

**Emaar Development LLC and its Subsidiary**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2016, 2015 and 2014**



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## INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF EMAAR DEVELOPMENT LLC

### Report on the Audit of the Consolidated Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Emaar Development LLC (the "Company") and its subsidiary (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, 31 December 2015 and 31 December 2014, and the consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, 31 December 2015 and 31 December 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

#### *Basis for Opinion*

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

#### *Responsibilities of Management and the General Manager for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The General Manager is responsible for overseeing the Group's financial reporting process.



## INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF EMAAR DEVELOPMENT L.L.C (continued)

### Report on the Audit of the Consolidated Financial Statements (continued)

#### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

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

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

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



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**INDEPENDENT AUDITOR'S REPORT TO THE PARTNERS OF  
EMAAR DEVELOPMENT L.L.C (continued)**

**Report on the Audit of the Consolidated Financial Statements (continued)**

*Auditor's Responsibilities for the Audit of the consolidated Financial Statements (continued)*

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

For Ernst & Young

A handwritten signature in black ink, appearing to read 'Anthony O'Sullivan', is written over a horizontal line.

Signed by:  
Anthony O'Sullivan  
Partner  
Registration number: 687

17 October 2017

Dubai, United Arab Emirates

Emaar Development LLC and its Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the years ended 31 December 2016, 2015, 2014

(US\$ 1.00 = AED 3.673)

		2016	2015	2014
	Notes	AED'000	AED'000	AED'000
Revenue	4	6,898,599	5,252,842	3,139,694
Cost of revenue	4	(4,037,246)	(2,857,976)	(1,298,740)
<b>GROSS PROFIT</b>		<b>2,861,353</b>	<b>2,394,866</b>	<b>1,840,954</b>
Selling, general and administrative expenses	5	(577,148)	(611,189)	(492,749)
Finance income	6	124,388	60,754	140,247
Finance costs		(13,865)	(16,486)	(35,811)
Other income		59,744	134,010	157,940
Share of results of joint venture	12	(2,575)	-	-
<b>PROFIT FOR THE YEAR</b>		<b>2,451,897</b>	<b>1,961,955</b>	<b>1,610,581</b>
Other comprehensive income		-	-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>2,451,897</b>	<b>1,961,955</b>	<b>1,610,581</b>
<b>ATTRIBUTABLE TO:</b>				
Owners of the Parent		2,112,403	1,742,045	1,275,647
Non-controlling interest		339,494	219,910	334,934
		<b>2,451,897</b>	<b>1,961,955</b>	<b>1,610,581</b>
Earnings per share attributable to the owners of the Parent:				
- basic and diluted earnings per share (AED)	20	7,041,343	5,806,817	4,252,157

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

# Emaar Development LLC and its Subsidiary

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016, 2015, 2014

(US\$ 1.00 = AED 3.673)

	Notes	2016 AED'000	2015 AED'000	2014 AED'000
<b>ASSETS</b>				
Bank balances	7	9,753,544	9,460,972	7,394,389
Trade and unbilled receivables	8	1,472,280	1,053,979	719,782
Other assets, receivables, deposits and prepayments	9	1,777,140	909,206	591,901
Development properties	10	6,022,305	4,482,829	4,801,557
Loan to a joint venture	11	13,016	-	-
Property, plant and equipment	13	81,615	85,554	4
<b>TOTAL ASSETS</b>		<b>19,119,900</b>	<b>15,992,540</b>	<b>13,507,633</b>
<b>LIABILITIES AND EQUITY</b>				
<b>Liabilities</b>				
Trade and other payables	14	3,032,355	2,830,206	2,699,342
Advances from customers	15	8,135,670	7,876,668	7,323,532
Retentions payable	16	418,745	431,960	407,796
Employees' end-of-service benefits	17	17,390	15,005	10,448
<b>TOTAL LIABILITIES</b>		<b>11,604,160</b>	<b>11,153,839</b>	<b>10,441,118</b>
<b>EQUITY</b>				
Equity attributable to owners of the Parent				
Share capital	18	300	300	300
Statutory reserve	19	150	150	150
Shareholder's contribution	23	6,751,772	4,289,227	2,736,951
		6,752,222	4,289,677	2,737,401
Non-controlling interests		763,518	549,024	329,114
<b>TOTAL EQUITY</b>		<b>7,515,740</b>	<b>4,838,701</b>	<b>3,066,515</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>19,119,900</b>	<b>15,992,540</b>	<b>13,507,633</b>

The consolidated financial statements were authorised for issue on 17 October 2017 by:



General Manager

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

## Emaar Development LLC and its Subsidiary

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the years ended 31 December 2016, 2015, 2014

(US\$ 1.00 = AED 3.673)

	<i>Attributable to the owners of the Parent</i>				<i>Non-controlling interests</i> AED'000	<i>Total equity</i> AED'000
	<i>Share capital</i> AED'000	<i>Statutory reserve</i> AED'000	<i>Shareholder's contribution</i> AED'000	<i>Total</i> AED'000		
Balance at 1 January 2016	300	150	4,289,227	4,289,677	549,024	4,838,701
Profit for the year	-	-	2,112,403	2,112,403	339,494	2,451,897
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	2,112,403	2,112,403	339,494	2,451,897
Movement in shareholder's contribution	-	-	350,142	350,142	-	350,142
Dividend of a subsidiary	-	-	-	-	(125,000)	(125,000)
Balance at 31 December 2016	300	150	6,751,772	6,752,222	763,518	7,515,740
Balance at 1 January 2015	300	150	2,736,951	2,737,401	329,114	3,066,515
Profit for the year	-	-	1,742,045	1,742,045	219,910	1,961,955
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	1,742,045	1,742,045	219,910	1,961,955
Movement in shareholder's contribution	-	-	(189,769)	(189,769)	-	(189,769)
Balance at 31 December 2015	300	150	4,289,227	4,289,677	549,024	4,838,701
Balance at 1 January 2014	300	150	671,361	671,811	(5,820)	665,991
Profit for the year	-	-	1,275,647	1,275,647	334,934	1,610,581
Other comprehensive income for the year	-	-	-	-	-	-
Total comprehensive income for the year	-	-	1,275,647	1,275,647	334,934	1,610,581
Movement in shareholder's contribution	-	-	789,943	789,943	-	789,943
Balance at 31 December 2014	300	150	2,736,951	2,737,401	329,114	3,066,515

Movement in shareholder's contribution represents change in the net assets allocated to the Build-to-sell real estate development business. Also refer note 2.1, 23.

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.

Emaar Development LLC and its Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended 31 December 2016, 2015, 2014

(US\$ 1.00 = AED 3.673)

	Notes	2016 AED'000	2015 AED'000	2014 AED'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit for the year		2,451,897	1,961,955	1,610,581
Adjustments for:				
Share of results of joint venture	12	2,575	-	-
Depreciation	5	11,344	34	3
Provision for employees' end-of-service benefits, net (Reversal)/provision for doubtful debts	17	2,385	4,557	1,623
Finance costs	8	(8,347)	19,007	-
Finance income	6	(124,388)	(60,754)	(140,247)
Cash from operations before working capital changes		2,349,331	1,941,285	1,507,771
Trade and unbilled receivables		(409,954)	(353,204)	(149,423)
Other assets, receivables, deposits and prepayments		(865,150)	(313,731)	(433,680)
Development properties		(1,539,476)	233,212	(966,651)
Advances from customers	15	259,002	553,136	3,366,240
Trade and other payables		188,894	115,163	130,556
Retentions payable		(13,215)	24,164	73,768
<b>Net cash flows (used in)/ from operating activities</b>		<b>(30,568)</b>	<b>2,200,025</b>	<b>3,528,581</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Finance income received		121,604	57,180	43,044
Loan to a joint venture		(15,441)	-	-
Amounts incurred on property, plant and equipment	13	(7,405)	(68)	-
Investment in a joint venture		(150)	-	-
Deposits maturing after three months		(561,169)	182,138	(2,473,800)
<b>Net cash flows (used in)/ from investing activities</b>		<b>(462,561)</b>	<b>239,250</b>	<b>(2,430,756)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Finance costs paid		(610)	(785)	(31,549)
Repayment of loans to financial institutions		-	-	(760,220)
Dividend paid by a subsidiary to the non-controlling interests		(125,000)	-	-
Movement in shareholder's contribution		350,142	(189,769)	789,943
<b>Net cash flows from/ (used in) financing activities</b>		<b>224,532</b>	<b>(190,554)</b>	<b>(1,826)</b>
<b>(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS</b>				
		(268,597)	2,248,721	1,095,999
Cash and cash equivalents at the beginning of the year		6,869,310	4,620,589	3,524,590
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	7	<b>6,600,713</b>	<b>6,869,310</b>	<b>4,620,589</b>

The accompanying notes 1 to 27 form an integral part of these consolidated financial statements.



# Emaar Development LLC and its Subsidiary

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016, 2015, 2014

### 1 DOMICILE AND ACTIVITIES

Emaar Development L.L.C (the “Company” or the “Parent”) is a limited liability company incorporated on 2 April 2003 (formerly Emaar Investment LLC) with the Department of Economic Development, Dubai, United Arab Emirates (UAE) and is owned 99% by Emaar Properties PJSC (the ‘Ultimate Parent’), an entity incorporated in UAE and listed on the Dubai Financial Market (DFM) and 1% by Emirates Property Holdings Limited, an entity incorporated in the British Virgin Islands. The Company and its subsidiary constitute the Group (the “Group”). The Company’s registered office is at P.O. Box 48882, Dubai, United Arab Emirates (“UAE”).

During 2017, the Ultimate Parent announced their intention to sell upto 30% of their shares in the Company through an Initial Public Offering (“IPO”) and subsequently list the Company on the DFM. As part of proposed IPO, the legal status of the Company will be converted from that of a Limited Liability Company (L.L.C) to a Public Joint Stock Company (“PJSC”) to be known as Emaar Development PJSC upon receipt of the appropriate approval from the Ministry of Economy.

The principal activities of the Group are property development and development management in the UAE.

### 2.1 BASIS OF PREPARATION

As part of a proposed IPO, the Ultimate Parent entered into a Master Transfer Agreement (“MTA”) on 29 September 2017 with the Company for the transfer of its Build-to-sell (BTS) real estate development business (sale of condominiums, villas, commercial units and plots of land) in the UAE to the Company. As per the MTA all assets and liabilities relating to the BTS real estate development business of the Ultimate Parent are transferred to the Company. As this transaction is between entities under common control, which is scoped out under IFRS 3 – Business Combinations, the Company has chosen to present the consolidated financial statements for the years ended 31 December 2016, 31 December 2015 and 31 December 2014 as if BTS real estate development business was with the Company from the beginning of the earliest period presented. Accordingly, the consolidated financial statements which have been prepared for the purpose of inclusion in the IPO prospectus, represents the results of operations and assets and liabilities of the BTS real estate development business for each of the years ended 31 December 2016, 31 December 2015 and 31 December 2014. Further, as per the MTA, certain warranty provisions and advances from customers relating to BTS real estate developments which were completed in the prior years are retained in the books of the Ultimate Parent as these obligations will be continued to be serviced the Ultimate Parent company. In addition, based on the MTA, the Company will also continue to manage the development of Build-to-Operate (BTO) and Build-to-lease (BTL) assets on behalf of the Ultimate Parent for which the Company will receive management fees at an agreed rate. The Ultimate Parent also transferred its interest in the BTS real estate development business of its subsidiary, Dubai Hills Estate LLC to the Company. Joint ventures partners have also consented to transfer the interest of the Ultimate Parent in the BTS real estate development business of joint ventures to the Company. Currently, legal formalities for such transfers are under process. However, the beneficial interest in the BTS real estate development business has been transferred to the Group by virtue of contractual arrangements entered into by the parties.

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared in United Arab Emirates Dirhams (AED), which is the Company’s functional and presentation currency, and all values are rounded to the nearest thousand except where otherwise indicated. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The consolidated financial statements have been prepared on a historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The preparation of consolidated financial statements on the basis described above requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which for the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## Emaar Development LLC and its Subsidiary

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016, 2015, 2014

#### 2.1 BASIS OF PREPARATION (continued)

##### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and entity controlled by the Company (its subsidiary) as at 31 December 2016, as at 31 December 2015 and as at 31 December 2014. Control is achieved where all the following criteria are met:

- (a) the Company has power over an entity (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- (b) the Company has exposure, or rights, to variable returns from its involvement with the entity; and
- (c) the Company has the ability to use its power over the entity to affect the amount of the Company's returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

##### Subsidiary

Subsidiary is fully consolidated from the date of acquisition or incorporation, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Share of comprehensive income/loss within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in the consolidated statement of comprehensive income; and
- Reclassifies the Group's share of components previously recognised in other comprehensive income to the consolidated statement of comprehensive income or retained earnings, as appropriate.

Details of the Company's significant subsidiary are as follows:

Subsidiary	Place of incorporation	Principal activities	Percentage of beneficial interest
Dubai Hills Estate LLC	UAE	Property development	50.00%

##### Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

The Group's investment in joint ventures are accounted for using the equity method of accounting. Under the equity method of accounting, investments in joint ventures are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the joint venture companies, less any impairment in value.

The consolidated statement of comprehensive income reflects the Group's share of results of its joint ventures. Unrealised profits and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures.

## 2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Estimates and their underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

The key judgments, estimates and assumptions that have a significant impact on the consolidated financial statements of the Group are discussed below:

### Judgments

#### *Satisfaction of performance obligations*

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has assessed that based on the sale and purchase agreements entered into with customers and the provisions of relevant laws and regulations, where contracts are entered into to provide real estate assets to customer, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. In these circumstances the Group recognises revenue over time. Where this is not the case revenue is recognised at a point in time.

#### *Determination of transaction prices*

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

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

#### *Transfer of control in contracts with customers*

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

#### *Transfer of real estate assets from property, plant and equipment to development properties*

The Group sells real estate assets in its ordinary course of business. When real estate assets which were previously classified as property, plant and equipment are identified for sale in the ordinary course of business, then the assets are transferred to development properties at their carrying value at the date of identification and become held for sale. Sale proceeds from such assets are recognised as revenue in accordance with IFRS 15 *Revenue from Contracts with Customers*.

#### *Consolidation of subsidiary*

The Group has evaluated all the investee entities to determine whether it controls the investee as per the criteria laid out by IFRS 10 *Consolidated Financial Statements*. The Group has evaluated, amongst other things, its ownership interest, the contractual arrangements in place and its ability and the extent of its involvement with the relevant activities of the investee entities to determine whether it controls the investee.

## 2.2 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

### Estimations and assumptions

#### *Split of real estate components*

Consolidated financial statements of the Group includes certain assets, liabilities, income, expenses and cashflows which are allocated to the Group based on management assumptions and estimates. This mainly includes development properties, trade and other payables, selling, general and administrative expenses. These are allocated based on evaluation by project consultant and management best estimate of use of corporate resources by the Group.

#### *Impairment of trade and other receivables*

An estimate of the collectible amount of trade and other receivables is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

#### *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The management periodically reviews estimated useful lives and the depreciation method to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

#### *Allocation of transaction price to performance obligation in contracts with customers*

The Group has elected to apply the input method in allocating the transaction price to performance obligations where revenue is recognised over time. The Group considers that the use of the input method, which requires revenue recognition on the basis of the Group's efforts to the satisfaction of the performance obligation, provides the best reference of 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 as evaluated by the project consultant and the cost of meeting other contractual obligations to the customers.

#### *Cost to complete the projects*

The Group estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognised. These estimates include the cost of providing infrastructure, potential claims by contractors as evaluated by the project consultant and the cost of meeting other contractual obligations to the customers.

#### *Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. The non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to calculate the present value of those cash flows.

#### *Fair value measurement of financial instruments*

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

## Emaar Development LLC and its Subsidiary

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2016, 2015, 2014

#### 2.3 CHANGES IN THE ACCOUNTING POLICIES AND DISCLOSURES

##### Standards, amendments and interpretations in issue but not effective

At the date of authorisation of these consolidated financial statements, the following standards, amendments and interpretations were in issue but not yet effective.

- IAS 12 Amendments to IAS 12 *Disclosure of interest in other entities* (Recognition of Deferred Tax Assets for Unrealised Losses) (effective for annual periods beginning 1 January 2017);
- IAS 7 Amendments to IAS 7 *Statement of Cash Flows* (Disclosure Initiative) (effective for annual periods beginning 1 January 2017);
- IFRS10, IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively);
- IFRS 9 IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted.
- IFRS 2 Amendment to IFRS 2 *Share-based Payment* (Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018); and
- IFRS 16 Leases: Lessees required to recognise a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term (effective for annual periods beginning on or after 1 January 2019).

The Group does not expect the adoption of the above new standards, amendments and interpretations to have a material impact on the future consolidated financial statements of the Group.

#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Revenue recognition

The Group has elected to early adopt IFRS 15 - *Revenue from contracts with customers* with effect from 1 January 2015, as the Group considers it better reflects the real estate business performance of the Group. The Group opted for the full retrospective application permitted by IFRS 15 upon adoption of the standard. Accordingly, the standard has been applied retrospectively with effect from 1 January 2014 in accordance with IAS 8 - *Accounting Policies, Changes in Accounting Estimates and Errors*, subject to the practical expedients permitted by IFRS 15.

Since this is the first set of financial statements prepared for the Group, management consider that the disclosure for transition adjustments on change in the accounting policies of revenue recognition are not of significant interest to the users of the consolidated financial statements.

##### *Revenue from contracts with customers for sale of properties*

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

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

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

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

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

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

### Interest income

Interest income is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### Development services

Revenue from rendering of development management services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the development obligation at the reporting date. Where the outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated statement of comprehensive income in the year in which they are incurred.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

Sales centers (included in land and buildings)	10 years
Computers and office equipment	2 - 5 years
Furniture and fixtures	2 - 10 years

No depreciation is charged on land and capital work-in-progress. The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

Expenditure incurred to replace a component of an item of property, plant and equipment 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 property, plant and equipment. All other expenditure is recognised in the consolidated statement of comprehensive income as the expense is incurred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment (continued)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable. Whenever the carrying amount of property, plant and equipment exceeds their recoverable amount, an impairment loss is recognised in the consolidated statement of comprehensive income. The recoverable amount is the higher of fair value less costs to sell of property, plant and equipment and the value in use. The fair value less costs to sell is the amount obtainable from the sale of property, plant and equipment in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of property, plant and equipment and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in the prior years are recorded when there is an indication that the impairment losses recognised for the property, plant and equipment no longer exist or have reduced.

### Development properties

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

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction; and
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date and discounted for the time value of money if material, less costs to completion and the estimated costs of sale.

The cost of development properties recognised in the consolidated statement of comprehensive income on sale is determined with reference to the specific costs incurred on the property sold and an allocation of any non-specific costs based on the relative size of the property sold.

The management reviews the carrying values of the development properties on an annual basis.

### Investment in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The Group's investments in its joint ventures are accounted for using the equity method.

Under the equity method, the investment in the joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of its joint venture after tax and non-controlling in the subsidiary of the associate. Where there has been a change recognised directly in the other comprehensive income or equity of an associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of comprehensive income or the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its joint ventures are eliminated to the extent of the interest in the joint venture.

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture, and its carrying value and recognises the impairment losses in the consolidated statement of comprehensive income.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment in joint ventures (continued)

Upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any differences between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of comprehensive income. When the remaining investment in joint venture constitutes significant influence, it is accounted for as an investment in associate.

### Financial assets

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is made under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at cost, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value. All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices for assets and offer prices for liabilities, at the close of business on the reporting date. If quoted market prices are not available, reference can also be made to broker or dealer price quotations.

The fair value of floating rate and overnight deposits with credit institutions is their carrying value. The carrying value is the cost of the deposit and accrued interest. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques. Expected cash flows are discounted at current market rates for similar instruments at the reporting date.

### Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under IAS 32: *Financial Instruments: Presentation*) except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

### Equity investments

All financial assets that are equity investments are measured at fair value either through consolidated statement of other comprehensive income or through profit or loss. This is an irrevocable choice that the Group has made on early adoption of IFRS 9 - Phase 1 or will make on subsequent acquisition of equity investments unless the equity investments are held for trading, in which case, they must be measured at fair value through profit or loss. Gain or loss on disposal of equity investments is not recycled. Dividend income for all equity investments is recorded through the consolidated statement of comprehensive income.

### Debt instruments

Debt instruments are also measured at fair value through profit or loss unless they are classified at amortised cost. They are classified at amortised cost only if:

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

### Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

### Trade and unbilled receivables

Trade and unbilled receivables are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. When trade and unbilled receivables are uncollectible, it is written off against provision for doubtful debts. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of comprehensive income.



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets (continued)

#### *Foreign exchange gains and losses*

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at fair value through profit or loss, the foreign exchange component is recognised in the consolidated statement of comprehensive income. For financial assets designated at fair value through other comprehensive income any foreign exchange component is recognised in the consolidated statement of comprehensive income. For foreign currency denominated debt instruments classified at amortised cost, the foreign exchange gains and losses are determined based on the amortised cost of the asset and are recognised in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

#### *Derecognition of financial assets*

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Impairment of financial assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

For financial assets carried at amortised cost, the carrying amount is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of comprehensive income. Interest income on such financial assets continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Financial asset together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or decreased by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators. Impairment losses of continuing operations are recognised in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

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

### **Financial liabilities and equity instruments issued by the Group**

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual agreements. Financial liabilities within the scope of IFRS 9 phase 1, are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivative instrument as appropriate. The Group determines the classification of its financial liabilities at the initial recognition.

#### *Trade and other payables*

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

#### *Loans and borrowings*

Term loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

#### *Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, then the difference in the respective carrying amounts is recognised in the consolidated statement of comprehensive income.

#### *Offsetting of financial instruments*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### End-of-service benefits

The Group provides end-of-service benefits to its employees. The entitlement to these benefits is usually based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its eligible UAE and GCC national employees, the Group makes contributions to a pension fund established by the UAE General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

### Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount can be reliably estimated. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period, using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

### Foreign currency translations

The consolidated financial statements are presented in AED which is the functional currency of the Company. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of comprehensive income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

As at the reporting date, the assets and liabilities of subsidiary with functional currencies other than AED are translated into AED at the rate of exchange ruling at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The differences arising on the translation are taken directly to the consolidated statement of comprehensive income. On disposal of an entity, the deferred cumulative amount recognised in equity relating to that entity is recognised in the consolidated statement of comprehensive income.

### Contingencies

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

## Emaar Development LLC and its Subsidiary

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#### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Fair value measurement

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions
- Reference to the current fair value of another instrument that is substantially the same
- A discounted cash flow analysis or other valuation models

#### 3 SEGMENT INFORMATION

For management purposes, the Group is organised into one segment based on its products and services, which is the real estate development business. Accordingly the Group only has one reportable segment. Management monitors the operating results of the business as a single unit for the purpose of making decisions about resource allocation and performance assessment.

##### Business segments

Revenue, operating results, assets and liabilities presented in the consolidated financial statements relates to the real estate development business of the Group.

##### Geographic segment

The Group is currently operating only in the UAE, hence the operating results, assets and liabilities presented in the consolidated financial statements relates to its operation in the UAE.

#### 4 REVENUE AND COST OF REVENUE

	2016 AED '000	2015 AED '000	2014 AED '000
<b>Revenue</b>			
Sale of condominiums	3,236,832	2,913,112	1,365,197
Sale of villas	2,608,994	822,549	621,008
Sale of commercial units, plots of land and others	1,052,773	1,517,181	1,153,489
	<u>6,898,599</u>	<u>5,252,842</u>	<u>3,139,694</u>
<b>Cost of revenue</b>			
Cost of condominiums	2,253,218	2,029,768	664,912
Cost of villas	1,564,641	443,855	394,499
Cost of commercial units, plots of land and others	219,387	384,353	239,329
	<u>4,037,246</u>	<u>2,857,976</u>	<u>1,298,740</u>
Below is the split of revenue recognised over a period of time and single point in time:			
- Over a period of time	5,938,690	4,027,710	2,143,577
- Single point in time	959,909	1,225,132	996,117
	<u>6,898,599</u>	<u>5,252,842</u>	<u>3,139,694</u>

Cost of revenue includes AED Nil (2015: AED 70,823 and 2014: AED Nil) of costs incurred on certain projects of the Group which are discontinued.

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#### 5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Sales and marketing expenses	149,910	149,121	145,549
Payroll and related expenses	125,354	114,232	85,986
Property management expenses	56,022	62,036	65,744
Depreciation of property, plant and equipment (note 13)	11,344	34	3
Other expenses	234,518	285,766	195,467
	<u>577,148</u>	<u>611,189</u>	<u>492,749</u>

#### 6 FINANCE INCOME

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Finance income on fixed deposits with banks	45,922	13,680	8,830
Other finance income	78,466	47,074	131,417
	<u>124,388</u>	<u>60,754</u>	<u>140,247</u>

#### 7 BANK BALANCES

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Current and call bank deposit accounts	6,485,713	6,869,310	4,620,589
Fixed deposits maturing within three months	115,000	-	-
Cash and cash equivalents	6,600,713	6,869,310	4,620,589
Fixed deposits maturing after three months	3,152,831	2,591,662	2,773,800
	<u>9,753,544</u>	<u>9,460,972</u>	<u>7,394,389</u>

Cash at banks earn interest at fixed rates based on prevailing bank deposit rates. Short-term fixed deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Fixed deposits maturing after three months earn interest at rates between 1.3% and 2.95% per annum (2015: 1.3% and 2.5% per annum and 2014: 0.65% and 0.90% per annum).

The Company is required to maintain certain deposits / balances amounting to AED 9,242,814 thousands (2015: AED 8,956,765 thousands and 2014: AED 7,005,466 thousands) with banks for advances received from customers against sale of development properties which are deposited into escrow accounts. These deposits/balances are not under lien.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 8 TRADE AND UNBILLED RECEIVABLES

	2016 AED'000	2015 AED'000	2014 AED'000
Trade receivables			
Amounts receivables within 12 months, net	528,540	185,623	112,958
Unbilled receivables			
Unbilled receivables within 12 months	919,519	800,814	601,060
Unbilled receivables after 12 months	24,221	67,542	5,764
	943,740	868,356	606,824
<b>Total trade and unbilled receivables</b>	<b>1,472,280</b>	<b>1,053,979</b>	<b>719,782</b>

The above trade receivables are net of AED 56,629 thousands (2015: AED 64,976 thousands and 2014: AED 45,969 thousands) relating to provision for doubtful debts representing management's best estimate of doubtful trade receivables which are past due for more than 90 days. All other receivables are considered recoverable.

Movement in the provision for doubtful debts during the year is as follows:

	2016 AED'000	2015 AED'000	2014 AED'000
Balance at the beginning of the year	64,976	45,969	45,969
Provision made during the year	-	19,007	-
Reversal of provision during the year	(8,347)	-	-
Balance at the end of the year	56,629	64,976	45,969

At 31 December, the ageing analysis of net trade and unbilled receivables is as follows:

	Total AED'000	Neither past due nor impaired AED'000	Past due but not impaired			
			Less than 30 days AED'000	Between 30 to 60 days AED'000	Between 60 to 90 days AED'000	More than 90 days AED'000
2016	1,472,280	943,740	99,296	34,363	32,016	362,865
2015	1,053,979	868,356	39,433	16,407	30,670	99,113
2014	719,782	606,824	64,769	4,581	3,930	39,678

Refer note 24 (a) on credit risks of trade and unbilled receivables, which discusses how the Group manages and measures credit quality of trade and unbilled receivables that are neither past due nor impaired.

## Emaar Development LLC and its Subsidiary

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 9 OTHER ASSETS, RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016 AED'000	2015 AED'000	2014 AED'000
Advances to contractors and others	703,183	348,883	259,169
Deferred sales commission (i)	419,427	243,290	163,773
Due from related parties	583,923	200,427	125,045
Accrued interest	11,362	8,578	5,004
Prepayments	4,904	2,963	3,641
Other receivables and deposits	54,341	105,065	35,269
	<u>1,777,140</u>	<u>909,206</u>	<u>591,901</u>
<b>Other assets, receivables, deposits and prepayments maturity profile:</b>			
Amounts recoverable within 12 months	1,777,140	909,206	591,901
Amounts recoverable after 12 months	-	-	-
	<u>1,777,140</u>	<u>909,206</u>	<u>591,901</u>

- (i) The deferred sales commission expense incurred to obtain or fulfil a contract with the customers is amortised over the period of satisfying performance obligations where applicable.

#### 10 DEVELOPMENT PROPERTIES

	2016 AED'000	2015 AED'000	2014 AED'000
Balance at the beginning of the year	4,482,829	4,801,557	4,123,935
Add: Costs incurred during the year	5,625,822	2,662,006	1,993,097
Less: Costs transferred to property, plant and equipment (note 13)	-	(85,516)	-
Less: Costs transferred to cost of revenue during the year	(4,037,246)	(2,857,976)	(1,298,740)
Less: Transferred to Ultimate Parent (i)	(49,100)	(37,242)	(16,735)
Balance at the end of the year	<u>6,022,305</u>	<u>4,482,829</u>	<u>4,801,557</u>

- (i) Represents infrastructure cost of build to lease/operate assets (BTL/BTO) charged to Ultimate Parent as per MTA. As agreed in the MTA, development of all infrastructure relating to the projects, including BTL/BTO assets will be carried out by the Company and transferred to the Ultimate Parent at an agreed rate.

Properties acquired, constructed or in the course of construction for sale in the ordinary course of business are classified as development properties and include the costs of:

- Freehold and leasehold rights for land;
- Amounts paid to contractors for construction including the cost of construction of infrastructure; and
- Borrowing costs, planning and design costs, costs of site preparation, professional fees for legal services, property transfer taxes, construction overheads and other related costs.

Common infrastructure cost is allocated to various projects and forms part of the estimated cost to complete a project in order to determine the cost attributable to revenue being recognised. The development span of some of the development properties is estimated to be over 10 years.

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### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 11 LOAN TO A JOINT VENTURE

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Emaar Dubai South DWC LLC	15,441	-	-
Investment in joint venture (note 12)	(2,425)	-	-
	<u>13,016</u>	<u>-</u>	<u>-</u>

Loan to a joint venture is unsecured, repayable on demand and does not carry any interest.

#### 12 INVESTMENT IN A JOINT VENTURE

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Emaar Dubai South DWC LLC	(2,425)	-	-
	<u>(2,425)</u>	<u>-</u>	<u>-</u>

The following table summarises the income statements of joint venture for the year ended 31 December:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Revenue	-	-	-
Loss for the year	(5,150)	-	-
Total comprehensive income for the year	(5,150)	-	-
Group's share of loss for the year	(2,575)	-	-

The following table summarises the statements of financial position of joint venture as at 31 December:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Total assets	84,392	-	-
Total liabilities	89,242	-	-
Net assets	(4,850)	-	-
Group's share of net assets	(2,425)	-	-

During 2015, the Ultimate Parent has entered into a joint venture agreement with Dubai Aviation City Corporation for the development of Emaar South project. The joint venture was incorporated in the UAE on 9 May 2016 and operates under the name of Emaar Dubai South DWC LLC ("Emaar South"), in which the Ultimate Parent has 50% interest. The entity is primarily involved in property development activities. Subsequent to reporting date, based on MTA, the Ultimate Parent has transferred its interest in BTS real estate development business of joint venture to the Company. On 28 September 2017, the joint venture partner has agreed to transfer the interest of the Ultimate Parent to the Company. However, legal formalities to transfer this interest to the Company are under process. The Group's interest in the joint venture is accounted for using the equity method accounting in the consolidated financial statements.



## Emaar Development LLC and its Subsidiary

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#### 12 INVESTMENT IN A JOINT VENTURE (continued)

Movement in investment in joint venture is as follows:

	2016 AED'000	2015 AED'000	2014 AED'000
Investment made during the year	150	-	-
Share of results for the year	(2,575)	-	-
<b>Excess of loss over the value of investment is presented as part of loan to joint venture</b>	<b>(2,425)</b>	<b>-</b>	<b>-</b>

As at 31 December 2016, the Group's joint venture had contingent liabilities of AED 28,800 thousands and commitments of AED 2,108,288 thousands.

#### 13 PROPERTY, PLANT AND EQUIPMENT

2016:	<i>Land and building</i> AED'000	<i>Computers and office equipment</i> AED'000	<i>Furniture and fixtures</i> AED'000	<i>Capital work-in-progress</i> AED'000	<i>Total</i> AED'000
Cost:					
At 1 January 2016	-	76	-	85,516	85,592
Additions	2,225	6	5,174	-	7,405
Transfer	56,132	-	29,384	(85,516)	-
At 31 December 2016	58,357	82	34,558	-	92,997
Accumulated depreciation:					
At 1 January 2016	-	38	-	-	38
Depreciation charge for the year (note 5)	5,349	25	5,970	-	11,344
At 31 December 2016	5,349	63	5,970	-	11,382
Net carrying amount:					
At 31 December 2016	53,008	19	28,588	-	81,615
2015:	<i>Land and building</i> AED'000	<i>Computers and office equipment</i> AED'000	<i>Furniture and fixtures</i> AED'000	<i>Capital work-in-progress</i> AED'000	<i>Total</i> AED'000
Cost:					
At 1 January 2015	-	8	-	-	8
Additions	-	68	-	-	68
Transferred from development properties (note 10)	-	-	-	85,516	85,516
At 31 December 2015	-	76	-	85,516	85,592
Accumulated depreciation:					
At 1 January 2015	-	4	-	-	4
Depreciation charge for the year (note 5)	-	34	-	-	34
At 31 December 2015	-	38	-	-	38
Net carrying amount:					
At 31 December 2015	-	38	-	85,516	85,554

Emaar Development LLC and its Subsidiary

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13 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Land and building AED'000</i>	<i>Computers and office equipment AED'000</i>	<i>Furniture and fixtures AED'000</i>	<i>Capital work-in- progress AED'000</i>	<i>Total AED'000</i>
<i>2014:</i>					
Cost:					
At 1 January 2014	-	8	-	-	8
At 31 December 2014	-	8	-	-	8
Accumulated depreciation:					
At 1 January 2014	-	1	-	-	1
Depreciation charge for the year (note 5)	-	3	-	-	3
At 31 December 2014	-	4	-	-	4
Net carrying amount:					
At 31 December 2014	-	4	-	-	4

14 TRADE AND OTHER PAYABLES

	<i>2016 AED'000</i>	<i>2015 AED'000</i>	<i>2014 AED'000</i>
Project contract cost accruals and provisions	1,780,326	1,912,552	1,903,122
Trade payables	430,521	485,397	435,068
Creditors for land purchase	344,026	-	-
Sales commission payable	54,939	47,362	45,459
Payable to authorities	18,271	54,779	54,423
Payable to related parties	4,608	1,605	129
Other payables and accruals	399,664	328,511	261,141
	<u>3,032,355</u>	<u>2,830,206</u>	<u>2,699,342</u>

Trade and other payables are non-interest bearing and for explanations on the Group's risk management process (refer note 24).

15 ADVANCES FROM CUSTOMERS

	<i>2016 AED'000</i>	<i>2015 AED'000</i>	<i>2014 AED'000</i>
Balance at the beginning of the year	7,876,668	7,323,532	3,879,270
Add: Amount billed during the year	7,157,601	5,805,978	6,583,956
Less: Revenue recognised during the year	(6,898,599)	(5,252,842)	(3,139,694)
Balance at the end of the year	<u>8,135,670</u>	<u>7,876,668</u>	<u>7,323,532</u>

The aggregate amount of the sale price allocated to the performance obligations of the Group that are unsatisfied / partially unsatisfied as at 31 December 2016 is AED 28,957,805 thousands (2015: AED 24,069,940 thousands and 2014: AED 20,010,793 thousands). The Group expects to recognise these unsatisfied performance obligations as revenue over a period of 4 to 5 years.

## Emaar Development LLC and its Subsidiary

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 16 RETENTIONS PAYABLE

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Retentions payable within 12 months	193,629	148,107	223,971
Retentions payable after 12 months	225,116	283,853	183,825
	<u>418,745</u>	<u>431,960</u>	<u>407,796</u>

#### 17 EMPLOYEES' END-OF-SERVICE BENEFITS

The movement in the provision for employees' end-of-service benefits was as follows:

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Balance at the beginning of the year	15,005	10,448	8,825
Provided during the year	4,323	5,012	2,948
Paid during the year	(1,938)	(455)	(1,325)
Balance at the end of the year	<u>17,390</u>	<u>15,005</u>	<u>10,448</u>

#### 18 SHARE CAPITAL

	<i>2016</i> <i>AED'000</i>	<i>2015</i> <i>AED'000</i>	<i>2014</i> <i>AED'000</i>
Authorised capital: 300 shares of AED 1,000 each (2015: 300 shares of AED 1,000 each 2014: 300 shares of AED 1,000 each)	<u>300</u>	<u>300</u>	<u>300</u>
Issued and fully paid-up: 300 shares of AED 1,000 each (2015: 300 shares of AED 1,000 each 2014: 300 shares of AED 1,000 each)	<u>300</u>	<u>300</u>	<u>300</u>

#### 19 STATUTORY RESERVES

As required by the UAE Federal Commercial Companies Law No. (2) of 2015 and the Article number 16.1 of the Company's Article of Association, 10% of the net profit for the year shall be transferred to statutory reserve until it reaches 50% of the paid-up share capital. The statutory reserve has reached 50% of the paid-up share capital of the Company and therefore, the Group has ceased further transfers to this reserve.

## Emaar Development LLC and its Subsidiary

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 20 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit or loss for the year attributable to the owners of Parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit or loss attributable to the owners of the Parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The information necessary to calculate basic and diluted earnings per share is as follows:

	<i>2016</i> <i>AED '000</i>	<i>2015</i> <i>AED '000</i>	<i>2014</i> <i>AED '000</i>
<b>Earnings:</b>			
Profit attributable to the owners of the Parent	<u>2,112,403</u>	<u>1,742,045</u>	<u>1,275,647</u>
	<i>2016</i>	<i>2015</i>	<i>2014</i>
<b>Number of shares in thousands</b>			
Weighted-average number of ordinary shares for basic and diluted earnings per share	<u>300</u>	<u>300</u>	<u>300</u>
	<i>2016</i>	<i>2015</i>	<i>2014</i>
<b>Earnings per share:</b>			
- basic and diluted earnings per share (AED)	<u>7,041,343</u>	<u>5,806,817</u>	<u>4,252,157</u>

#### 21 GUARANTEES AND CONTINGENCIES

The Group has provided a performance guarantee of AED 3,908,818 thousands (2015: AED 2,069,723 thousands and 2014: AED 1,858,975 thousands) to the Real Estate Regulatory Authority (RERA), Dubai for its new projects as per RERA regulations.

#### 22 COMMITMENTS

At 31 December 2016, the Group had project commitments of AED 10,976,101 thousands (2015: AED 7,174,746 thousands and 2014: AED 7,153,244 thousands). This represents the value of contracts issued at year end net of invoices received and accruals made at that date. There were certain claims submitted by contractors relating to various projects of the Group in the ordinary course of business from which it is anticipated that no material unprovided liabilities will arise.

#### 23 RELATED PARTY DISCLOSURES

For the purpose of these consolidated financial statements, parties are considered to be related to the Group, if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

## Emaar Development LLC and its Subsidiary

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 23 RELATED PARTY DISCLOSURES (continued)

##### Related party transactions

During the year, the following were the significant related party transactions, which were carried out in the normal course of business on terms agreed between the parties:

	2016 AED'000	2015 AED'000	2014 AED'000
<i>Ultimate Parent:</i>			
Selling, general and administrative expenses (refer (i) below)	178,962	159,778	154,908
<i>Affiliated entities:</i>			
Selling, general and administrative expenses	14,533	14,848	12,219
Property development expenses	66,571	68,531	42,622
<i>Directors, Key management personnel and their related parties:</i>			
Selling, general and administrative expenses	-	1,050	-
Sale of property	2,281	-	43,589

##### Related party balances

Significant related party balances (and the consolidated statement of financial position captions within which these are included) are as follows:

	2016 AED'000	2015 AED'000	2014 AED'000
<i>Ultimate Parent and affiliated entities:</i>			
Other assets, receivables, deposits and prepayments (refer (iii) below)	583,923	200,427	125,045
Trade and other payables	5,252	400	3,819
<i>Directors, Key management personnel and their related parties:</i>			
Advance from customers	456	-	1,414
Trade receivables	-	29	-

##### (i) Allocation of corporate expenses:

Historically, Ultimate Parent has provided certain corporate functions to the Group and costs associated with these functions were allocated to the Group. These functions included human resources, treasury, investor relations, finance and accounting, compliance, information technology, corporate and legal compliance, business development and marketing. The costs of such services were allocated to the Group based on the most relevant allocation method to the service provided, which includes the headcount, time / efforts spent or number of users. In situations where no allocation methodology was more appropriate than another, an even allocation between the Group and other subsidiaries of the Ultimate Parent was utilised. The charges for these functions are included in selling, general, and administrative expenses in the consolidated statement of comprehensive income.

##### (ii) Shareholder's contribution:

Shareholder's contribution included as part of total equity of the Company represents the Ultimate Parents' interest in the net assets of the Company. Certain allocated expenses by the Ultimate Parent have also been adjusted with in shareholder's contribution.

## Emaar Development LLC and its Subsidiary

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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#### 23 RELATED PARTY DISCLOSURES (continued)

##### (iii) Recoverable from Ultimate Parent:

This represents balances recoverable from the Ultimate Parent with respect to the development costs incurred for the BTS developments in Dubai Creek Harbor project. As agreed in the MTA, the Ultimate Parent has transferred the development services agreement relating to the BTS development in Dubai Creek Harbour project to the Company, for which the development costs including infrastructure costs are incurred by the Company. These balances will be recovered as per the agreed terms in the MTA.

##### Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2016 AED'000	2015 AED'000	2014 AED'000
Short-term benefits	49,597	39,002	25,363
Employees' end-of-service benefits	2,213	2,763	1,926
	<u>51,810</u>	<u>41,765</u>	<u>27,289</u>

During the year, the number of key management personnel is 52 (2015: 46 and 2014: 29).

#### 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

##### Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Market risk; and
- Liquidity risk.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital.

The Board of Directors of Ultimate Parent has overall responsibility for the establishment and oversight of the Group's risk management framework. Group's senior management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities.

The Group's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management policies in others. The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee of the Ultimate Parent oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and adhoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's principal financial liabilities, comprise retentions payable and trade and other payables. The Group has various financial assets such as bank balances and cash, trade and unbilled receivables and other receivables and deposits, which arise directly from its operations.

The Board of Directors of the Ultimate Parent reviews and agrees policies for managing each of these risks which are summarised below:

**24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**

**a) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk principally from its receivables from customers, other receivables and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

***Trade, unbilled and other receivables***

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less influence on credit risk. The Group earns its revenues from a large number of customers including international customers.

The Group has entered into contracts for the sale of residential and commercial units and plots of land on an instalment basis. The instalments are specified in the contracts. The Group is exposed to credit risk in respect of instalments due. However, the legal ownership of residential, commercial units and plots of land is transferred to the buyer only after all the instalments are recovered. In addition, instalment dues are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group establishes an allowance for impairment at each reporting date that represents its estimate of incurred losses in respect of trade, unbilled and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

***Other financial assets and cash deposits***

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances and cash, loan to a joint venture, other receivables and deposits, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these assets.

Credit risk from balances with banks and financial institutions is managed by treasury of the Ultimate Parent in accordance with the Group's policy. The Group limits its exposure to credit risk by only placing balances with banks of good repute. Given the profile of its bankers, management does not expect any counterparty to fail in meeting its obligations.

***Guarantees***

The Group's policy is to provide financial guarantees only to its subsidiary and joint ventures. For details of guarantees outstanding as at the reporting date refer note 21 to the consolidated financial statements.

***Excessive risk of concentration***

Concentration arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

In order to avoid excessive concentration of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

**b) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as currency risk, interest rate risk and equity prices risks, which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group is not exposed to any significant market risk. The Group's monetary assets are mainly denominated in AED or currency pegged against USD. Further, as at reporting date the Group does not have any financial instruments at floating interest rate.

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#### 24 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

##### c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. trade receivables, other financial assets) and projected cash flows from operations.

The cash flows, funding requirements and liquidity of Group companies are monitored on a centralised basis, under the control of treasury of the Ultimate Parent. The objective of this centralised system is to optimise the efficiency and effectiveness of the management of the Group's capital resources. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank borrowings and finance lease contracts. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

##### Financial liabilities

	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 years AED'000</i>	<i>Over 5 years AED'000</i>	<i>Total AED'000</i>
<i>As at 31 December 2016</i>					
Trade and other payables	985,900	1,373,748	574,308	193,063	3,127,019
Retentions payable	34,098	159,531	225,116	-	418,745
<b>Total undiscounted financial liabilities</b>	<b>1,019,998</b>	<b>1,533,279</b>	<b>799,424</b>	<b>193,063</b>	<b>3,545,764</b>
<i>As at 31 December 2015</i>					
Trade and other payables	1,104,821	963,710	600,199	246,888	2,915,618
Retentions payable	23,877	124,230	283,853	-	431,960
<b>Total undiscounted financial liabilities</b>	<b>1,128,698</b>	<b>1,087,940</b>	<b>884,052</b>	<b>246,888</b>	<b>3,347,578</b>
<i>As at 31 December 2014</i>					
Trade and other payables	910,813	950,062	623,166	300,713	2,784,754
Retentions payable	41,570	182,401	183,825	-	407,796
<b>Total undiscounted financial liabilities</b>	<b>952,383</b>	<b>1,132,463</b>	<b>806,991</b>	<b>300,713</b>	<b>3,192,550</b>

##### d) Capital management

Capital includes equity attributable to the equity holders of the Ultimate Parent. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The primary objective of the Group's capital management strategy is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and make changes to it in light of changes in business conditions. No changes were made in the objectives, policies and procedures for managing capital during the years ended 31 December 2016, 31 December 2015 and 31 December 2014.



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#### 25 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets of the Group include bank balances and cash, trade and unbilled receivables, loans and advances, other receivables, deposits and due from related parties. Financial liabilities of the Group include customer deposits, accounts payable, retentions payable and other payables.

Fair value of the financial instruments are included at the amounts at which the instruments could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of financial instruments are not materially different from their carrying values largely due to the short-term maturities of these instruments.

#### 26 MATERIAL PARTLY-OWNED SUBSIDIARY

Financial information of subsidiary of the Group that has material non-controlling interest is provided below:

	<i>Country of incorporation</i>	<i>Ownership 2016</i>	<i>Ownership 2015</i>	<i>Ownership 2014</i>
Dubai Hills Estate LLC	UAE	50.00%	50.00%	50.00%

The following table summarises the statement of financial position of subsidiary as at 31 December 2016, 31 December 2015 and 31 December 2014. This information is based on the amounts before inter-company elimination.

	<i>2016 AED'000</i>	<i>2015 AED'000</i>	<i>2014 AED'000</i>
Total assets	4,298,439	2,533,831	1,392,976
Total liabilities	2,771,403	1,435,783	734,748
Total equity	<u>1,527,036</u>	<u>1,098,048</u>	<u>658,228</u>
Attributable to:			
Owners of the Parent	763,518	549,024	329,114
Non-controlling interest	<u>763,518</u>	<u>549,024</u>	<u>329,114</u>

The following table summarises statement of comprehensive income of the subsidiaries for the year ended 31 December. This information is based on the amounts before inter-company elimination.

	<i>2016 AED'000</i>	<i>2015 AED'000</i>	<i>2014 AED'000</i>
Revenue	1,155,620	824,808	865,033
Profit for the year	678,988	439,820	669,868
Total comprehensive income for the year	<u>678,988</u>	<u>439,820</u>	<u>669,868</u>
Attributable to:			
Owners of the Parent	339,494	219,910	334,934
Non-controlling interest	<u>339,494</u>	<u>219,910</u>	<u>334,934</u>

**27 EVENTS AFTER REPORTING DATE**

- (i) On 9 January 2017, the Ultimate Parent has entered into a joint venture agreement with Meraas Zabeel Owned by Meraas Venture One Person Company LLC for the purpose of mix-use development in the UAE. The Ultimate Parent has 50% equity interest in the joint venture company, Zabeel Square LLC (“Zabeel Square”). Subsequent to reporting date, based on MTA, the Ultimate Parent has transferred its interest in BTS real estate development business of joint venture to the Company. On 29 September 2017, the joint venture partner has agreed to transfer the interest of the Ultimate Parent to the Company. However, legal formalities to transfer this interest are under process. The Group’s interest in the BTS real estate business of the joint venture is accounted for using the equity method in the consolidated financial statements.
- (ii) On 17 August 2017, the Ultimate Parent has entered into a sale and purchase agreement (“SPA”) with Harbour Properties LLC to purchase 88,268 square meter of land at Dubai Harbour master plan development. Subsequently, as per the MTA the Ultimate Parent has transferred the BTS portion of land to the Group. However, legal formalities to transfer the land are under process.
- (iii) On 27 September 2017, the Group has entered into 5 year Murahaba financing facility amounting to USD 1,300,000 thousands (AED 4,774,900 thousand) with First Abu Dhabi Bank PJSC (FAB).
- (iv) On 17 October 2017, the Company has increased its share capital from AED 300 thousand to AED 4,000,000 thousand by conversion of shareholder’s contribution into share capital.