December 2016: AED 309 million) is outstanding with Islamic banks and the remaining balance with conventional banks.

Islamic banks and financial institutions

The Group has following sharia compliant financing facilities under various structures with Islamic banks and financial institutions:

- AED 350 million Ijarah facility with a commercial bank at the rate of 3 months EIBOR plus 3.5% per annum, repayable in 2017. Out of this AED 229 million was repaid as at 30 June 2017.
- AED 150 million Ijarah facility with a commercial bank at the rate of 3 months EIBOR plus 3.5% per annum, repayable in 2017.
- AED 250 million Ijarah facility with a commercial bank at the rate of 3 months EIBOR plus 3.25% per annum, repayable in 2020.

Conventional banks and financial institutions

The Group has the following unsecured interest-bearing loans and financial facilities with conventional banks and financial institutions:

- AED 45 million revolving term loan facility with a commercial bank bearing interest at 6 months EIBOR plus 4% per annum, repayable in 2017.
- AED 25 million term loan facility with a commercial bank bearing interest at 3 months EIBOR plus 4% per annum, repayable in 2017. Out of this, AED 17 million was repaid as at 30 June 2017.
- AED 433 million revolving term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.75% per annum, repayable in 2018. Out of this, AED 79 million was repaid as at 30 June 2017.
- AED 50 million term loan with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2018. Out of this, AED 33 million was repaid as at 30 June 2017.

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017 (continued)

13. Bank borrowings (continued)

Conventional banks and financial institutions (continued)

- AED 183 million term loan facility with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2018.
- AED 67 million term loan with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2020. Out of this, AED 18 million was repaid as at 30 June 2017.
- AED 165 million term loan with a commercial bank bearing interest at 3 months LIBOR plus 3.25% per annum, repayable in 2019.

The repayment profile of bank borrowings is as follows:

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
On demand or within one year	**1,004,410**	918,207
In the second and third years	**443,002**	244,429
	1,447,412	1,162,636

14. Sukuk certificates

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Sukuk certificates	**3,958,989**	2,664,473
Unamortised issue costs	**(26,611)**	(10,875)
Carrying amount	**3,932,378**	2,653,598

Movement in unamortised issue costs is as follows:

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Opening balance	**10,875**	16,534
Issue costs incurred during the period/year	**20,039**	-
Amortised during the period/year	**(4,303)**	(5,659)
Unamortised issue costs as at period/year end	**26,611**	10,875

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

14. Sukuk certificates (continued)

- On 9 April 2014, the Group issued US$ 650 million (AED 2,389 million) Sukuk Trust Certificates (the "Certificates") maturing in 2019. Alpha Star Holding Limited is the Issuer and Trustee pursuant to Declaration of Trust and DRED is the Guarantor. The Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. The sukuk is structured on the basis of service agency whereby the service agent for and on behalf of the Issuer enters into Ijara (leasing) and Murabaha contracts with the DRED. Holders of the Certificates from time to time (the "Certificateholders") have the right to receive certain payments arising from an undivided ownership interest in the Trust Assets and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates.

  The Certificateholders are paid returns at the rate of 4.97% per annum.

  On 20 April 2017, the Group repurchased sukuk certificates worth US$ 197.7 million (AED 727 million) at a premium.

- On 21 March 2017, the Group redeemed US$ 75 million (AED 276 million) of sukuk certificates on maturity.

- On 30 March 2017, the Group issued US$ 125 million (AED 459 million) Sukuk Trust Certificates (the "Certificates") maturing in 2018. Alpha Star Holding IV Limited is the Issuer and Trustee pursuant to Declaration of Trust and DRED is the Guarantor. The sukuk was fully subscribed by a U.A.E. financial institution. The sukuk is structured on the basis of service agency whereby the service agent for and on behalf of the issuer enters into Ijara (leasing) and Murabaha contracts with the DRED. The Certificateholder from time to time has the right to receive certain payments arising from an undivided ownership interest in the Trust Assets and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificate.

  The Certificateholder is paid return at the rate of 3 months LIBOR plus 3.25% per annum.

- On 20 April 2017, the Group issued US$ 500 million (AED 1,838 million) Sukuk Trust Certificates (the "Certificates") maturing in 2022. Alpha Star Holding III Limited is the Issuer and Trustee pursuant to Declaration of Trust and DRED is the Guarantor. The Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. The sukuk is structured on the basis of service agency whereby the service agent for and on behalf of the issuer enters into Ijara (leasing) and Murabaha contracts with the DRED. Holders of the Certificates from time to time (the "Certificateholders") have the right to receive certain payments arising from an undivided ownership interest in the Trust Assets and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates.

  The Certificateholders are paid returns at the rate of 6.25% per annum.

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

14. Sukuk certificates (continued)

The repayment profile of sukuk certificates is as follows:

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Amount due for settlement within 12 months	-	275,723
Amount due for settlement after 12 months	**3,932,378**	2,377,875
Carrying amount	**3,932,378**	2,653,598

15. Trade and other payables

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Accruals	**1,295,962**	1,264,091
Deferred consideration payable for land	**1,113,081**	1,238,081
Retentions payable	**896,021**	807,745
Other payables	**896,819**	647,147
Provision for employees' end-of-service indemnity	**38,479**	37,623
	4,240,362	3,994,687

Retentions comprise amounts due to contractors which are held for one year after the completion of a project until the defects liability period has passed, and are typically between 5% and 15% of work done.

16. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in IAS 24: *Related Party Disclosures*. Related parties comprise entities under common ownership and/or common management and control, their partners and key management personnel. Management decides on the terms and conditions of the transactions and services received/rendered from/to related parties as well as on other charges which are substantially the same terms as those prevailing at the same time for comparable transactions with the third parties. Pricing policies and terms of all transactions are approved by the management.

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017 (continued)

16. Related party transactions (continued)

Nature of significant related party transactions and amounts involved are as follows:

	1 January to 30 June 2017 (6 months) (Unaudited) AED'000	1 January to 30 June 2016 (6 months) (Unaudited) AED'000
Entities under the control of the Chairman		
Support service fees	**2,418**	4,990
Construction works executed	**-**	(41,954)
Financial investment	**-**	(23,562)

During the period, the Group received AED 2 million (2016: AED 5 million) towards support services rendered to Damac International Limited and DICO Investment Co. LLC, both related entities under the control of the Chairman.

Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24: *Related Party Disclosures*.

	1 January to 30 June 2017 (6 months) (Unaudited) AED'000	1 January to 30 June 2016 (6 months) (Unaudited) AED'000
Salaries and other short-term employee benefits	**6,797**	7,205
Other long term benefits	**409**	702
	7,206	7,907

17. Revenue

	Three month period ended 30 June		**Six month period ended 30 June**	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000	**2017 (Unaudited) AED'000**	2016 (Unaudited) AED'000
Property development	**925,899**	1,441,073	**2,007,466**	2,767,766
Sale of land	**644,243**	312,788	**1,508,077**	604,986
	1,570,142	1,753,861	**3,515,543**	3,372,752

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

18. Other operating income

	Three month period ended 30 June		Six month period ended 30 June	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000	**2017 (Unaudited) AED'000**	2016 (Unaudited) AED'000
Income from cancellation of units	**128,993**	99,110	**215,025**	411,476
Penalties from overdue customers	**1,804**	1,306	**5,930**	4,934
Unit registration and transfer fees	**173**	189	**246**	561
	130,970	100,605	**221,201**	416,971

19. Finance income

	Three month period ended 30 June		Six month period ended 30 June	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000	**2017 (Unaudited) AED'000**	2016 (Unaudited) AED'000
Islamic banks and financial institutions	**14,232**	10,678	**30,058**	21,657
Conventional banks and financial institutions	**19,285**	17,972	**35,011**	35,293
	33,517	28,650	**65,069**	56,950

20. Finance costs

	Three month period ended 30 June		Six month period ended 30 June	
	2017 (Unaudited) AED'000	2016 (Unaudited) AED'000	**2017 (Unaudited) AED'000**	2016 (Unaudited) AED'000
Islamic banks and financial institutions	**68,638**	36,032	**105,624**	74,720
Conventional banks and financial institutions	**9,026**	7,086	**21,255**	11,900
	77,664	43,118	**126,879**	86,620

Notes to the condensed consolidated financial statements
For the six month period ended 30 June 2017 (continued)

21. Discontinued operations

On 10 April 2017, the Group disposed its ownership interest in a wholly owned subsidiary, Abraj Al Rakhaa General Trading Limited, a real estate development company incorporated in Iraq for a consideration of AED 14.4 million (US$ 3.9 million).

	30 June 2017 (Unaudited) AED'000
Asset over which control was lost	
Development property	(10,941)
Net cash received	14,410
Gain on disposal	3,469

22. Contingent liabilities

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Bank guarantees	**1,140,016**	1,236,580

The Group has contingent liabilities in respect of bank guarantees issued in the normal course of business from which it is anticipated that no material liabilities will arise as at 30 June 2017.

23. Commitments

Commitments for the acquisition of services for the development and construction of assets classified under development properties:

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Contracted for	**5,838,869**	6,210,538

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017 (continued)

23. Commitments (continued)

Operating lease commitments – Group as a lessee

The Group has entered into operating lease agreements for properties on which the future minimum rentals payable are as follows:

	30 June 2017 (Unaudited) AED'000	31 December 2016 (Audited) AED'000
Within one year	**8,055**	8,055
Between two and five years	**33,829**	33,829
More than five years	**213,857**	213,857
Contracted for	**255,741**	255,741

24. Earnings per share

Basic and diluted earnings per share is calculated by dividing the profit for the period by the weighted average number of ordinary shares in issue during the period. There were no instruments or any other items which could cause a dilutive effect on the earnings per share calculation.

	Three month period ended 30 June		**Six month period ended 30 June**	
	2017 (Unaudited)	2016 (Unaudited)	**2017 (Unaudited)**	2016 (Unaudited)
Profit for the period (AED'000)	**704,791**	886,834	**1,585,229**	1,937,179
Weighted average number of ordinary shares ('000)	**6,050,000**	6,050,000	**6,050,000**	6,050,000
Earnings per ordinary share – Basic and diluted (AED)	**0.12**	0.15	**0.26**	0.32

25. Dividend

On 16 April 2017 the Company held its annual general meeting which, among other things, approved a cash dividend equal to AED 0.25 per share amounting to AED 1,512.5 million. The dividend was paid on 7 May 2017.

On 19 April 2016 the Company held its annual general meeting which, among other things, approved a cash dividend equal to AED 0.15 per share amounting to AED 907.5 million. The dividend was paid on 15 May 2016.

Notes to the condensed consolidated financial statements For the six month period ended 30 June 2017 (continued)

26. Comparative figures

In accordance with the requirements of IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, certain items have been reclassified in the condensed consolidated statement of cash flows for the six month period from 1 January 2016 to 30 June 2016, as previously reported.

Extract from the condensed consolidated statement of cash flows:

	As previously reported AED'000	*Reclassification AED'000*	*1 January to 30 June 2016 (6 months) AED'000*
Net cash generated from operating activities	385,677	43,500	429,177
Net cash generated from investing activities	16,695	44,429	61,124
Net cash used in financing activities	(944,824)	(87,929)	(1,032,753)

27. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements for the six month period ended 30 June 2017 was approved by the Board of Directors and authorised for issue on 13 August 2017.