

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

with

INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders
Emaar The Economic City
Jeddah, Kingdom of Saudi Arabia.

We have audited the accompanying consolidated financial statements of Emaar The Economic City ("the Company") and its subsidiaries (collectively referred as "the Group") which comprise the consolidated balance sheet as at December 31, 2013 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 30 which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Article 123 of the Regulations for Companies and the Company's Articles of Association 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. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the consolidated financial statements taken as a whole:

- 1) present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013 and the consolidated results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and
- 2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
License No. 382



Jeddah on 25 Rabi Thani 1435H
Corresponding to 25 February 2014

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET
As at December 31, 2013

	<u>Notes</u>	<u>2013</u> (SR '000)	<u>2012</u> (SR '000) (Restated)
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	4	2,772,040	3,242,398
Murabaha term deposits with banks	5	261,828	859,279
Accounts receivable and other current assets	6	313,652	111,350
Development properties	7	1,095,838	602,563
Other investment	8	--	4,750
Loan to a related party	9	--	1,663
Total current assets		4,443,358	4,822,003
Non-current assets:			
Investment property	10	4,285,063	4,465,100
Property and equipment	11	4,135,501	3,689,010
Investment in an associate	12	1,381,279	402,627
Loan to an associate	13	--	344,641
		9,801,843	8,901,378
Assets classified as held for disposal	14	101,250	154,461
Total non-current assets		9,903,093	9,055,839
TOTAL ASSETS		14,346,451	13,877,842
<u>LIABILITIES AND EQUITY</u>			
Current liabilities:			
Short-term loans	15	29,215	--
Accounts payable and accruals	16	656,450	863,954
Total current liabilities		685,665	863,954
Non-current liabilities:			
Long-term loan	18	5,274,789	5,167,811
Deferred contribution	19	532,252	245,495
Long-term provision	20	5,099	28,811
Employees' end of service benefits		12,080	8,511
Total non-current liabilities		5,824,220	5,450,628
Total liabilities		6,509,885	6,314,582
Equity attributable to the Company's shareholders:			
Share capital	21	8,500,000	8,500,000
Accumulated losses		(663,706)	(936,765)
Total shareholders' equity		7,836,294	7,563,235
Non-controlling interests		272	25
Total equity		7,836,566	7,563,260
Total liabilities and equity		14,346,451	13,877,842

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2013

	<u>Notes</u>	<u>2013</u> (SR'000)	<u>2012</u> (SR'000) (Restated)
Revenue		833,452	545,182
Cost of revenue		<u>(128,786)</u>	<u>(66,728)</u>
Gross profit		704,666	478,454
Expenses:			
Selling and marketing	22	(62,203)	(18,740)
General and administration	23	(146,759)	(179,818)
Land contribution	10	(88,509)	(8,177)
Depreciation , net	11	(26,429)	(46,508)
Impairment (loss) / reversal	11 & 14	(120,005)	21,916
Maintenance and other (cost) / reversal, net	20	<u>21,140</u>	<u>(27,729)</u>
Total expenses		(422,765)	(259,056)
Profit from operations		281,901	219,398
Financial charges, net		(83,066)	(88,883)
Commission income		37,144	53,788
Gain on disposal of investment property	10.2	58,635	--
Share of profit / (loss) from an associate	12	2,675	(817)
Other income		<u>7,129</u>	<u>7,730</u>
Income before Zakat and non-controlling interests		304,418	191,216
Zakat	24	<u>(31,112)</u>	<u>(5,073)</u>
Net income before non-controlling interests		273,306	186,143
Share of non-controlling interests in the net income of consolidated subsidiaries		<u>(247)</u>	<u>(21)</u>
Net income attributable to Company's shareholders		273,059	186,122
Earnings per share on profit from operations (in SR)	25	0.332	0.258
Earnings per share on net income (in SR)	25	0.321	0.219

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2013

	Notes	2013 (SR'000)	2012 (SR'000) (Restated)
Operating activities:			
Income before Zakat and non-controlling interests		304,418	191,216
Adjustments for:			
Depreciation, net	10 & 11	40,550	46,508
Employees' end of service benefits, net		3,569	3,026
Share of (profit) / loss from an associate	12	(2,675)	817
Financial charges, net		83,066	88,883
Commission income		(37,144)	(53,788)
Impairment loss / (reversal)	11 & 14	120,005	(21,916)
Maintenance and other cost / (reversal), net	20	(21,140)	27,729
Gain on disposal of investment property		(58,635)	--
Land contribution	10	88,509	8,177
Gain on sale of assets classified as held for disposal		--	(56)
Gain on disposal of property and equipment		(102)	(150)
		<u>520,421</u>	<u>290,446</u>
Changes in operating assets and liabilities:			
Accounts receivable and other current assets		(48,221)	(43,462)
Development properties		(466,617)	(535,830)
Accounts payable and accruals		(232,191)	(132,587)
Cash used in operations		<u>(226,608)</u>	<u>(421,433)</u>
Net movement in deferred contribution	19	328,812	96,231
Zakat paid	24	(5,524)	(5,064)
Net cash generated from / (used in) operating activities		<u>96,680</u>	<u>(330,266)</u>
Investing activities:			
Purchase of property and equipment	11	(567,936)	(185,959)
Proceeds from disposal of property and equipment		102	150
Net movement in assets held for disposal		5,078	49,743
Net movement in Murabaha term deposits with banks		597,451	2,310,333
Commission income		37,144	53,789
Proceed from sale of other investment		4,750	--
Net movement in loan to a related party		1,663	4,275
Investment in an associate		(1,010,300)	(28,000)
Net movement in loan to associate		338,000	(342,383)
Net cash (used in) / generated from investing activities		<u>(594,048)</u>	<u>1,861,948</u>
Financing activity:			
Short-term loan, net		27,010	--
Net cash generated from financing activity		<u>27,010</u>	<u>--</u>
(Decrease) / increase in cash and cash equivalents		(470,358)	1,531,682
Cash and cash equivalents at the beginning of the year		<u>3,242,398</u>	<u>1,710,716</u>
Cash and cash equivalents at the end of the year	4	<u><u>2,772,040</u></u>	<u><u>3,242,398</u></u>

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2013

2013	Equity attributable to the shareholders' of the Company			Non-controlling interests (SR'000)	Total (SR'000)
	Share capital (SR'000)	Accumulated losses (SR'000)	Total shareholders' equity (SR'000)		
Balance at January 1	8,500,000	(936,765)	7,563,235	25	7,563,260
Net income	--	273,059	273,059	247	273,306
Balance at December 31	8,500,000	(663,706)	7,836,294	272	7,836,566

2012 (Restated)	Equity attributable to the shareholders' of the Company			Non-controlling interests (SR'000)	Total (SR'000)
	Share capital (SR'000)	Accumulated losses (SR'000)	Total shareholders' equity (SR'000)		
Balance at January 1	8,500,000	(1,122,887)	7,377,113	4	7,377,117
Net income	--	186,122	186,122	21	186,143
Balance at December 31	8,500,000	(936,765)	7,563,235	25	7,563,260

The accompanying notes 1 to 30 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2013

1. THE COMPANY AND ITS ACTIVITIES

Emaar The Economic City (“the Company”) is a Saudi Joint Stock Company incorporated under Ministerial Resolution No. 2533 dated Ramadan 3, 1427H, corresponding to September 21, 2006, and registered in the Kingdom of Saudi Arabia under Commercial Registration No. 4030164269 dated Ramadan 8, 1427H, corresponding to September 26, 2006. The Company is engaged in the development of real estate in the economic or other zones and other development activities including infrastructures, promotion, marketing and sale of land within development areas, transfer/lease of land, development of buildings/housing units, construction on behalf of other parties. The main activity of the Company is the development of the King Abdullah Economic City (KAEC).

The registered office of the company is located at the following address:

P. O. Box 8299
Amir Sultan Street
Jeddah 21482
Kingdom of Saudi Arabia.

As at December 31, 2013, the Company has investments in the following subsidiaries which are primarily involved in development, investments, marketing, sale / lease, operations and maintenance of properties and establishment of companies. The Company and its subsidiaries constitute “the Group”.

<u>Name</u>	<u>Country of incorporation</u>	<u>Year of incorporation</u>	<u>Effective ownership interest</u>	
			<u>2013</u>	<u>2012</u>
Economic Cities Investments Holding Company (ECIHC)	Kingdom of Saudi Arabia	2010	99%	99%
Industrial Zones Development Company Limited (IZDCL)	Kingdom of Saudi Arabia	2011	100%	100%
Economic Cities Real Estate Property Operation and Management Company Limited (REOM)	Kingdom of Saudi Arabia	2013	98%	--
Economic Cities Pioneer Real Estate Management Company Limited (REM)	Kingdom of Saudi Arabia	2013	98%	--
Economic Cities Real Estate Development Company Limited (RED)	Kingdom of Saudi Arabia	2013	98%	--

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by Saudi Organization for Certified Public Accountants (SOCPA).

2. BASIS OF PRESENTATION (continued)

Functional and presentation currency

These accompanying consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Group. All financial information presented in SR has been rounded to the nearest thousand.

Prior period comparative information relating to an investment in associate and certain other comparative figures have been restated and / or regrouped on a basis consistent with current year classification.

Accounting convention

The consolidated financial statements have been prepared under the historical cost convention modified to include the measurement at fair value of available-for-sale financial assets, using accrual basis of accounting and going concern assumption.

Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in future years affected. The key areas requiring significant management judgments and estimates are as follows:

Classification of investment properties

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by the Group.

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable 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 an allowance applied according to the length of time past due.

Cost to complete the projects

As part of application of percentage of completion method on contract accounting, the cost to complete the project is estimated. These estimates include, amongst other items, the construction costs, variation orders by contractors and the cost of meeting other contractual obligations to the customers. Such estimates are reviewed at regular intervals. Any subsequent changes in the estimated cost to complete may affect the results of the subsequent periods.

Impairment on assets classified as held for disposal

Assets classified as held for disposal are assessed for impairment at regular intervals in order to reflect adequate recoverable amount in the consolidated financial statements, based on the prevailing market value obtained from professionals involved in the sale of these assets.

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgements (continued)

Long-term provision

Long-term provision is assessed periodically based on excess costs to be incurred in providing property and city maintenance services to residential customers, to reflect the probable outflow of resources required to settle the obligation.

Useful lives of property and equipment

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

Impairment of property and equipment and investment property

Property and equipment and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in part or full. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the consolidated statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

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

Impairment of available for sale investments

The Group exercises judgement to consider the impairment of available for sale investments as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value of equity investment below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Group also considers impairment testing to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Impairment of other non-financial assets

The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount, which is higher of fair value less cost to sell and its value in use.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the Group for the preparation of these consolidated financial statements:

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries as set out in note 1. Investment in an associate is accounted for using the equity method.

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Non-controlling interests

The Group applies a policy of treating transactions with non-controlling interest as transactions with parties external to the Group. Disposals to non-controlling interests, if any, result in gains and losses for the Group that are recorded in the consolidated statement of income if control is lost. Purchase of non-controlling interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

Accounts receivable

Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Development properties

Properties acquired, constructed or in the course of construction and development for sale are classified as development properties. Unsold properties are stated at the lower of cost and net realizable value. Sold properties in the course of development are stated at cost plus attributable profit less progress billings. The cost of development properties includes the cost of land and other related expenditure which is transferred to development properties as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less cost of completion and costs to be incurred in selling the property.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Development properties (continued)

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed and handed over and title is transferred. At that stage, cost, attributable profit and progress billings are eliminated from development properties. Management reviews the carrying values of the development properties at each reporting date.

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are carried at cost less accumulated depreciation and impairment losses, if applicable. Investment properties include buildings which are depreciated on a straight line basis over the estimated useful life of 30 years.

Properties are transferred from investment properties to development properties when and only when there is a change in use, evidenced by commencement of development with a view to sell. Such transfers are made at the carrying value of the properties at the date of transfer.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the following estimated useful lives of the assets.

	<u>Years</u>
Buildings	20-30
Furniture and fixtures	4
Motor vehicles	4
Heavy equipment and machinery	5-10
Leasehold improvements	2
Office equipments	3
Infrastructure assets	10-30

Expenditure for repair and maintenance are charged to the consolidated statement of income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised. Interest on long term loan that is directly related to property and equipment is capitalised.

Investment in an associate

An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Investment in associate is accounted for using the equity method of accounting together with any long-term interests that, in substance, form part of the investor's net investment in the associate. Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate less impairment loss, if any.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an associate (continued)

When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Loan to an associate

Loan to an associate is measured at amortised cost, less impairment loss, if any.

Other investments (available-for-sale)

Investments are initially recognised at cost being the fair value of consideration given. After initial recognition, investments purchased neither with the intention of being held to maturity nor for trading purposes are classified as available for sale and are remeasured at fair value. Unrealised gains and losses are reported as a separate component of consolidated equity until the investment is derecognised or the investment is determined to be impaired.

On derecognition or impairment the cumulative gain or loss previously recorded in equity is recognised in the consolidated statement of income for the period. Fair value is determined by reference to the market value if an open market exists. In the absence of an active market, the fair value is determined through other indicators, otherwise, cost is considered to be the fair value.

Non-current asset held for disposal

Non-current assets that are classified as held for disposal are measured at the lower of their carrying amount and fair value less costs to sell. Assets are transferred to non-current assets held for disposal when it is expected that the carrying amount will be recovered principally through disposal rather than from continuing use. For this to be the case, the asset must be available for immediate disposal in its present condition subject only to terms that are usual and customary for disposals of such assets and its disposal must be highly probable.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for services received or when risks and rewards associated with the goods are transferred to the Group, whether billed by the supplier or not.

Loans and borrowings

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred contribution

Deferred contribution represents amounts received from customers in respect of infrastructure assets and land, which are recognised as an obligation to provide access to the properties sold. The obligation, which is measured with reference to the contributions received, is then amortised over the useful life of the infrastructure assets for the portion that relates to infrastructure assets and deducted from depreciation upon transfer of risks and rewards of land for the portion that relates to the transfer of land.

Employees' end of service benefits

Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the balance sheet date.

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Segment reporting

In accordance with the requirements of accounting standards generally accepted in the Kingdom of Saudi Arabia, the Company is required to disclose segmental information, however in the opinion of the management, currently providing such information is impracticable and accordingly disclosures have not been made in the consolidated financial statements. Furthermore, the management believes that the non-disclosures of such information will not affect the decisions of the users of these consolidated financial statements.

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated statement of income as follows:

Sale of property

Revenue on sale of plots of land is recognised on the basis of full accrual method as and when all of the following conditions are met:

- a) a sale is consummated and contracts are signed;
- b) the buyer's investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;
- c) the Group's receivable is not subject to future subordination;
- d) the Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property; and
- e) work to be completed is both easily measurable and accrued or is not significant in relation to the overall value of the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue on sale of apartments and villas is recognized on the basis of percentage of completion as and when all of the following conditions are met:

- a) the buyer's investment, to the date of the consolidated financial statements, is adequate (20% and above) to demonstrate a commitment to pay for the property;
- b) construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;
- c) the buyer is committed: the buyer is unable to claim a refund except for non-delivery of the unit; and
- d) the aggregate sales proceeds and costs can be reasonably estimated.

Lease of investment property

Rental income from investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Services

Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the balance sheet date.

Murabaha term deposits with banks

Income on Murabaha term deposits with banks is recognised on effective yield basis.

Cost of revenue

Cost of revenue includes the cost of land, development and other service related costs. Development costs include the cost of construction. The cost of revenues in respect of apartments and villas is based on the estimated proportion of the development cost incurred to date to the estimated total development costs for each project.

The cost of revenues in respect of land sales is based on the total estimated cost of the land site over the total land area in a particular development.

Expenses

Selling and marketing expenses are those that specifically relate to the selling and marketing activities of the Group. All other expenses are classified as general and administration expenses.

Borrowing costs

Borrowing costs that are directly attributable to the construction of an asset are capitalised using capitalisation rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income.

Operating leases

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat

Zakat is provided for in accordance with Saudi Arabian Department of Zakat and Income Tax (DZIT) regulations. The provision is charged to the consolidated statement of income.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of income.

Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

4. CASH AND CASH EQUIVALENTS

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Bank balances and cash	84,040	173,698
Short-term Murabaha deposits (note 5)	<u>2,688,000</u>	<u>3,068,700</u>
	<u>2,772,040</u>	<u>3,242,398</u>

5. MURABAHA TERM DEPOSITS WITH BANKS

Murabaha term deposits with banks represents funds placed with commercial banks at market rates and comprised of the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Murabaha deposits	2,949,828	3,927,979
Less: short-term Murabaha deposits (note 4)	<u>2,688,000</u>	<u>3,068,700</u>
	<u>261,828</u>	<u>859,279</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2013

6. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000) (Restated)
Accounts receivable (note 6.1)	119,245	77,293
Commission receivable on Murabaha term deposits	3,144	2,713
Advances to suppliers	3,911	3,592
Prepayments	4,553	11,071
Margin on letter of credits	5,610	10,816
Amount due from affiliates (note 17)	168,240	89
Other current assets	8,949	5,776
	<u>313,652</u>	<u>111,350</u>

6.1 Accounts receivable

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000) (Restated)
Gross accounts receivable	121,937	77,412
Allowance for doubtful receivable	<u>(2,692)</u>	<u>(119)</u>
	<u>119,245</u>	<u>77,293</u>

The ageing analysis of accounts receivable is as follows:

	<u>Up to three months</u>	<u>Above three and up to six months</u>	<u>Above six months</u>	<u>Total</u>
	(SR'000)			
December 31, 2013	42,110	20,629	59,198	121,937
December 31, 2012	41,197	7,596	28,619	77,412

Unimpaired trade receivables are expected, on the basis of past experience to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables.

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7. DEVELOPMENT PROPERTIES

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Cost incurred to date	1,806,654	1,784,945
Properties under construction (note 10)	(746,836)	(888,074)
Properties Completed	(216,992)	--
Transfer from investment properties (note 10.1)	102,090	25,715
	<u>944,916</u>	<u>922,586</u>
Attributable profit	1,379,074	729,620
Less: Progress billings	(1,220,824)	(1,042,315)
Less: Provision for development properties	(7,328)	(7,328)
	<u>1,095,838</u>	<u>602,563</u>

Development properties represent costs incurred to-date on projects under progress at KAEC, intended to be sold, and costs incurred to-date plus attributable profit / (loss) on sold properties less progress billings made in respect of sold properties under development.

Development properties also include plots of land, amounting to SR 296.5 million (2012: SR 197.5 million) which have been identified by the management to be sold in their present condition. Accordingly, these have been reclassified from investment property to development properties.

During the year ended December 31, 2012, the Company reclassified certain projects, initially identified for sale in their present condition, as projects for long-term lease. Consequently, related cost amounting to SAR 888 million, including land of SR 8 million, was reclassified from development properties to investment properties (note 10).

8. OTHER INVESTMENT

In 2008, the Company established an entity, Cadre The Economic Cities, LLC (Cadre), which was incorporated in the Kingdom of Saudi Arabia on Jumada Awal 6, 1429H, corresponding to May 11, 2008. The Company had a 95% holding in Cadre.

During 2012, the Board of Directors of the Company decided to transfer ownership of Cadre to Economic Cities Authorities ("ECA"). Legal formalities to transfer the investment at cost has been concluded during the year ended December 31, 2013.

9. LOAN TO A RELATED PARTY

Loan to a related party represented a commission free loan receivable from Cadre which has been collected in full during the year ended December 31, 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2013

10. INVESTMENT PROPERTY

The investment properties include the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Greenfield land and associated cost (note 7 & 10.1)	<u>3,328,472</u>	<u>3,577,026</u>
Properties under construction (note 10.4)		
- Balance at January 1	888,074	--
- Transferred from development properties	--	888,074
- Cost incurred during the year	75,754	--
- Transferred to properties completed	<u>(216,992)</u>	<u>--</u>
	746,836	888,074
Properties completed :		
- Cost	<u>216,992</u>	<u>--</u>
- Accumulated Depreciation	<u>(7,237)</u>	<u>--</u>
	<u>209,755</u>	<u>--</u>
	<u>4,285,063</u>	<u>4,465,100</u>

- 10.1** A Greenfield Land measuring approximately 168 million square meters has been earmarked for the master development of the KAEC. This includes land measuring approximately 37 million square meters which was contributed by a shareholder as part of its capital contribution for an agreed sum of SR 1,700 million in lieu of shares of the same value in the Company.

Greenfield land measuring 10.5 million sqm has been earmarked for lease to industrial customers. The specific allocation of remaining Greenfield Land to be used by different projects, which could be for sale or rental, has not yet been completed. Therefore, the Greenfield Land and associated costs amounting to SR 3,328 million (2012: SR 3,577 million) has been classified as investment property. No depreciation has been charged as these comprise only freehold land.

The movement in the Greenfield Land and associated costs is as follows:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Balance at January 1	3,577,026	3,613,808
Less: transfers / sale:		
- to development properties upon change in use (note 7)	(102,090)	(25,715)
- to property and equipment (note 11)	--	(2,890)
- sale to an associate (note 10.2)	(57,955)	--
- land contribution (note 10.3)	<u>(88,509)</u>	<u>(8,177)</u>
Balance at December 31	<u>3,328,472</u>	<u>3,577,026</u>

Greenfield Land includes 24.7 million sqm pledged in favour of Ministry of Finance against a long-term loan of SR 5,000 million (note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2013

10. INVESTMENT PROPERTY (continued)

- 10.2** During the year, the Company sold land amounting to SR 58 million as per the agreement with Port Development Company, an associate (note 17). At the year ended December 31, 2013 the legal formalities to transfer the relevant land title deeds are under process.
- 10.3** During the year ended December 31, 2013, the Board of Directors of the Company have resolved, subject to approval from General Assembly of the Company, to provide a land to a Government body free of cost.
- 10.4** Properties under construction comprise of building and related land and accordingly, no depreciation is charged for the year.

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11. PROPERTY AND EQUIPMENT

	Freehold land (SR'000)	Buildings (SR'000)	Leasehold improvements (SR'000)	Heavy equipment & machinery (SR'000)	Furniture & fixtures (SR'000)	Office equipment (SR'000)	Motor vehicles (SR'000)	Infrastructure assets (SR'000)	Capital work in progress (SR'000)	Total (SR'000)
Cost:										
At the beginning of the year	50,571	462,583	20,497	16,673	15,334	41,357	4,126	177,946	3,119,561	3,908,648
Additions	--	2,255	686	518	8,193	25,808	1,074	41,169	488,233	567,936
Provision for impairment	--	--	--	--	--	--	--	--	(72,194)	(72,194)
Borrowing cost	--	--	--	--	--	--	--	--	26,117	26,117
Transfer in/(out)	--	397,081	4,006	1,102	3,389	2,516	--	1,126,329	(1,534,423)	--
Disposals	--	--	--	--	--	--	(395)	--	--	(395)
At the end of the year	50,571	861,919	25,189	18,293	26,916	69,681	4,805	1,345,444	2,027,294	4,430,112
Depreciation:										
At the beginning of the year	--	101,028	20,497	10,748	14,094	36,485	2,691	34,095	--	219,638
Charge for the year (note 11.1)	--	21,204	2,012	1,252	3,409	3,227	796	43,468	--	75,368
Disposals	--	--	--	--	--	--	(395)	--	--	(395)
At the end of the year	--	122,232	22,509	12,000	17,503	39,712	3,092	77,563	--	294,611
Net book values:										
At 31 December 2013	50,571	739,687	2,680	6,293	9,413	29,969	1,713	1,267,881	2,027,294	4,135,501
At 31 December 2012	50,571	361,555	--	5,925	1,240	4,872	1,435	143,851	3,119,561	3,689,010

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11. PROPERTY AND EQUIPMENT (continued)

11.1 Depreciation

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Charged during the year	75,368	46,508
Amortisation of deferred contribution (note 19)	<u>(42,055)</u>	--
	33,313	46,508
Charged to cost of revenue	<u>(6,884)</u>	--
	<u>26,429</u>	<u>46,508</u>

11.2 Capital work in progress mainly represents construction costs in respect of the infrastructure and other projects at the King Abdullah Economic City.

12. INVESTMENT IN AN ASSOCIATE

	<u>2013</u> (SR '000)	<u>2012</u> (SR '000) (Restated)
Investment	<u>235,980</u>	235,980
Share of profit / (loss) from an associate	<u>1,760</u>	(915)
	237,740	235,065
Additional capital contribution	<u>1,143,539</u>	167,562
	<u>1,381,279</u>	<u>402,627</u>

On Jumada Awwal 14, 1431H (corresponding to April 29, 2010), the Port Development Company (PDC), a closed joint stock company was incorporated in the Kingdom of Saudi Arabia, which will be engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port).

During 2011, the shareholders of PDC entered into an agreement whereby, the shareholding structure and funding mechanism of PDC was agreed. As per the terms of agreement, the Company's shareholding in PDC was agreed to be 34%.

On October 8, 2013 the shareholders of PDC have resolved to increase the shareholdings of the Company to 74% by converting additional capital contribution to equity in PDC. Consequently, the land of SR 200 million contributed as part of equity funding during the period ended March 31, 2013 has been reclassified as receivable from PDC (note 17).

To contribute a part of the equity funding under the agreement, the Company invested SR 145 million in the form of land, infrastructure and other development cost. At the period ended December 31, 2013 the legal formalities to transfer the relevant title deeds are under process. The Company also invested cash of SR 633 million including SR 370 million provided during the year ended December 31, 2013. Additional capital contribution also includes SAR 640 million which has been reclassified from loan to an associate under the agreement dated October 8, 2013 (note 13). The legal formality in respect of conversion of additional capital contribution to equity is in progress.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2013

13. LOAN TO AN ASSOCIATE

During 2012, the Company signed a loan agreement with PDC in accordance with the Shareholders Agreement whereby, the Company has agreed to provide SR 1,000 million commission based loan to PDC, which was approved in the Annual General Meeting of the Company held on March 31, 2012. Accordingly, an amount of SR 640 million (2012: SR 338 million), has been disbursed to PDC which was repayable in seven annual instalments commencing from May 1, 2015. Under the agreement dated October 8, 2013 the shareholders of PDC have agreed to convert the outstanding loan extended by the Company into equity shares of PDC and accordingly, the amount of SR 640 million has been reclassified to investment in an associate (note 12).

Moreover, in accordance with the agreement, accrued commission amounting to SR 18 million pertaining to the loan will be settled by PDC and therefore, has been reclassified as receivable. (note 17)

14. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

The Group has identified certain assets amounting to SR 149 million (2012: 154 million) which are to be disposed off in line with the strategic business plans of the Group. Accordingly, these assets are classified as held for disposal. During the year ended December 31, 2013, these assets have been reviewed for impairment which indicated an impairment of SR 47.8 million (2012: Nil) and has been recognised in the consolidated statement of income.

15. SHORT-TERM LOANS

As at December 31, 2013 the Group has a short-term loan amounting to SR 29 million (2012: Nil) from a commercial bank at prevailing market rates.

16. ACCOUNTS PAYABLE AND ACCRUALS

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Accounts payable	213,571	264,187
Advance from customers	104,626	236,058
Contract cost accruals	112,496	149,044
Amount to be donated for charitable purposes (note 16.1)	70,484	69,753
Accrued expenses and other payables	88,355	51,416
Amounts due to affiliates (note 17)	2,517	70,349
Retentions payable	27,442	11,776
Zakat payable (note 24)	36,959	11,371
	<u>656,450</u>	<u>863,954</u>

- 16.1** The Board of Directors decided in 2006 to donate the amount earned on the founding shareholders' share capital contribution (before initial public offering) placed in fixed deposits maintained with a bank before placing funds under an Islamic deposit scheme. Commission earned on this deposit is added to the amount to be donated for charitable purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions mainly represent services, expenses and other transactions which are undertaken at mutually agreed terms and approved by the management.

In addition to the disclosures set out in notes 6,8, 9, 10, 12, 13 and 16 related party transactions for the year ended December 31, 2013 and balances are described as under:

<u>Related party</u>	<u>Nature of transaction</u>	<u>2013</u>		<u>2012</u>	
		<u>Amount of transaction</u> <u>(SR'000)</u>	<u>Balance receivable/</u> <u>(payable)</u> <u>(SR'000)</u>	<u>Amount of transaction</u> <u>(SR'000)</u>	<u>Balance receivable/</u> <u>(payable)</u> <u>(SR'000)</u>
<i>Affiliates</i>	Expenses incurred by affiliates on behalf of the Group	--	(343)	--	(343)
	Expenses incurred by Group on behalf of an affiliate	--	89	89	89
	Services provided to the Group	--	(2,174)	--	(2,174)
	Advance from an affiliate	17,800	(50,000)	(67,800)	(67,800)
	Commission income	11,510	18,151	6,641	6,641
	Sale of land	200,000	200,000	--	--
<i>Key management personnel</i>	Remuneration	8,673	--	7,098	--
<i>Board of Directors</i>	Meeting fees	2,505	--	2,672	(32)

18. LONG-TERM LOAN

During 2011, the Company received a loan of SR 5,000 million from the Ministry of Finance (MoF) for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield Land (note 10.1) and carries annual commission at commercial rates and is repayable, with a three years grace period, in seven annual instalments commencing from June 1, 2015. The loan balance as at December 31, 2013 also includes accrued commission amounting to SR 274.8 million (2012: SR 167.8 million).

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19. DEFERRED CONTRIBUTION

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Balance at January 1	245,495	149,264
Collections during the year	328,812	96,231
Amortisation during the year (note 11.1)	<u>(42,055)</u>	<u>--</u>
Balance at December 31	<u><u>532,252</u></u>	<u><u>245,495</u></u>

20. LONG-TERM PROVISION

The Company has contracted with its residential customers to provide property and city maintenance services. The costs of providing these services, over the useful life of the residential units, to its residential customers is expected to be higher than the fee or charges that the Company will be able to charge to its residential customers. Accordingly, a provision has been made for the excess costs. Such provision is reviewed at each balance sheet date and appropriate adjustment is made to account for change in the estimated excess costs, if any.

21. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company is as follow:

	<u>2013</u>		<u>2012</u>	
	<u>Number of</u> <u>shares</u>	<u>(SR'000)</u>	<u>Number of</u> <u>shares</u>	<u>(SR'000)</u>
Issued for cash	680,000,000	6,800,000	680,000,000	6,800,000
Issued for consideration in kind (note 10.1)	<u>170,000,000</u>	<u>1,700,000</u>	<u>170,000,000</u>	<u>1,700,000</u>
	<u><u>850,000,000</u></u>	<u><u>8,500,000</u></u>	<u><u>850,000,000</u></u>	<u><u>8,500,000</u></u>

22. SELLING AND MARKETING EXPENSES

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Employee costs	14,915	3,586
Branding and launch expenses	30,630	1,432
Advertising and promotional expenses	11,167	6,414
Others	<u>5,491</u>	<u>7,308</u>
	<u><u>62,203</u></u>	<u><u>18,740</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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23. GENERAL AND ADMINISTRATION EXPENSES

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000) (Restated)
Employee costs	79,899	92,760
Facility and city management services	13,994	22,462
Professional charges	22,564	25,584
Rent	4,311	18,542
Repairs and maintenance	13,387	6,500
Communication and office expenses	4,567	5,130
Others	8,037	8,840
	<u>146,759</u>	<u>179,818</u>

24. ZAKAT

a) Charge for the year

i) Zakat charge for the year ended December 31 comprises the following:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Current & prior year	<u>31,112</u>	<u>5,073</u>

ii) The significant components of Zakat base for the current year ended December 31, 2013 are as follow:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Equity and provisions	16,208,096	11,776,624
Book value of long term assets	<u>(16,305,151)</u>	<u>(12,037,201)</u>
	(97,055)	(260,577)
Zakatable income for the year	<u>397,368</u>	<u>121,124</u>
Zakat base	<u>397,368</u>	<u>121,124</u>

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For the year ended December 31, 2013

24. ZAKAT (continued)

b) Accrued Zakat

The movement in accrued zakat during the year ended December 31 is as follows:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Balance at beginning of the year	11,371	11,362
Add: Charge for the year	31,112	5,073
Less: Payments during the year	<u>(5,524)</u>	<u>(5,064)</u>
Balance at end of the year	<u>36,959</u>	<u>11,371</u>

c) Status of assessments

The Company has filed the Zakat returns up to the year 2012 and obtained restricted Zakat certificates.

The DZIT issued Zakat assessments for the years 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case is currently reviewed at the Higher Appeal Committee (HAC). In compliance of the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax differences. The Company is of the view that given a fair review of the assessments, their view should prevail. No provision is made for the additional Zakat and withholding tax liability in these consolidated financial statements.

The DZIT issued Zakat assessment for the years 2009 to 2011 and claimed additional Zakat, withholding tax and delay penalty differences of SR 64.7 million. The Company has filed an objection against this assessment. The Company is of the view that given a fair review of the assessments for the years 2006 to 2011, their view should prevail for most of the items under objection. The Company has established a partial provision of SR 26.6 million against the additional Zakat, withholding tax and delay penalty.

ECIHC and IZDCL have finalized its Zakat status up to the year 2011 and have also filed the Zakat return for the year 2012 and obtained an unrestricted Zakat certificate.

REOM, REM and RED are incorporated during the year and are not subject to Zakat. However, these are currently in the process of registration with DZIT.

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For the year ended December 31, 2013

25. EARNINGS PER SHARE

Earnings per share on profit from operations are calculated by dividing the profit from operations with the weighted average number of ordinary shares in issue during the year.

Earnings per share on net income are calculated by dividing the net income with the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is not applicable to the Group.

26. LEASES

Operating lease commitments - Group as lessee

The Group has operating leases for office space, residential units and equipments. The leases are renewable at the expiry of lease period. The Group's obligation under the operating lease is as follows:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Within one year	4,022	2,100
After one year but not more than five years	--	370
More than five years	--	--
	<u>4,022</u>	<u>2,470</u>

Operating lease commitments - Group as lessor

The Group has entered into leases on its investment property portfolio. The future minimum rentals receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

	<u>2013</u> (SR'000)	<u>2012</u> (SR'000)
Within one year	21,909	15,214
After one year but not more than five years	79,386	60,854
More than five years	316,322	256,400
	<u>417,617</u>	<u>332,468</u>

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27. RISK MANAGEMENT

The Group is exposed to market, credit and liquidity risks.

The Group's management oversees the management of these risks. The Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below:

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market risk include loan from Ministry of Finance and Murabaha deposits. Market prices comprise of commission rate risk and currency risk as stated below.

Commission rate risk

Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's commission bearing bank deposits and loan from MOF. The Group manages its commission rate risk by monitoring changes in commission rates in the currencies in which its commission bearing liabilities and assets are denominated.

Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, and as US Dollar is pegged to Saudi Riyal, the Group is not exposed to significant currency risk.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The five largest customers account for 43% (2012: 53%). of outstanding accounts receivable at December 31, 2013.

The Group manage its exposure to credit risk with respect to Murabaha deposits with banks by diversification and investing with counterparties with sound credit rating preferably A or higher. At the reporting date, all counter parties to the Murabaha deposits have credit ratings of A or higher. With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

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27. RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and the Group manages its liquidity risk by ensuring that sufficient funds are available to meet any commitments as they arise.

As at December 31, 2013, financial liabilities of SR 213.6 million (2012: SR 264.1 million) are payable within 3 months and the remaining financial liabilities are payable within 4 to 12 months, of the year end.

28. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents, Murabaha deposits with banks, accounts receivable and amount due from an affiliate and its financial liabilities consist of payables and accruals and loan from MoF. The management believes that the fair values of financial instruments are not materially different from their carrying values.

29. CONTINGENT LIABILITIES AND COMMITMENTS

- a) The Group has contracted with its industrial customers to provide property management and city maintenance services. The costs of providing these services to industrial customers is currently being assessed. The financial effect, if any, is not currently practicable to estimate.
- b) The Group had commitments as at December 31, 2013 amounting to SR 1,602 million (2012: SR 441.2 million) related to future capital expenditure for the development of KAEC.

30. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised to issue by the Board of Directors on Rabi Al Thani 25, 1435H, corresponding to February 25, 2014.