Damac Properties Dubai Co. PJSC
Dubai – United Arab Emirates

Review report and interim financial information for the three month period ended 31 March 2018

Damac Properties Dubai Co. PJSC

Table of contents **Pages**

Report on review of interim financial information	**1**
Condensed consolidated statement of financial position	**2**
Condensed consolidated statement of profit or loss and other comprehensive income (unaudited)	**3**
Condensed consolidated statement of changes in equity	**4**
Condensed consolidated statement of cash flows (unaudited)	**5**
Notes to the condensed consolidated financial statements	**6 – 28**

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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 31 March 2018 and the related condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three 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
14 May 2018
Dubai
United Arab Emirates

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 31 March 2018

	Notes	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
ASSETS			
Property and equipment	6	**146,869**	150,452
Investment properties	7	**194,989**	197,021
Development properties	8	**9,611,879**	9,643,051
Other financial assets	9	**1,063,322**	1,024,757
Trade and other receivables	10	**7,559,937**	6,607,212
Financial investment	11	**269,673**	262,673
Cash and bank balances	12	**7,650,801**	7,458,330
Total assets		**26,497,470**	25,343,496
EQUITY AND LIABILITIES			
Equity			
Share capital	13	**6,050,000**	6,050,000
Statutory reserve		**802,313**	802,313
Retained earnings		**7,496,928**	7,013,024
Total equity		**14,349,241**	13,865,337
Liabilities			
Bank borrowings	14	**1,001,565**	815,421
Sukuk certificates	15	**3,940,739**	3,937,529
Advances from customers	16	**3,335,239**	3,274,496
Trade and other payables	17	**3,870,686**	3,450,713
Total liabilities		**12,148,229**	11,478,159
Total equity and liabilities		**26,497,470**	25,343,496

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 three month period ended 31 March 2018

	Notes	1 January to 31 March	
		2018 (3 month) (Unaudited) AED'000	2017 (3 month) (Unaudited) AED'000
Revenue		**1,892,554**	1,945,401
Cost of sales		**(1,131,734)**	(887,260)
Gross profit		**760,820**	1,058,141
Other operating income		**2,920**	90,231
General, administrative and selling expenses	**19**	**(259,065)**	(257,032)
Depreciation		**(7,757)**	(4,525)
Operating profit		**496,918**	886,815
Other income		**13,685**	11,286
Finance income	**20**	**40,036**	31,552
Finance costs	**21**	**(66,735)**	(49,215)
Profit for the period		**483,904**	880,438
Other comprehensive income for the period		**-**	-
Total comprehensive income for the period		**483,904**	880,438
Earnings per share			
Basic and diluted (AED)	**24**	**0.08**	0.15

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

Condensed consolidated statement of changes in equity for the three month period ended 31 March 2018

	Share capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Total AED'000
Balance at 1 January 2017 (Audited)	6,050,000	634,196	5,933,864	12,618,060
Total comprehensive income for the period (Unaudited)	-	-	880,438	880,438
Balance at 31 March 2017 (Unaudited)	**6,050,000**	**634,196**	**6,814,302**	**13,498,498**
Balance at 1 January 2018 (Audited)	6,050,000	802,313	7,013,024	13,865,337
Total comprehensive income for the period (Unaudited)	-	-	483,904	483,904
Balance at 31 March 2018 (Unaudited)	**6,050,000**	**802,313**	**7,496,928**	**14,349,241**

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

Condensed consolidated statement of cash flows for the three month period ended 31 March 2018

	1 January to 31 March	
	2018 (3 month) (Unaudited) AED'000	2017 (3 month) (Unaudited) AED'000
Cash flows from operating activities		
Profit for the period	**483,904**	880,438
Adjustments for:		
Depreciation on property and equipment and investment properties	**7,757**	4,525
Provision for employees' end-of-service indemnity (note 17)	**3,714**	3,038
Amortisation of issue costs on sukuk certificates (note 15)	**3,210**	8,088
Loss on disposal of property and equipment	**-**	193
Reversal of impairment of trade and other receivables (note 19)	**(7,606)**	(2,208)
Finance costs (note 21)	**66,735**	49,215
Finance income (note 20)	**(40,036)**	(31,552)
Operating cash flows before changes in operating assets and liabilities	**517,678**	911,737
Increase in trade and other receivables	**(939,771)**	(509,898)
Decrease/(increase) in development properties	**31,172**	(274,106)
Increase in trade and other payables	**364,843**	251,981
Increase/(decrease) in advances from customers	**60,743**	(88,229)
Employee end-of-service indemnity paid (note 17)	**(3,439)**	(1,147)
Net cash generated from operating activities	**31,226**	290,338
Cash flows from investing activities		
Purchases of property and equipment (note 6)	**(2,142)**	(5,795)
Proceeds from the disposal of property and equipment	**-**	328
Acquisition of financial investment (note 11)	**(7,000)**	-
(Increase)/decrease in other financial assets	**(38,565)**	37,475
Decrease in deposits with an original maturity of greater than three months	**77,797**	207,281
Interest received	**34,688**	27,798
Net cash generated from investing activities	**64,778**	267,087
Cash flows from financing activities		
Proceeds from bank borrowings during the period	**317,285**	432,099
Repayment of bank borrowings during the period	**(154,040)**	(45,878)
Proceeds from issuance of sukuk certificates – net	**-**	452,644
Redemption and repurchase of sukuk certificates	**-**	(275,723)
Finance costs paid	**(11,880)**	(20,044)
Net cash generated from financing activities	**151,365**	543,098
Net increase in cash and cash equivalents during the period	**247,369**	1,100,523
Cash and cash equivalents at the beginning of the period	**5,876,667**	7,087,943
Cash and cash equivalents at the end of the period	**6,124,036**	8,188,466

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

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018

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 2195, Dubai, United Arab Emirates ("U.A.E.").

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

The Parent and its subsidiaries (collectively the "Group") are involved mainly 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 effective for accounting periods beginning on or after 1 January 2018

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these condensed consolidated financial statements.

- Conceptual framework for Financial Reporting 2018.
- Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* deleting short term exemptions for first-time adopters.
- Amendments to IFRS 2 *Share Based Payments* regarding classification and measurement of share based payment transactions.
- Amendments to IFRS 4 *Insurance Contracts* relating to the different effective dates of IFRS 9 *Financial Instruments* in the forthcoming new insurance contracts standard.
- Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9 *Financial Instruments*.
- IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9 *Financial Instruments*.
- Amendments to IAS 40 *Investment Properties*. Amendment to para 57 states 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.
- Annual improvements to IFRSs 2014-2016 cycle to remove short-term exemptions and clarifying certain fair value measurements.
- 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.

  Amendments to IAS 28 *Investment in Associates and Joint Ventures* providing clarification on measuring investees at fair value through profit or loss.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

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

2.1 New and revised IFRSs effective for accounting periods beginning on or after 1 January 2018 (continued)

- 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. The effect of adopting IFRS 9 is as follows:

Impairment

The adoption of IFRS 9 requires the Group to account for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking Expected Credit Loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all trade and other receivables not held at fair value through profit or loss (FVTPL). ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Management assessed the expected credit losses as prescribed by the requirements of IFRS 9 against trade and other receivables and concluded that there was no material impact on the interim condensed consolidated statements.

Hedge accounting

As at reporting date, the Group does not have financial assets or financial liabilities under a hedging relationship.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (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

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: ▪ Whether tax treatments should be considered collectively; ▪ Assumptions for taxation authorities' examinations; ▪ The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and ▪ The effect of changes in facts and circumstances.	1 January 2019
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*.	1 January 2019
Amendments to IFRS 9 *Financial Instruments:* Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019
IFRS 16 *Leases*: specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard 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. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
IFRS 17 *Insurance Contracts*: requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.	1 January 2021
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. Adoption is still permitted.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (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 (continued)

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

Management anticipates that IFRS 16 will be adopted in the Group's condensed consolidated financial statements for the annual period beginning 1 January 2019.

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.

3.1 Basis of preparation

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 assets.

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 Federal Law No. 2 of 2015.

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 2017.

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 2017. In addition, results for the period from 1 January 2018 to 31 March 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

The condensed consolidated statement of profit or loss and other comprehensive income for the three month period ended 31 March 2018 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 three month period ended 31 March 2018 (continued)

3. Summary of significant accounting policies (continued)

3.2 Application of IFRS 9 Financial Instruments

The Group has adopted IFRS 9 effective from 1 January 2018. IFRS 9 replaces IAS 39 and addresses the accounting for financial instruments including hedge accounting. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, FVTOCI and FVTPL. IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The business model assessment was completed based on the facts and circumstances which existed at the initial date of application. IFRS 9 eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivative embedded contracts where the host is a financial asset in the scope of IFRS 9 are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. The requirements for classification and measurement of financial liabilities under IFRS 9 are largely as existing under IAS 39.

IFRS 9 replaces the "incurred loss" model under IAS 39 with "expected credit loss" model as it relates to the impairment of financial assets. The new impairment model does not apply to equity investments.

IFRS 9 amends the requirements for hedge effectiveness and consequently the application of hedge accounting. The IAS 39 effectiveness test is replaced with a requirement for an economic relationship between the hedged item and the hedging instrument, and for the "hedged ratio" to be the same as that used by the Group for risk management purposes. The new standard requires alignment between the risk management objective of an individual hedging relationship and the risk management strategy of the Group. When assessing hedge effectiveness under IFRS 9, the Group is required to ensure credit risk due to counterparty or own creditworthiness does not dominate the change in fair value of either the hedged item or the hedging instrument. Generally, the mechanics of hedge accounting remain unchanged.

Impairment of financial assets

The Group has financial assets under "trade and other receivables" that are subject to the expected credit loss model under IFRS 9. The Group has applied the simplified approach to measuring the expected credit losses which uses lifetime expected loss allowance for all trade receivables and financial investments. To measure the expected credit losses, trade receivables have been grouped based on similar credit risk characteristics and days past due. The revised impairment methodology has not resulted in additional credit loss in trade receivables and financial investments.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively. However in accordance with transition provisions under IFRS 9, the Group has elected not to restate the comparative periods.

3.3 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.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

3. Summary of significant accounting policies (continued)

3.3 Property and equipment (continued)

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.

3.4 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.

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.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

3. Summary of significant accounting policies (continued)

3.5 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.

3.6 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.

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.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

3. Summary of significant accounting policies (continued)

3.6 Revenue recognition (continued)

Revenue from contracts with customers (continued)

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.

3.7 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%

3.8 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 2017.

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 and liabilities, income and expense. Actual results may differ from these estimates.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

4. Critical accounting judgements and key sources of estimation of uncertainty (continued)

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 2017 in addition to the following critical accounting judgments:

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment 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 judgment consistently in accordance with the definitions of investment property, property and equipment and development property. In making its judgment, 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 information. 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.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

5. Segment analysis (continued)

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

	1 January to 31 March	
	2018 (3 month) (Unaudited) AED'000	2017 (3 month) (Unaudited) AED'000
Revenue		
Domestic	**1,870,071**	1,936,284
International	**22,483**	9,117
	1,892,554	1,945,401

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Development properties		
Domestic	**8,140,721**	8,207,859
International	**1,471,158**	1,435,192
	9,611,879	9,643,051

6. Property and equipment

	Buildings AED'000	**Furniture and fixtures AED'000**	**Tools and office equipments AED'000**	**Motor vehicles AED'000**	**Total AED'000**
Cost					
1 January 2018 (Audited)	91,858	76,890	110,106	4,750	283,604
Additions	-	473	1,669	-	2,142
31 March 2018 (Unaudited)	91,858	77,363	111,775	4,750	285,746
Accumulated depreciation					
1 January 2018 (Audited)	3,103	59,674	67,544	2,831	133,152
Charge for the period	931	1,187	3,434	173	5,725
31 March 2018 (Unaudited)	4,034	60,861	70,978	3,004	138,877
Carrying value					
31 March 2018 (Unaudited)	**87,824**	**16,502**	**40,797**	**1,746**	**146,869**

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

6. Property and equipment (continued)

	Buildings AED'000	Furniture and fixtures AED'000	Tools and office equipments AED'000	Motor vehicles AED'000	Total AED'000
Cost					
1 January 2017 (Audited)	-	75,336	95,058	4,583	174,977
Additions	-	1,592	2,998	1,205	5,795
Transfer from development properties (note 8)	91,858	-	-	-	91,858
Disposal	-	-	(23)	(678)	(701)
31 March 2017 (Unaudited)	91,858	76,928	98,033	5,110	271,929
Accumulated depreciation					
1 January 2017 (Audited)	-	53,476	60,447	2,312	116,235
Charge for the period	-	2,691	1,092	742	4,525
Disposal	-	-	(16)	(164)	(180)
31 March 2017 (Unaudited)	-	56,167	61,523	2,890	120,580
Carrying value					
31 March 2017 (Unaudited)	**91,858**	**20,761**	**36,510**	**2,220**	**151,349**

7. Investment properties

Investment properties represent completed properties held at cost less accumulated depreciation and any impairment losses under the cost model in accordance with IFRS.

Movement during the period/year is as follows:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Balance at the beginning of the period/year	**197,021**	-
Transfer from development properties (note 8)	**-**	203,114
Depreciation	**(2,032)**	(6,093)
Balance at the end of the period/year	**194,989**	197,021

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

8. Development properties

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Balance at the beginning of the period/year	**9,643,051**	10,245,064
Additions	**1,097,010**	3,513,108
Transfer to cost of sales	**(1,128,182)**	(3,809,208)
Transfer to investment properties (note 7)	**-**	(203,114)
Transfer to property and equipment (note 6)	**-**	(91,858)
Disposal of a subsidiary	**-**	(10,941)
Balance at the end of the period/year	**9,611,879**	9,643,051

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:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Land held for future development	**618,433**	534,663
Properties under development	**7,545,192**	7,626,907
Completed properties	**1,448,254**	1,481,481
	9,611,879	9,643,051

No borrowing costs have been capitalised to development properties.

9. Other financial assets

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Escrow retention accounts	**1,048,447**	1,009,668
Margin deposits	**8,266**	8,699
Other	**6,609**	6,390
	1,063,322	1,024,757

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

9. Other financial assets (continued)

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 31 March 2018, 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 617 million (31 December 2017: AED 586 million) is held with Islamic banks and the remaining balance is held with conventional banks.

10. Trade and other receivables

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Unbilled receivables *(i)*	**5,792,128**	5,118,024
Trade receivables *(ii)*	**1,109,971**	983,403
Provision for impairment on trade receivables	**(124,260)**	(131,866)
	6,777,839	5,969,561
Advances and deposits	**707,580**	573,947
Other receivables and prepayments	**74,518**	63,704
	7,559,937	6,607,212

(i) Unbilled receivables relate to the Group's right to receive consideration for work completed but not billed at the reporting date. These are transferred to trade receivables when invoiced.

(ii) Trade receivables represent amounts due from customers. Customers are allowed 30 days from each invoice date to settle outstanding dues.

11. Financial investment

During the period, the Group increased its investment in Damac International Limited, a related entity whose principal activity is property development, from AED 263 million to AED 270 million (2017: from AED 185 million to AED 263 million) which represents a 20% (2017: 20%) equity interest in the related entity.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

12. Cash and bank balances

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Cash on hand	**1,957**	835
Cash held in escrow	**6,212,374**	5,979,509
Bank balances	**81,775**	59,551
Fixed deposits	**1,354,695**	1,418,435
Cash and bank balances	**7,650,801**	7,458,330
Fixed deposits with an original maturity of greater than three months	**(1,340,022)**	(1,417,819)
Bank overdrafts (note 14)	**(186,743)**	(163,844)
Cash and cash equivalents	**6,124,036**	5,876,667

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.

Fixed deposits are financial assets held by banks with maturity period of more than three months from the date of placement. As at reporting date, the fixed deposits earned interest at rates ranging from 1% to 6% (2017: 1% to 6%) per annum.

At the reporting date, fixed deposits and bank balances of AED 205 million (2017: AED 195 million) are held by banks under lien against credit facilities issued to the Group.

At the reporting date, an amount of AED 4,739 million (2017: AED 4,585 million) is held with Islamic banks and the remaining balance is held with conventional banks.

13. Share capital

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Issued, subscribed and fully paid shares of AED 1 each	**6,050,000**	6,050,000

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

14. Bank borrowings

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Bank facilities	**814,822**	651,577
Overdrafts	**186,743**	163,844
	1,001,565	815,421

a) At the reporting date, an amount of AED 222 million (2017: AED 222 million) is outstanding with Islamic banks and the remaining balance with conventional banks.

b) Details of the Group's bank facilities are as follows:

Islamic banks and financial institutions

The Group has the following Sharia compliant financing facility with an Islamic financial institution:

- AED 250 million Ijarah facility with a commercial bank at a rate of 3 months EIBOR plus 3.25% per annum, repayable by 2020. Out of this AED 28 million was repaid as at 31 March 2018.

Conventional banks and financial institutions

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

- AED 196 million term loan facility with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2018. Out of this, AED 105 million was repaid as at 31 March 2018.
- AED 50 million term loan facility with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2018. Out of this, AED 17 million was repaid as at 31 March 2018.
- AED 276 million revolving term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.75% per annum, repayable in 2019.
- AED 79 million revolving term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.75% per annum, repayable in 2018.
- AED 50 million term loan facility with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable in 2018. Out of this, AED 42 million was repaid as at 31 March 2018.
- AED 165 million term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.25% per annum, repayable by 2019. Out of this, AED 82 million was repaid as at 31 March 2018.
- AED 67 million term loan with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable by 2020. Out of this, AED 44 million was repaid as at 31 March 2018.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

14. Bank borrowings (continued)

c) As at 31 March 2018, the Group had arranged for bank facilities amounting to AED 1,974 million (2017: AED 1,833 million) in the form of letters of credit and guarantees out of which AED 1,244 million (2017: AED 896 million) remained unutilised as at the reporting date.

d) The non-funded facilities are mainly secured by mortgages over certain properties owned by the Group with a market value of AED 614 million (2017: AED 614 million), corporate guarantees of the Company and pledges over bank accounts and deposits of AED 205 million (2017: AED 195 million).

e) Repayment profile of the Group's bank borrowings at the reporting date is as follows:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
On demand or within one year	**635,126**	542,577
In the second and third years	**366,439**	272,844
	1,001,565	815,421

15. Sukuk certificates

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Sukuk certificates	**3,958,989**	3,958,989
Unamortised issue costs	**(18,250)**	(21,460)
Carrying amount	**3,940,739**	3,937,529

Movement in unamortised issue costs is as follows:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Balance at the beginning of the period/year	**21,460**	10,875
Incurred during the period/year	**-**	21,978
Amortised during the period/year	**(3,210)**	(11,393)
Balance at the end of the period/year	**18,250**	21,460

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

15. 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 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 a 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 three month period ended 31 March 2018 (continued)

15. Sukuk certificates (continued)

The repayment profile of sukuk certificates is as follows:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Amount due for settlement within 12 months	**456,870**	455,618
Amount due for settlement after 12 months	**3,483,869**	3,481,911
	3,940,739	3,937,529

16. Advances from customers

Advances from customers represent payments received from customers for sale of properties for which revenue has not yet been recognised in line with the revenue recognition policy consistent with IFRS 15.

Movement during the period/year is as follows:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Balance at the beginning of the period/year	**3,274,496**	4,196,801
Amounts billed during the period/year	**1,946,524**	6,792,480
Revenue recognised during the period/year	**(1,885,781)**	(7,433,574)
Other operating income recognised during the period/year	**-**	(281,211)
Balance at the end of the period/year	**3,335,239**	3,274,496

17. Trade and other payables

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Accruals	**1,122,296**	1,077,961
Retentions payable *(i)*	**914,898**	872,611
Deferred consideration payable for land	**673,484**	799,597
Other payables	**1,112,171**	652,982
Provision for employees' end-of-service indemnity *(ii)*	**47,837**	47,562
	3,870,686	3,450,713

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

17. Trade and other payables (continued)

(i) 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.

(ii) Movement in provision for employees' end-of-service indemnity during the period/year is as follows:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Balance at the beginning of the period/year	**47,562**	37,623
Charge for the period/year	**3,714**	18,664
Payments during the period/year	**(3,439)**	(8,725)
Balance at the end of the period/year	**47,837**	47,562

18. 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.

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

	1 January to 31 March	
	2018 (3 month) (Unaudited) AED'000	2017 (3 month) (Unaudited) AED'000
Entities under the control of the Chairman		
Investment in Damac International Limited (note 11) *(i)*	**(7,000)**	-
Support services fees *(ii)*	**1,209**	1,209

(i) Investment in Damac International Limited

During the period, the Group increased its investment in Damac International Limited by AED 7 million (2017: nil), a related entity under the control of the Chairman (note 11).

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

18. Related party transactions (continued)

(ii) Support services fees

During the period the Group received AED 1.2 million (2017: AED 1.2 million) towards support services rendered to Damac International Limited and DICO Investments 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 31 March	
	2018 (3 month) (Unaudited) AED'000	2017 (3 month) (Unaudited) AED'000
Salaries and other short-term employee benefits	**3,086**	3,893
Other long term benefits	**123**	151
	3,209	4,044

19. General, administrative and selling expenses

	1 January to 31 March	
	2018 (3 month) (Unaudited) AED'000	2017 (3 month) (Unaudited) AED'000
Staff costs	**125,307**	115,449
Selling and marketing expenses	**95,956**	83,673
Repairs and maintenance	**8,535**	5,513
Rent and license fees	**9,126**	15,390
Legal and professional	**10,749**	8,001
Travel and communication	**4,193**	3,569
Reversal of impairment on trade receivables	**(7,606)**	(2,208)
Other	**12,805**	27,645
	259,065	257,032

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

20. Finance income

	1 January to 31 March	
	2018 (3 month) (Unaudited) AED'000	2017 (3 month) (Unaudited) AED'000
Islamic banks and financial institutions	**21,163**	15,826
Conventional banks and financial institutions	**18,873**	15,726
	40,036	31,552

21. Finance costs

	1 January to 31 March	
	2018 (3 month) (Unaudited) AED'000	2017 (3 month) (Unaudited) AED'000
Islamic banks and financial institutions	**59,448**	36,986
Conventional banks and financial institutions	**7,287**	12,229
	66,735	49,215

22. Contingent liabilities

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Bank guarantees	**730,615**	937,251

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 reporting date.

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

23. Commitments

Commitments for the acquisition of services for the development and construction of assets classified under developments in progress:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Contracted for	**5,126,920**	5,407,712

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:

	31 March 2018 (Unaudited) AED'000	31 December 2017 (Audited) AED'000
Within one year	**8,055**	8,055
Between two to five years	**34,635**	34,635
More than five years	**204,997**	204,997
Total	**247,687**	247,687

Operating lease commitments – Group as a lessor

The Group has entered into leases on its investment property portfolio whose contracted periods do not exceed one year.

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.

	1 January to 31 March	
	2018 (3 month) (Unaudited)	2017 (3 month) (Unaudited)
Profit for the period (AED'000)	**483,904**	880,438
Weighted average number of ordinary shares ('000)	**6,050,000**	6,050,000
Earnings per ordinary share – Basic and diluted (AED)	**0.08**	0.15

Notes to the condensed consolidated financial statements for the three month period ended 31 March 2018 (continued)

25. Subsequent events

Dividend

On 22 April 2018 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.

Issue of new sukuk certificates

On 18 April 2018, the Group issued AED 1,470 million (US$ 400 million) Sukuk Trust Certificates (the "Certificates") maturing in 2023. Alpha Star Holding V 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 Certificateholders are paid returns at the rate of 6.625% per annum.

Repurchase of sukuk certificates

On 19 April 2018, the Group repurchased sukuk certificates worth AED 667 million (US$ 181 million) out of the sukuk certificates maturing in 2019, at a premium.

26. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements for the three month period ended 31 March 2018 was approved by the Board of Directors and authorised for issue on 14 May 2018.