

2018 ANNUAL REPORT

DAMAC

DAMAC PROPERTIES DUBAI CO PJSC



The lobby at DAMAC Towers by Paramount Hotels & Resorts



Park Towers in DIFC, Dubai

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RESULTS
HIGHLIGHTS 2018

Revenue	Gross Profit	Operating Profit
AED 6,133m	AED 2,121m	AED 1,235m
Net Profit	**Operating Cashflow** (Before working capital changes)	**Total Assets**
AED 1,152m	AED 1,313m	AED 25,176m
Equity	**Cash and Bank**	**Gross Debt**
AED 14,110m	AED 6,174m	AED 4,948m
Debt to Total Assets	**Gross Margins**	**Cash & Dvplmt Prop as % of Total Assets**
19.7%	34.6%	61.1%

Poolside, DAMAC Heights, Dubai

CHAIRMAN'S LETTER TO THE SHAREHOLDERS



HUSSAIN SAJWANI
CHAIRMAN

DEAR SHAREHOLDERS,

2018 has been yet another milestone year for DAMAC Properties. With steady investments in the development of world-class real estate products over the year, and as a testament to our commitment to customers and shareholders, DAMAC delivered over 4,100 units in 2018 – the highest number of units handed over in a single calendar year since inception. We also began paying down our debt, with payments of over AED 473 million in cash from the peak levels in September 2018, while maintaining healthy cash balances and cash flow.

The UAE has long cemented itself as a global hub for business and innovation, with world-class infrastructure and an open, diverse community of various cultures and religions. All this undoubtedly makes Dubai an attractive place for global talent and international investment in real estate development. This is why, in spite of delivering a record number of units in 2018, we believe that our work has just begun.

BUSINESS HIGHLIGHTS

In 2018, we achieved over AED 4.3 billion in booked sales, total revenue of AED 6.1 billion and a net profit of AED 1.15 billion. We delivered homes in our flagship projects, DAMAC Towers by Paramount Hotels & Resorts Dubai, DAMAC Heights, DAMAC Majestine and Avanti Tower, as well as several mid-rise buildings and villas within the gated DAMAC Hills community. We also introduced Rēva Heights in Business Bay, which offers luxury apartments overlooking the Dubai Water Canal, and Fiora at Golf Verde in Dubailand, a residential development surrounded by parklands, world-class golf amenities and family-friendly retail outlets.

Outside of the UAE, we delivered two projects in Doha - Burj DAMAC Marina and Burj DAMAC Waterfront. We are also proud to announce that over 50% of our first London-based project, DAMAC Tower Nine Elms, has been sold. Moving eastwards, we continue to strengthen our business in China with the support of our sales partners. As a result of aligned efforts, we saw a significant increase in booked sales from the Chinese market, in comparison to purchases made in 2017, and are excited to further develop this market.

MARKET ADAPTATION

As we noted last year, the market has cooled since its previous peak in 2014. From the end of 2015, several macro-economic factors have moved the cyclical market into a more stable, consolidated phase. This has impacted the demand for off-plan sales, especially in our core development areas. Having predicted market maturity early on, we remained capitalised and primed to seize development opportunities at attractive prices. We were also adaptive to market changes, launching successful products in the mid-level segment, which cater to modern consumer appetites.

While the real estate market began offering unprecedented payment terms, ranging from five to 10-year plans, we remained conservative and diligent with our cash collection. We collected over AED 4.3 billion in cash in 2018, strengthening our balance sheet and maintaining our focus on building sustainable communities.

In 2018, the UAE leadership announced the long-term residency visa, a great step towards attracting and retaining talent in the country. This further supports the fact that the current market environment in Dubai is different to the one which we faced in 2008 to 2010. We as an industry, from government, regulators, developers, and investors, have learnt a great deal and grown phenomenally. Yet, the fundamental drivers that make Dubai an attractive destination have not changed. Dubai is a central and safe haven, with a secure investment environment driven by a robust regulatory framework.

OUTLOOK

Looking ahead into 2019, we expect the year to be full of opportunities for end users, investors and developers seeking to expand their land bank. Real estate is a cyclical business and the market is poised to benefit from a cyclical upturn. We also envisage an improvement in the global economic backdrop and believe that the UAE's Expo 2020, which is now just around the corner, will be the catalyst needed to revitalise the local economy and drive the market into the next cycle of growth.

Which is why, on behalf of DAMAC, I would like to thank the visionary rulers of the UAE for their leadership and aspirations. It is due to their ambitious vision and their endless efforts that we have the necessary foundation for success and excellence. We are extremely fortunate to have witnessed the transformation of the UAE into one of the most prosperous nations on earth. Our gratitude also goes to all government bodies and regulators whose relentless efforts are valued, and who continue to roll-out progressive initiatives that support the real estate market, and the overall economic diversification of the UAE economy.

We also thank our stakeholders who have always been at the heart of our success, including our employees, partners, contractors, suppliers and of course, our customers, who share our vision for differentiated living experiences and communities.

As always, I am grateful to our shareholders for the faith they continue to place in me, and for entrusting our team to deliver on our mission of developing unique living concepts and dream homes.



HUSSAIN SAJWANI
CHAIRMAN

4100
UNITS DELIVERED

6.1
BILLION DIRHAMS
TOTAL REVENUE

4.3
BILLION DIRHAMS
SALES BOOKED

1.15
BILLION DIRHAMS
OF NET PROFIT

Note: Figures refer to 2018 performance.

ABOUT **DAMAC**

View of AYKON CITY, Dubai

DAMAC Properties has been at the forefront of the Middle East's luxury real estate market since 2002 – bringing first-class living experiences to residents from all over the world. Having cemented its place as the leading developer in the region, the Company's footprint now extends across the Middle East with projects in the UAE, Saudi Arabia, Qatar, Jordan, Lebanon and Oman, as well as the United Kingdom.

As of 31st December 2018, DAMAC Properties has delivered over 24,330 homes. The Company has a development portfolio of over 40,000 units at various stages of progress and planning, comprising more than 10,000 hotel rooms, serviced apartments and hotel villas, which will be managed by its hospitality arm, DAMAC Hotels & Resorts. With vision and momentum, DAMAC Properties is building the next generation of premium living, with differentiated living experiences across more than 100 million square feet of prime real estate.

52+
MN SQ FT PROJECTS IN PROGRESS AND IN PLANNING

6
COUNTRIES WITH PRESENCE

10K+
HOSPITALITY UNITS (INCL. COMPLETED UNITS & PROJECT PIPELINE)

1,700+
EMPLOYEES

500+
SALES STAFF

C.400
PROJECT EXECUTION AND EXECUTION SUPPORT TEAM



Customer looks on from his new home
DAMAC Heights, Dubai



DAMAC HOTELS & RESORTS

The winning combination: comforts of home with service standards of the world's finest hotels

The hospitality arm of DAMAC Properties, DAMAC Hotels & Resorts, operates five luxury properties, comprising hotel apartments, under two distinct hospitality brands, DAMAC Maison and DAMAC Living, offering two bespoke lifestyle experiences. We currently have a portfolio of 1,728 units in operation, and we are expecting to triple our portfolio in 2019 to 5,906 units, including 824 units in the iconic Paramount Hotel, 481 units in Radisson Hotel Dubai DAMAC Hills, and units in our latest project DAMAC Maison Privé.

All our current properties are located in the prestigious Downtown district, with unparalleled views and easy access to Dubai's key attractions.

Our Rental Pool, which operates across five properties, is expected to witness an increase from 376 units in 2018, to 775 units by the end of 2019, a scale that promises considerable cost-efficiencies

Occupancy rate:	Strong at 76% YTD
Market:	Down 10%
RevPAR*:	15% higher than 2017
Market:	Down 10%

**RevPAR: Revenue per available room*

THE FUTURE OF DAMAC

Additional to gated community spaces, such as DAMAC Hills and AKOYA, DAMAC continues to develop and offer investment opportunities in attractive mixed-use projects in Dubai, such as AYKON City on Sheikh Zayed Road and Rëva Heights in Business Bay. Further afield, in London's latest cultural hub, Nine Elms, the construction of DAMAC Towers Nine Elms, in an exclusive partnership with Versace Home, is underway. DAMAC, as a strategic partner of Oman Tourism Development Company, is also engaged in the transformation of Muscat's historical port, Mina Al Sultan Qaboos, into an integrated waterfront destination.

MARKET OVERVIEW

DAMAC Properties operates within the luxury residential, premium hospitality and mixed-use development segments, predominantly in the Middle East. Founded in the UAE, DAMAC has been expanding steadily in recent years to regional markets, including Saudi Arabia, Lebanon, Jordan, Oman, and in 2015, its reach extended to the United Kingdom through DAMAC's International arm.

DAMAC derives more than 85 per cent of its revenue from projects in Dubai, an emirate that continues to sustain the most developed real estate market in the Middle East.

THE MARKET IN 2018

The real estate industry is cyclical in nature, and 2018 continued to be a buyer's market. Over the last three years, there has been a steady increase in the sales of ready property due to a noticeable shift in buyers' preferences, favouring ready or near-completion units, as opposed to off-plan.

There was a softening of sales prices in the off-plan segment which resulted in the emergence of the affordable to mid-range segment, to which most developers have now aligned their off-plan inventories.

In addition, Dubai remained one of the most popular tourist destinations in 2018 with an inflow of approximately 15.9 million visitors. The luxury sector continued to see a year-on-year increase in occupancy, while the mid-tier hotel segment was marginally impacted by an increase in supply.

RESHAPING THE SOCIAL FABRIC

Like all metropolitan cities, Dubai's property market was impacted by geopolitical and global financial changes in 2018. As such, the UAE Government proactively introduced an array of socio-economic initiatives that foster a favourable environment for foreign investments, including 10-year residency visas for skilled specialists to further attract and retain sticky residents. The public sector also introduced five-year retiree visas, and 100 per cent foreign business ownership outside Free Zones, which increases the attractiveness of the UAE's property market, and reaffirms the UAE's standing as a convenient and profitable business and investment option.

TRANSPARENCY AND INNOVATION

Dubai continues to be the MENA region's most transparent real estate market (source: JLL MENA) as the government focused on new investor-friendly initiatives, driven by digital innovations in the property sector. The Dubai Land Department plans to deploy blockchain technology across the real estate segment to cover transactions, including real estate contracts, lease registrations, and more, bringing a new level of transparency to the industry. Property developers across the UAE reflected the government's focus on innovation and digitisation through investments in technology that made transactions in the real estate sector easily accessible. Investments are being made in technology driven by artificial intelligence and virtual reality, and this has begun to transform every stage of the home buying process.

These shifts in the industry are aligned to the government's strategy to attract investments from around the world by nurturing a competitive climate.

15.9 million visitors at Dubai in 2018

3.2 million anticipated population in Dubai by 2021

2.8% anticipated GDP growth in 2019

THE OUTLOOK FOR 2019

The International Monetary Fund (IMF) has dubbed 2019 a year of progress for MENA, including the UAE, as economies are anticipated to lead stronger growth, supported by easing fiscal adjustment and infrastructure investment such as the Expo 2020.

Looking forward to 2019, the UAE is expected to maintain the marginal pace of growth as the previous year, with an improved anticipated GDP growth of 2.8 per cent. As the country draws closer to Expo 2020, construction, manufacturing and real estate industries are progressing, with an increasing supply of units entering the real estate market. Furthermore, key source markets for the UAE, such as India, China and parts of Africa, continue to lead on figures of economic growth.

Taking a closer look at Dubai, the emirate enjoys a strategic position as a global hub for trade, finance, and industry. Moreover, recent government initiatives and reforms have further opened up the emirate to investments from around the world. While 2018 continued to be a year of recovery and consolidation, DAMAC is set on the path of growth and expansion on the back of fiscal stimulus and government investments in Expo 2020 preparations.

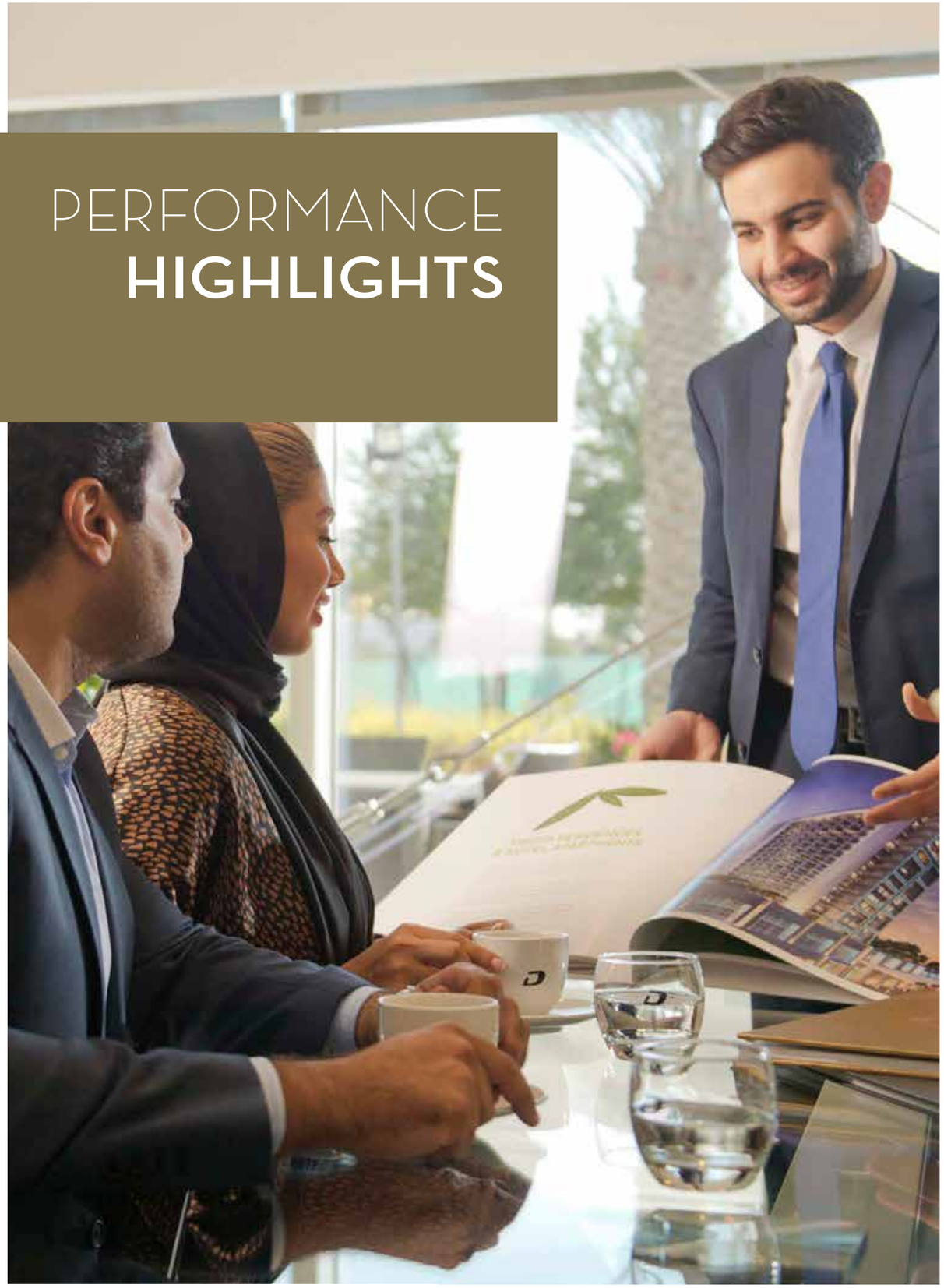
As for Dubai's real estate market, the city's population stands at three million and is estimated to reach 3.2 million by 2021, increasing demand for housing. Moreover, the market is witnessing a significant increase in demand for mid-value, affordable housing options, within community-inspired spaces. This is a segment for which DAMAC had pioneered specific products in the past, and continues to nurture community features across their portfolio.



Park Towers, Dubai

DAMAC is committed to the long-term potential of Dubai's real estate market, and continues to create value for customers and shareholders, as the market navigates through the current phase of the real estate cycle.

PERFORMANCE **HIGHLIGHTS**



JANUARY

- Luxury living at Rĕva Residences in Business Bay launched

FEBRUARY

- Approximately AED 100 million construction contracts awarded for accelerating development at AKOYA
- AED 600 million construction contract awarded for one tower at AYKON City master development

MARCH

- AED 424 million construction contract awarded to Arabtec for villa clusters at AKOYA
- Construction of a second tower at AYKON City master development to be tendered
- Tender issued for Věra Residences tower in Business Bay

APRIL

- Target set for 15,000 hotel units to be in operation by 2021, bolstering DAMAC's hospitality offering in preparation for Expo 2020 demand

MAY

- Adil Taqi, Group Chief Financial Officer, DAMAC Properties rings bell to celebrate listing of USD 400 million Sukuk on Nasdaq Dubai
- Tower 108 at Jumeirah Village Circle enters final stages of completion
- Foundation work set at AYKON City multi-tower master development

JUNE

- Infrastructure works contract at AKOYA awarded, as construction spend tops AED 5.6 billion

JULY

- Ghalia tower in JVC nears completion
- DAMAC Heights welcomes tenants to luxury waterfront living in Dubai Marina
- Rĕva Heights in Business Bay introduced

AUGUST

- DAMAC Properties and Radisson Hotel Group join forces to launch Radisson Hotel, Dubai DAMAC Hills
- H1 revenues up 5% year-on-year to AED 3.7 billion
- AED 512 million contract awarded at AYKON City

SEPTEMBER

- Latest collection of Just Cavalli Villas unveiled
- Construction at UK capital's DAMAC Tower Nine Elms speeds ahead
- DAMAC Properties showcases key offerings at Cityscape Global 2018

OCTOBER

- DAMAC's facilities management arm, Luxury Owner Association Management Services (LOAMS), recognised by Dubai Land Department
- Setting of foundation slab marks development milestone at AYKON City

NOVEMBER

- Groundwork begins at historical Mina Al Sultan Qaboos project
- First residents welcomed at iconic DAMAC Towers by Paramount Hotels & Resorts

DECEMBER

- Carrefour Market joins growing DAMAC Hills community
- AED 40 million contract awarded to Proscape for AKOYA

CORPORATE SOCIAL RESPONSIBILITY

مؤسسة حسين سجواني - داماك الخيرية
HUSSAIN SAJWANI - DAMAC FOUNDATION

DAMAC upholds industry best practices in sustainability, and is in full support of the Sustainable Environment and Infrastructure agenda under UAE's Vision 2021. While an innovation board continues to adopt smart, company-wide solutions to increase project efficiency and reduce resource waste, project teams also work closely with contractors to ensure that Company processes are followed, including those that protect the welfare of on-site work staff. Which is why AKOYA, DAMAC's latest master community, was built on the ethos of sustainable development, and incorporates green building material and smart home solutions.

BEYOND SUSTAINABLE DEVELOPMENTS

"Beyond building sustainable developments, DAMAC strives to build a sustainable future for generations to come, by empowering the wider community within the Arab region."

As a home-grown Company, DAMAC understands the importance of giving back to the community in which it operates, and has founded the Hussain Sajwani – DAMAC Foundation, a joint initiative between DAMAC Group and its Chairman, Hussain Sajwani. The Foundation aims to improve the livelihoods of others, through foundational learning and skills development initiatives that address the unmet needs of the communities in which DAMAC operates.

ONE MILLION ARAB CODERS

In addition to supporting local Emirati initiatives and charity organisations, the Hussain Sajwani – DAMAC Foundation has partnered up with the Dubai Future Foundation on the 'One Million Arab Coders' initiative. Launched by His Highness Sheikh Mohammed bin Rashid Al Maktoum, UAE Vice President, and Prime Minister and Ruler of Dubai, the integrated educational programme aims to empower one million Arabs with the language of the future, coding..

This project is part of our mission to spread hope, shine light on our shared Arab future and build opportunities for our region's youth

- H.H. Sheikh Mohammed Bin Rashid Al Maktoum

Anyone with access to the internet can sign up to participate in the 'One Million Arab Coders' initiative. To ensure that the programme is accessible to all, the Dubai Future Foundation also works with grassroots organisations, NGOs and governmental bodies across the Arab world to facilitate device and internet access to those interested in taking part.

STEPS TO ENROL IN THE PROGRAMME

01 ONLINE REGISTRATION — Fill an easy online registration form

02 PARTICIPATION CERTIFICATE — Learn the basics of coding in 2-3 weeks course

03 CERTIFIED ONLINE COURSES — Select from 9 tracks and complete the course within 6 months to earn a certificate of completion

Supported by an online community of tutors and technology partners, in 2018, the programme witnessed an overwhelming response, and garnered over one million applicants from across the world, while over 22,000 students graduated from the programme. Now in its second year, 250 top graduates will be enrolled in the coveted Udacity Nanodegree course

1 million+
applicants from across the world, in one year

22,000+
graduates from the programme

250+
graduates enrolled in nanodegrees



H.H. Sheikh Mohammed Bin Rashid Al Maktoum, H.H. Sheikh Hamdan Bin Mohammed Bin Rashid Al Maktoum, and Hussain Sajwani with 130 top achievers of the first batch of graduates of the One Million Arab Coders Programme

STRATEGIC REPORT



Poolside at DAMAC Towers by Paramount Hotels & Resorts, Dubai

CHIEF FINANCIAL OFFICER'S MESSAGE



ADIL TAQI
GROUP CHIEF FINANCIAL OFFICER

GROUP PERFORMANCE SUMMARY

We work in a cyclical industry, and in 2018 the global real estate market witnessed lower sales volumes and pricing. The Dubai real estate market saw fewer project launches and lower sales from property developers in comparison to previous years. As such, our booked sales in 2018 stood at AED 4.3 billion, while our order backlog, of sold inventory but revenue yet to be recognised, stood at over AED 10.3 billion as of 31st December 2018.

We refrained from aggressive new project launches over the last 18-24 months and channeled our sales efforts and distribution capability towards completed and close-to-completed inventory, with negligible execution and balance sheet risk. On a positive note, current phases in the market cycle also created opportunities for aspiring home buyers and investors, while nurturing a competitive environment for industry participants.

In 2018, we reported revenues of AED 6.1 billion and net profit of AED 1.2 billion, while gross profit was AED 2.1 billion, with gross margins of 34.6%. Results, in comparison to last year, were impacted by multiple factors such as product mix, revenue composition (Dubai versus international projects), compression in gross margins due to reduction in overall selling prices and subsequent increased cost of sales promotions.

In the same year, we collected a healthy AED 4.3 billion, despite lower sales volumes in comparison to previous years. We deliberately agreed not to offer stretched post-handover payment plans on our inventory and continue to advocate for significant upfront payment by serious home buyers and investors. This helps to eliminate speculators, while aiding us in de-risking our projects with cash. It also gives us executional certainty on projects launched and sold, and minimises stress on our balance sheet, while giving us solid footing for the years to come.

DEBT

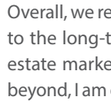
Liquidity management continues to be of paramount importance in a cyclical industry. Debt and cash management has been crucial to our success, and as of 31st December 2018, our debt stood at AED 4.9 billion. In April of 2018, we undertook a proactive liquidity management exercise worth AED 1.5 billion. This spread our debt maturity profile, and part of the proceeds went towards an early retirement of our upcoming Sukuk, which is due for maturity in April 2019. With two liquidity management exercises in 2017 and 2018, we now have only circa AED 1 billion outstanding to be paid in April 2019 out of the original AED 2.4 billion five-year Sukuk certificates issued in April 2014. Our free cash (non-escrow) as of 31st December 2018 at over AED 1 billion. We also expect healthy escrow releases in Q1 2019 on the back of significant deliveries reported in the later part of 2018 and we aim to meet our debt repayment obligations from internal accruals.

We maintained healthy cash levels throughout the year and finished at a total of circa AED 6.2 billion as of 31st December 2018. This helps us in meeting planned project spends and timely execution to fulfil our promise to home buyers and evaluate any interesting land buying opportunity that may present itself in current market conditions. AED 3.8 billion spends on construction of ongoing projects and existing land commitments in 2018 show our commitment and focus on project execution. This year we achieved another milestone for the highest ever deliveries by DAMAC in a calendar year, with over 4,100 units being delivered across DAMAC projects in Dubai and the GCC.

DAMAC paid circa AED 600 million towards existing land commitments in AKOYA and AYKON City during the year and bought a few small land parcels in Business Bay to replenish inventory. As of 31st December 2018, land for DAMAC Hills and AKOYA is fully paid for with only AED 360 million outstanding towards the AYKON City development, payable until March 2020. No new land commitments were assumed in 2018.

THE YEAR AHEAD

Overall, we remain positive and committed to the long-term potential of Dubai's real estate market. As we head into 2019 and beyond, I am excited about the opportunity to demonstrate our financial strength and our ability to manage the business across market cycles, delivering on our commitments to customers, stakeholders, employees and partners. Thank you for your ongoing support as we build the DAMAC of the future.



ADIL TAQI
GROUP CHIEF FINANCIAL OFFICER



10.3
BILLION DIRHAMS
REVENUE
TO BE RECOGNISED

6.2
BILLION DIRHAMS
CASH AND BANK

4.9
BILLION DIRHAMS
GROSS DEBT

2.1
BILLION DIRHAMS
GROSS PROFIT

Note: Figures refer to 2018 performance.

ORGANISATIONAL DESIGN

TEAM INTEGRATION ACROSS THE DAMAC CUSTOMER JOURNEY

To remain ahead of changing times, our organisation has been re-designed around the DAMAC customer journey, categorised into three groups – acquisition, engagement and experience. Our people, in all functions, are aligned across every customer experience, and are empowered to add value at each stage of our customers' direct or indirect interaction with the Company.



BEYOND THE TRANSFORMATION

Digital transformation has been core to our growth, and includes the use of the latest cloud enterprise solutions and automation technology. Today, DAMAC is among the early adopters of cognitive machine learning solutions within the industry and has adopted Robotic Process Automation (RPA) technology across core areas, including Finance, Sales and IT. This has allowed the Company to successfully reduce operational costs over the last few years, while simultaneously improving customer service and employee engagement, along with efficiency of core business functions.

CUSTOMER SUPPORT

DAMAC continues to evolve its customer relationship management to drive satisfaction at every customer touch point. Its adoption of advanced Customer Engagement Management (CEM) solutions improves end-to-end customer service across the property purchase cycle, starting at customer acquisition.

This provides DAMAC with superior service advantages through effective customer life cycle management, supported by a world-class Client Relations Management (CRM) team and Salesforce integration across its information technology systems.

Furthermore, in 2018, the Company introduced on-property community management teams and 'Hello DAMAC', an easy-to-use online customer portal available in multiple languages, including English, Arabic, Simple Chinese and Russian.

BUSINESS PLANNING

Through effective analysis and strategic forward planning, DAMAC continuously strives to improve its performance benchmark against global standards. This encompasses a 360-degree view of the business, from sourcing land to ongoing market expansion. The team has an unrivalled understanding of the market conditions and is involved across a spectrum of business functions in the organisation, including international development.

Spearheading Robotic Process Automation (RPA) adoption and innovation, business planning lean methodology creates production floor 'pull' rather than management 'push'. The Company also has tremendous support from 'bots', including Virtual Workers (VWs), used to augment human capabilities and free people up to do higher value work. Today, DAMAC bots are built with specific capabilities, from account reconciliation to audit transactions, and online leads posting to data migration, growing from a farm of five VWs to over 20.



COMMUNITY MANAGEMENT

DAMAC's own Luxury Facilities Management (LFM) and Luxury Owner Association Management Services (LOAMS) ensure the smooth and seamless operations of the day-to-day functions in every DAMAC community. They also boast on-premise community management teams at all their master developments.

From events, to interfacing with real estate authorities and ensuring the highest service levels, the teams play a vital role at every stage in post-sale customer satisfaction, as well as maintaining facilities and protecting customers' investments.

LFM is certified as ISO compliant to the following standards:

- Quality Management System (ISO 9001: 2008)
- Environmental Management System (ISO 14001: 2004)
- Occupational Health & Safety Management System (OHSAS 18001: 2007)

LOAMS is certified as ISO compliant to the following standard:

- Quality Management System (ISO 9001: 2008)

These standards are certified by the British Standards Institution (BSI) Middle East and Africa.

SALES

DAMAC's 360-degree approach to sales is helping the Company to leverage its resources effectively between direct and indirect sales, while balancing between off-plan growth opportunities and revenue from ready properties.

With over 500 sales professionals, DAMAC boasts an outbound model, supported by 12 global customer experience centres, extensive annual roadshow plans and global marketing campaigns.

Leaning on its successful indirect sales strategy, DAMAC continues to strengthen its partnerships with its global network of over 6,500 brokers worldwide, as of December 2018. Thanks to complete Salesforce integration in 2017, DAMAC now empowers agents with dedicated technology tools, and enables them to promote, sell and book properties directly through DAMAC's dedicated brokers' online portal and mobile application.

MARKETING AND CORPORATE COMMUNICATIONS

Aligned with its outbound sales model, DAMAC's in-house marketing capability leads on industry web development and digital marketing performance, and complements its popular global brand awareness customer fly-in campaign, 'Why Dubai, Why DAMAC'.

In addition to its global roadshows and digital marketing efforts, the Company maintains a strong social media presence, which provides access to its core audiences while in their home countries, and serves as a platform for customer engagement. DAMAC's offline communications efforts raises its global mind share and drives awareness of the Company's involvement in the One Million Arab Coders Initiative as part of its corporate social responsibility.

The team also works closely with brand partners, including Versace Home, Fendi Casa, Paramount Hotels & Resorts and The Trump Organization, along with Just Cavalli, The Radisson Group and Tiger Woods Design.

FINANCE

Serving as an example of how DAMAC transforms core operations through innovation, the Finance team heavily leverages automation to improve speed, efficiency and accuracy in its operations. This allows the team to focus efforts on customer service and partner engagement, including.

Home Financing Services

DAMAC's home financing service facilitates in-demand mortgage products for existing and new customers. The team works with local and international banks through instant approvals and other financial frameworks, and processes transactions for customers registered with Dubai Land Department.

Investor Relations

DAMAC is a member of Middle East Investor Relations Society (MEIRS), and regularly engages with analysts, investors and potential investors as well as other capital community members.

PROJECTS

The 500-strong Project Management team continues to plan, develop and oversee the smooth delivery of DAMAC's projects. This includes full procurement processes, working with contractors and sub-contractors, all the way through to the Handover teams. Over the past three years, the Projects team has adopted advanced IT infrastructure and solutions to increase collaboration across all key departments, seeing a significant uptake in Project Management efficiency. From advanced Building Information Modelling (BIM) solutions that enable intelligent 3D model-based design processes, to cloud-based snagging tools that empower Company-wide integration, DAMAC's Project team value-engineer through investments in technology.

TALENT

People are at the heart of DAMAC's success. Working in tandem, 'Talent Acquisition' and 'People and Performance' HR functions future-proof the Company's growth by sourcing and strengthening the right people. Safe guarding talent, DAMAC invests in its performance-driven culture through development programmes and employee engagement initiatives. This includes DAMAC Active, an annual series of sporting events and competitions which fosters team spirit among employees, while encouraging an active lifestyle.




Engagement across teams

TECHNOLOGY

DAMAC's IT department has spearheaded the Company's digital transformation, overseeing the deployment of a number of critical solutions that have helped it become an innovation leader in its sector. The IT department has led the deployment and integration of RPA, Salesforce, interactive community portals for customers, CRM tools for sales teams, agents, mobile applications to increase mobile workforce productivity, and the deployment of the Company's 3D Building Information Modelling (BIM) solution.

LEGAL

The team is continuously assessing the changing legal framework, at home and in other markets where DAMAC operates, to ensure that the Company, its shareholders and customers are protected. The Legal team is also responsible for overseeing the Company's obligations to the Dubai Financial Market for filing and disclosure.

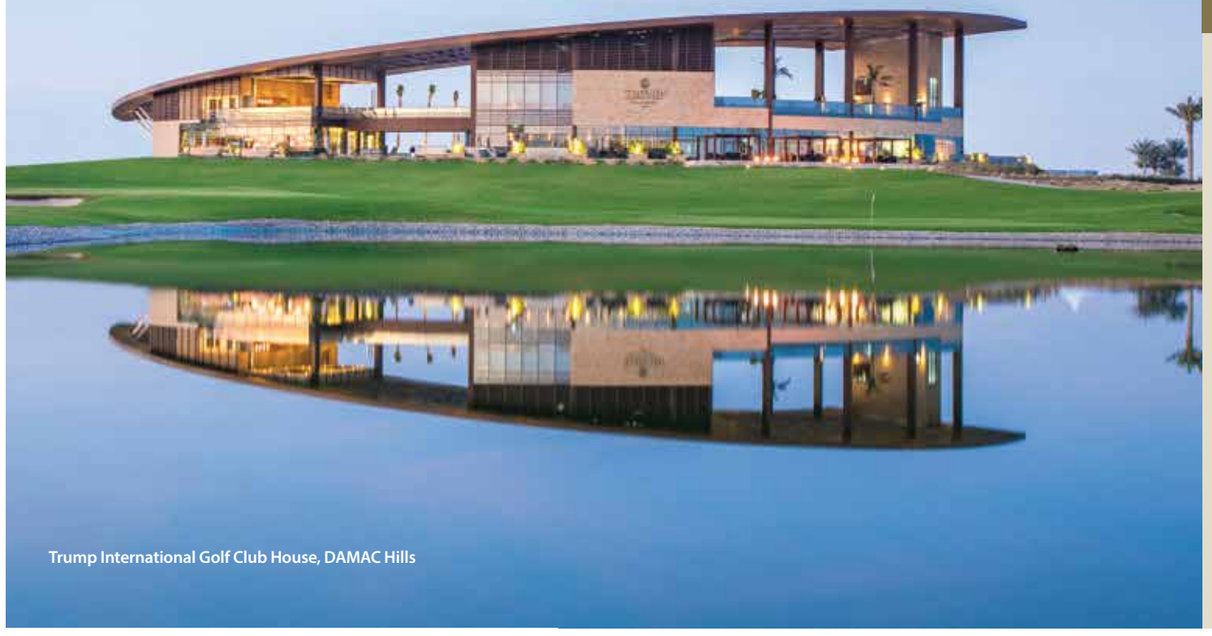
Compliance & Internal Audit

A separate team oversees regulatory compliance with the Commercial Companies Law, Corporate Governance Regulations and Listing and Disclosure Rules issued by relevant regulatory authorities. The team reviews and evaluates compliance issues / concerns within the organisation. Alongside an Internal Audit team, an external Audit Committee implements Corporate Governance best practices with the aim of protecting the interests of all stakeholders.

STRATEGY

MISSION, VISION AND VALUES

DAMAC provides dream homes and unique living concepts to customers from all over the world, and strives to challenge the market by transforming living experiences in Dubai and beyond. **As a leading luxury real estate developer, DAMAC believes in developing and nourishing superior residential communities that deliver outstanding return on investment, while offering residents differentiated real estate environments and services.**



Trump International Golf Club House, DAMAC Hills

The customer is always right

From investors to community residents, customers drive demand for and the success of DAMAC projects. With the introduction of new technology solutions in the digital era, the DAMAC customer journey has evolved further in 2018, and involves all team members, from product planning to facility management.

STRATEGY PILLARS

Capital efficiency

DAMAC's success is driven by capital efficiency, while driving return on equity and the maintenance of an appropriate capital structure. Over 500 experts (quantity surveyors, architects, project managers, procurement agents, etc) ensure that investors' capital is deployed professionally. This also maximises shareholder value, increases profitability and offers attractive cash returns to shareholders.

People at the heart of DAMAC

Excellence in service and product is only possible because DAMAC recruits and invests in the right people. It is thanks to the hard-work and passion of the employees that DAMAC is able to fulfil its promise to customers. As such, people continue to be at the heart of DAMAC, and are recognised through long-service awards, ongoing training, internal promotions and employee engagement initiatives.

DAMAC CULTURE OF EXCELLENCE

QUALIFY EVERY DAY

Each day is an opportunity for innovation, growth and to deliver on the DAMAC promise of delivering dream homes and unique living experiences. Plans are inspirational, but execution is what matters.

ENTREPRENEURSHIP

Each person at DAMAC takes ownership for the success of the Company, from making commercial decisions that create long-term value, to remaining agile enough to adopt necessary changes when required.

COLLABORATION COMES FIRST

Various organisations, leaders and team members come together to deliver a successful project. In order to challenge the industry, it is imperative for the sector to collaborate on common grounds and together, strive to exceed existing standards.

PORTFOLIO OVERVIEW



PORTFOLIO FOCUS

With a successful 17-year track record, DAMAC's ability to identify current market requirements and develop residential, hospitality and leisure projects that are in demand, while offering excellent ROI, has set it apart from others.

DAMAC also stands apart from its competitors through its differentiated collaborations with international brands, bringing the best luxury living concepts to its customers. From fashion icons, Fendi Casa, Versace Home and Just Cavalli, to leading hospitality brands, The Radisson Group and the stylish Paramount Hotels & Resorts, as well as the finest golf communities with the Trump Organization and Tiger Woods Design, DAMAC continues to set the benchmark for unique concepts that meet today's lifestyle-driven preferences.

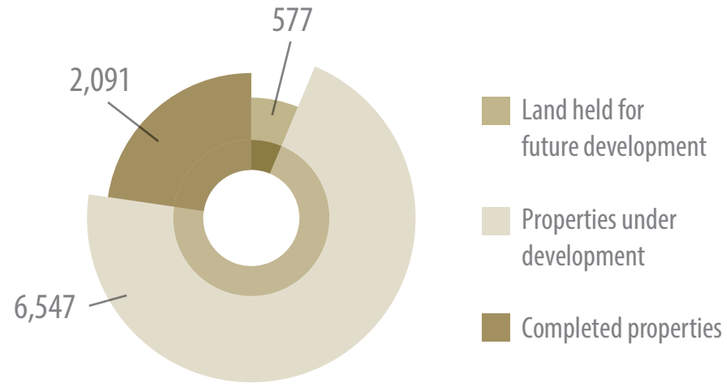
PORTFOLIO OVERVIEW

	Completed [1] Projects	In-progress [2] and In-planning [3] Projects
Total	**24,372 units**	**40,000 units**
In Dubai	**88%**	**c.97%**



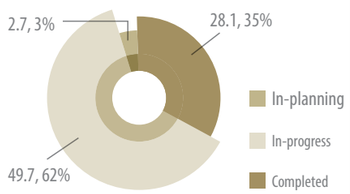
Note:
(1) Completed projects: projects with Building Completion Certificate (BCC) received
(2) In-progress projects: projects with enabling works started / consultant appointed
(3) In-planning projects: projects with no consultant appointed

DEVELOPMENT PROPERTIES - DEC'18 (AED MN)



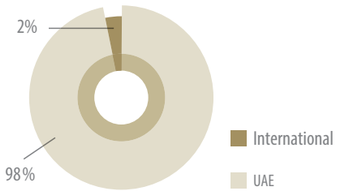
PROPERTIES BY DEVELOPMENT STATUS

Area (mn sq ft)



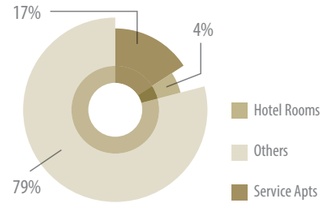
PORTFOLIO BY LOCATION (In-progress & In-planning Projects)

Location



PORTFOLIO BY PRODUCT (In-progress & In-planning Projects)

No. of Units



DAMAC PROJECTS IN DUBAI

COMPLETED

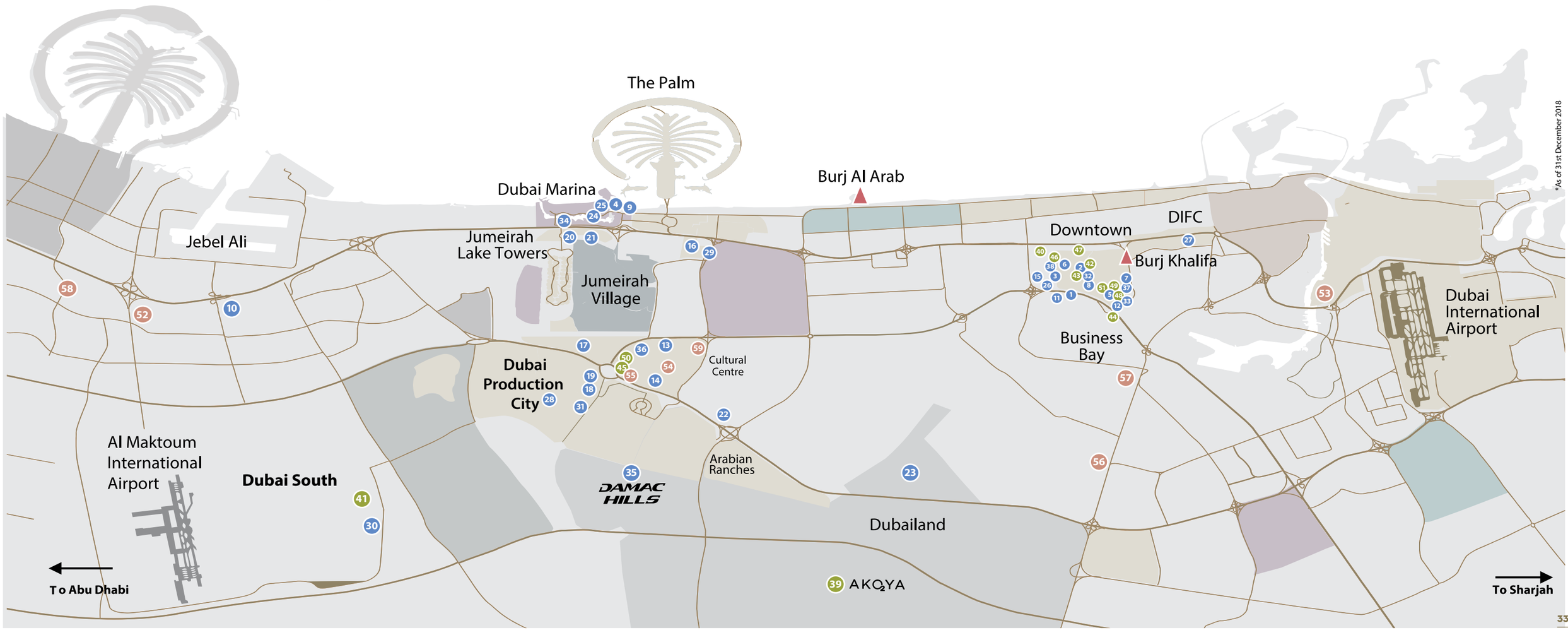
1. Avanti Tower
2. Bay's Edge
3. Business Tower
4. DAMAC Heights
5. DAMAC Maison Canal Views
6. DAMAC Maison Cour Jardin
7. DAMAC Maison Mall Street
8. DAMAC Majestine
9. DAMAC Residenze with Interiors by Fendi Casa
10. DAMAC Suburbia
11. DAMAC The Breeze
12. DAMAC Voleo
13. Emirates Gardens I
14. Emirates Gardens II
15. Executive Bay
16. Executive Heights
17. Green Park
18. Lago Vista
19. Lakeside
20. Lake View
21. Lake Terrace
22. Lincoln Park
23. Madison Residences
24. Marina Terrace
25. Ocean Heights
26. Park Central
27. Park Towers
28. Royal Golf Boutique Villas
29. Smart Heights
30. Tenora
31. The Crescent
32. The Distinction Hotel Apartments
33. The Residences at Business Central
34. The Waves
35. Tuscan Residences
36. Tuscan Residences 2
37. Upper Crest
38. XL Tower

IN PROGRESS

39. AKOYA
40. AYKON City
41. Celestia
42. DAMAC Hills
43. DAMAC Maison Privé
44. DAMAC Towers by Paramount Hotels & Resorts Dubai
45. Ghalia
46. Merano Tower
47. Paramount Tower Hotel & Residences Dubai
48. Rēva Heights
49. Rēva Residences
50. Tower 108
51. Vēra Residences

IN PLANNING*

52. Central Square
53. Cultural Village
54. Jumeirah Village Plot I
55. Jumeirah Village Plot II
56. Madison Residences II
57. Meydan
58. Parkside
59. Safa Park Plot



*As of 31st December 2018

KEY DEVELOPMENTS IN PROGRESS

The DAMAC Hills community

A LUXURIOUS GOLF COMMUNITY

DAMAC HILLS

DAMAC Hills is a gated golf community, located off the Umm Suqeim Road, 15 minutes away from the centre of Dubai. Spanning 42 million square feet, DAMAC Hills is home to a variety of incredible properties, some the result of collaborations with world-renowned brands such as Fendi Casa and Paramount Hotels & Resorts.

Residents of DAMAC Hills have access to world-class retail and leisure amenities, along with spectacular outdoor areas including The Park, nearly four million square feet of lush greenery across various private, themed parklands.

DAMAC Hills is also home to the Trump International Golf Club Dubai, the only Trump golf course in the Middle East. It offers an 18-hole, par 71 championship-standard course, designed by 2016 Olympic Games course architect, Gil Hanse, one of the most sought-after names in the industry.

Over 4,100 homes have been handed over at DAMAC Hills so far, including villa clusters and apartments in the low-rise buildings facing the golf course. An international school campus, Jebel Ali School, is now in its third year of operation in the community, while Radisson Dubai DAMAC Hills, an upscale hotel overlooking the Trump International Golf Club Dubai, will begin welcoming guests at the end of 2019.



Villas at the DAMAC Hills master community



Golf course facing villas at DAMAC Hills



Golf Town, DAMAC Hills



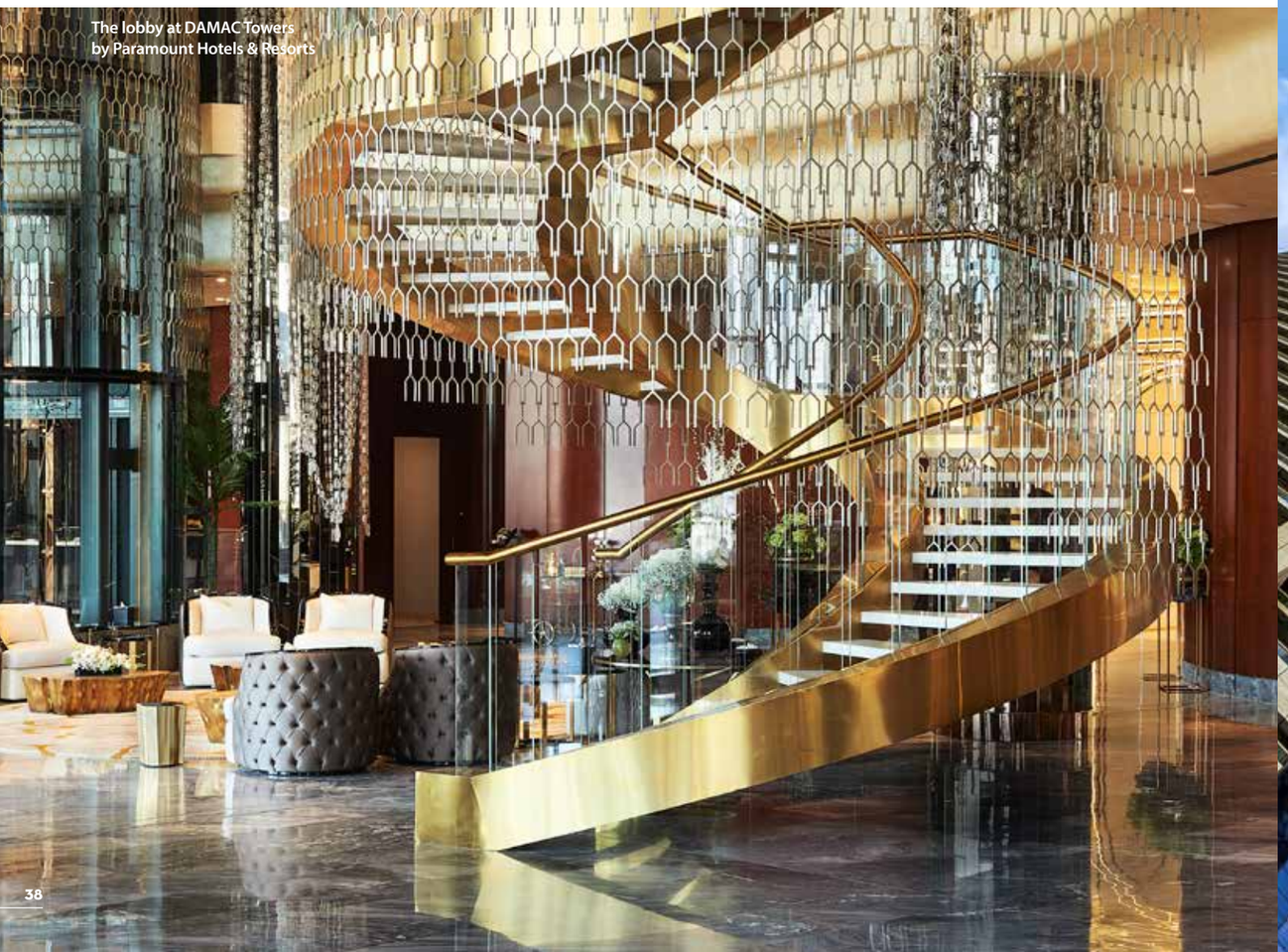
Aerial view of Golf Town, DAMAC Hills , Dubai

EMBRACE THE **GLAMOUR OF HOLLYWOOD**

DAMAC TOWERS by Paramount Hotels & Resorts DUBAI

Strategically located in the Burj area of Dubai, DAMAC Towers by Paramount Hotels & Resorts comprises four towers stretching 270 metres in height, with a mix of one, two and three bedroom serviced apartments. Developed by DAMAC in collaboration with Paramount Hotels & Resorts, the project reflects the glamour of Hollywood that is synonymous with Paramount Pictures over its 100+ year history.

Three of the towers offer 1,200 luxury hotel apartments, which were handed over in 2018, while the fourth will house a Paramount Hotel & Residences and open its doors in 2019. The four buildings are joined by a multi-level plaza, and have exclusive access to landscaped gardens and pool areas, numerous health facilities, and a variety of dining options.



The lobby at DAMAC Towers by Paramount Hotels & Resorts



DAMAC Towers by Paramount Hotels & Resorts

CONTEMPORARY HOMES IN THE HEART OF NATURE

AKOYA

Launched in 2014, AKOYA is a 55-million-square-foot lush green master community in Dubailand, presenting a tranquil residential environment. With the first clusters to begin handover in 2019, the whole ethos of the project is based around greenery and seclusion, where energy-efficient homes are surrounded by lush landscaping and cascading water features.

Located off the Umm Suqeim Road and around 10 minutes from DAMAC Hills, AKOYA has an up-market resort feel. The community includes contemporary residential properties of various sizes, surrounding an 18-hole championship-standard golf course. Once completed, the community will offer an organic produce market, a hydroponic café, luxury wellness facilities, an outdoor yoga enclave and retail outlets featuring well-known brands.

The Trump World Golf Club Dubai, which will run through the heart of the project, is by Tiger Woods Design. One of the most successful golfers in the history of the game, Tiger used his rich playing experience and extensive knowledge to launch Tiger Woods Design in 2006, and since then, has completed a number of prestigious projects in the US and Mexico.

AKOYA will boast a long promenade offering shopping, dining and entertainment at the centre of the community, alongside 2,000 furnished hotel apartments of varying size, with exceptional views of the community, including the lake and the lush fairways of the Trump World Golf Club Dubai.



AKOYA community master plan



Luxurious lifestyle amenities



Bespoke interiors at AKOYA villas

PRESTIGIOUS ARCHITECTURAL ICON OVERLOOKING DUBAI CANAL

AYKON CITY

AYKON City is a unique concept – an entire city set within the magnificent metropolis of Dubai. Spanning over six-million square feet, the multi-tower community is located on Sheikh Zayed Road, overlooking Dubai Canal and the city's most prestigious business district. A mixed-use development, AYKON City offers a combination of luxury residences and hotel apartments, along with wellness, retail, dining and entertainment outlets.

Since its launch, AYKON City has won numerous prestigious awards, receiving recognition at the Africa and Arabia Property awards hosted in Dubai for 'Best Mixed-Use Architecture', 'Best Residential High-Rise', and '"Best Hotel Architecture' for its AYKON Hotel & Hotel Apartments.

In 2018, foundational work was completed at Tower C, known as The Residences, which will have a total built up area of nearly 1.8 million square feet. The 61-floor tower will feature studio, one, two and three-bedroom apartments and will also be home to The Club, an exclusive residents-only lifestyle and entertainment space, including a stunning rooftop with impressive views of the city.



Work in progress at AYKON CITY



AYKON CITY, Dubai

RISK MANAGEMENT

Risk management is an integral part of DAMAC's business culture whether at a strategic or operational level; this supports DAMAC's business objectives and leads to value creation and preservation.

DAMAC recognises that risk management is about opportunities as much as threats. To capitalise on opportunities, DAMAC has to take risks. Therefore, risk management is not about pursuing risk minimisation as a goal, but rather optimising the risk-reward relationship, within a calculated and agreed risk appetite level.

With the continuing efforts of the Board, the management and the staff, the Company has established a complete and effective operating risk management and internal control system. The risk management approach is based on a clear understanding of the variety of risks that the Company faces, disciplined risk monitoring and measurement, continuous risk assessment and implementation of mitigation measures.

1. MARKET RISKS

NATURE OF RISK	CALCULATION OF RISK
The majority of DAMAC's projects are located in Dubai, which can result in concentration risks.	➢ The UAE leads the region in both quantified medium-term planning, such as Expo 2020, the Vision 2021, as well as much longer-term thinking such as the Strategy for the Future. This, coupled with Dubai's progressive regulatory policies aimed to build a strong long-term real estate market, and the Emirate's attractive lifestyle offerings, continues to maintain a healthy demand for real estate properties by international investors and residents. ➢ DAMAC continuously explores new territories and geographies which are customer-led, and have ability to leverage existing platforms. DAMAC International entered the British real estate market in 2015 through a joint venture, and have plans for other key markets.
Political instability in the Middle East, and the impact of lower oil prices have heightened social, economic and geo-political risks.	➢ In 2018, Abu Dhabi completed the once in a generation process of signing up new foreign partners for its main offshore and onshore concessions, bringing in new firms such as China National Petroleum Corp and negotiating better terms. This lays the foundation to boost oil and gas output, with $109bn in investment planned until 2022. ➢ The UAE's diversification has meant that it has been less intensely affected than most of the Gulf by weaker oil prices and production cuts. Furthermore, Dubai is seen locally as a safe haven for individuals from the rest of the Gulf and other Middle East countries, and also, increasingly as an alternative dollar-denominated jurisdiction for wealthy, high-net worth families and their investments from around the world. ➢ Dubai is more politically stable than its Gulf peers. His Highness Sheikh Mohammed bin Rashid Al Maktoum recently completed 13 years as Ruler of Dubai. In 2010 H.H. launched the UAE vision 2021 with the aim of making the UAE 'one of the best countries in the world' by 2021. Under His visionary leadership, Dubai has transformed itself on a global landscape and has grown in popularity as a leading business, residential and travel hub.
Real estate is an attractive industry and may attract competition from existing and new players.	➢ Real estate in Dubai is highly regulated with relatively high barriers to entry for new developers. ➢ DAMAC has built its brand and delivered over 23,300 units over the past 17 years. It is one of the trusted real estate brands in the UAE, with industry-leading margins attributed to efficient project execution. ➢ Competition is always welcomed, as it keeps the market healthy and gives buyers choice to make an informed decision among various available alternatives.
Expansion into new markets can be challenging due to a lack of familiarity with culture and the economic condition of new markets.	➢ Outside the UAE, DAMAC has already completed and delivered projects in Jordan, Lebanon, Saudi Arabia and Qatar. ➢ Outside of the region, DAMAC continues to explore market opportunities as a minority partner through a joint venture entity.
The inability to replenish the land bank threatens growth.	➢ The management is dynamic and adjusts to the market environment to create products in line with prevalent demand conditions. ➢ DAMAC carefully and continuously evaluates its land bank portfolio. Prudent land purchases are undertaken to replenish the depleting land inventory at freehold locations and at reasonable prices to ensure financial viability of the project. We are currently sitting on approximately years of land bank inventory. ➢ The government owns the vast majority of the land in Dubai, and sales of land are one of the major sources of revenue for it. Since 2013, DAMAC has acquired land from various government owned entities for over AED 3.675 billion (USD 1 billion), placing it in an excellent position for further land acquisitions.

2. PROJECT RISKS

NATURE OF RISK	CALCULATION OF RISK
Execution risk can result in projects under development to be delayed, suspended or terminated.	➢ DAMAC complies with and goes above all development regulations, to meet customer expectations, and maintains the quality of its developments. Furthermore, DAMAC believes in the importance of partnerships, working with world-class contractors and sub-contractors who have demonstrated ability to execute. ➢ Project teams at DAMAC continue to be hands-on, monitoring and supporting the progress of partners' work, and ensuring that partners abide by project timelines and delivery schedules. ➢ DAMAC de-risks projects through sufficient off-plan sales and cash collections as early as possible in its lifecycle. This helps in avoid any funding constraints during development of the project
DAMAC depends on third party contractors and sub-contracts to deliver its projects.	➢ Contractors are thoroughly screened before and during engagement process, while DAMAC's in-house technical team of 400 people oversee all contractors' work to ensure timely delivery. ➢ Contractors' operation and working practices are supervised, supported and monitored regularly by senior management, including workers welfare, insuring that contractors' follow DAMAC's strict policies and industry best practices. ➢ Agreements with contractors retain 5-15 per cent of the 'work done amount', which is held for one year after the completion of a project until the Defect Liability Period (DLP) has passed.
Brand associations – DAMAC has launched various co-branded residences across projects. Inability to maintain relationships might impact the project.	➢ DAMAC has launched several co-branded residential units with various global luxury brands such as Versace Home, Just Cavalli and Fendi Casa; DAMAC is not dependent on any single brand. ➢ Branded units constitute a small percentage of the overall DAMAC project pipeline.

3. FINANCIAL & LIQUIDITY RISKS

NATURE OF RISK	CALCULATION OF RISK
Credit risk – DAMAC mainly follows an off-plan sales approach; risk of customer default is high.	➢ Collection of instalment payments from purchasers, on average 20 per cent of unit value, results in significant upfront payment and minimises risk of default. DAMAC maintains a very prudent and stringent approach to this, and it is a cornerstone of our overall strategy. ➢ A large and diversified customer base results in low concentration of credit risk. Dubai regulations allow developers to retain a significant portion of consideration in the event of default by customers.
Leverage – excessive use of debt and inability to service debt commitments.	➢ DAMAC uses debt to maintain an efficient capital structure. Debt is utilised to fund land acquisition and other corporate purposes. The majority of debt currently on the Company's balance sheet is due for repayment in April 2022, both a listed Sukuk instrument traded on Nasdaq Dubai. ➢ DAMAC have maintained a net cash position since 31st December 2012. As of 31st December 2018, we have gross debt of AED 4.95 billion and cash and bank balance of AED 6.2 billion, while free available cash is AED 1.3 billion.
Foreign exchange risk – foreign exchange fluctuations pose a risk in a volatile exchange rate environment.	➢ The Company has some projects in other Middle Eastern countries apart from the UAE but the majority of the Company's revenues, costs and capital expenditure are either priced, incurred, payable or otherwise measured in AED, which is pegged to the US dollar.
Cash flow constraints – insufficient cash to fund project development.	➢ DAMAC complies with all development regulations, including escrow rules. The construction components of the developments are mainly funded by customer advances. ➢ Management periodically reviews cash flow and commitments for each project on its individuality and totality basis. It seeks to cash de-risk a project / phase from a construction cost perspective before launching a new phase / project. ➢ Management also forecasts cash flows and uses debt to bridge the timing gap and to meet working capital requirements.
Inability to pay deferred consideration for land payments and other contractual commitments.	➢ Majority of the DAMAC land bank is fully paid. Most of the deferred consideration for land payment is towards the lifestyle communities under development. ➢ Contractual commitments are structured whereby exits are negotiated at comfortable / manageable levels.

4. REPUTATION RISKS

NATURE OF RISK	CALCULATION OF RISK
Numerous hazards add complexity to development projects, with potential for fatal results.	➢ Real estate in Dubai and are highly regulated. Furthermore, DAMAC follows strong compliance programs to ensure that both employees and partners are abiding by global industry best practices, including clear policies and practices aimed at ensuring worker welfare. ➢ Feasibility studies, which evaluate the financial, environmental and social sustainability of each project, are conducted by third party organisations at different development stages.
Brand associations – DAMAC has launched various co-branded residences across projects. Inability to maintain relationships might impact the project.	➢ DAMAC has launched several co-branded residential units with various global luxury brands such as Versace Home, Just Cavalli and Fendi Casa; DAMAC is not dependent on any single brand. ➢ Branded units constitute a small percentage of the overall DAMAC project pipeline.

GOVERNANCE REPORT



Mina AL Sultan Qaboos, Oman - A joint venure between DAMAC International and Oman Tourism Development Company (OMRAN)



BOARD OF **DIRECTORS**

With almost 200 years combined wealth of knowledge and expertise across DAMAC's Board of Directors, the Board comprises distinguished professionals from a broad spectrum of industries, including investments, banking and financial services, insurance, retail, manufacturing, operations, construction and food and beverage. Its members have built on their rich, cumulative experience gained across numerous geographies, to lead DAMAC into a position of strength in the property development arena, to add value, and to represent the interests of shareholders.

EXECUTIVE MEMBERS



Hussain Sajwani

CHAIRMAN



Adil Taqi

GROUP CHIEF FINANCIAL OFFICER AND EXECUTIVE MEMBER

NON - EXECUTIVE MEMBERS



Farooq Arjomand

VICE CHAIRMAN AND NON-EXECUTIVE INDEPENDENT MEMBER



Prof. John Wright

NON-EXECUTIVE INDEPENDENT MEMBER



Nabil Alyousuf

NON-EXECUTIVE INDEPENDENT MEMBER



Yahya Nooruddin

NON-EXECUTIVE INDEPENDENT MEMBER



Sofyan Al Khatib

NON-EXECUTIVE NON-INDEPENDENT MEMBER



CORPORATE GOVERANCE

DAMAC acknowledges the importance of good governance and follows best practices in compliance with the Resolution No 7 / RM of 2016 concerning the standards of institutional discipline and governance of public listed companies ('Corporate Governance Code') issued by the Securities and Commodities Authority (SCA).

The Board is committed to achieving the highest standards of corporate governance, corporate responsibility and risk management in directing and controlling the business. DAMAC has adopted a Corporate Governance Manual, which details the corporate governance and policies that regulate and form the basis of the Company's governance policies.

The Board is ultimately responsible for ensuring that the Company complies with its legal and regulatory obligations, the Company's Articles of Association and the duties towards shareholders. The corporate governance process is implemented by the management, independently monitored for effectiveness by the Board, and assisted by the following Board committees:

1. **Audit, Compliance & Risk Committee ('ACR Committee')**
2. **Nomination & Remuneration Committee ('N&R Committee')**

In addition to the above committee(s), the Board is assisted by external and internal auditors, and Company officials, including the Group Chief Financial Officer, Compliance Officer and other members of the management.

During 2018, the following meetings took place:

- The Board **– 04 meetings**
- Audit Risk & Compliance Committee **– 04 meetings**
- Nomination & Remuneration Committee – **01 meeting**

The Board held meetings at least once every three months in the year 2018. The Board meetings had majority attendance by members' participation.

The agendas of the Board meetings included forward-looking strategic issues with a balance of performance reporting review, approval of policies required for the Company's operations and strategic decisions. The Board monitored the integrity of the financial statements and any formal announcements relating to the Company's performance, and reviewed any significant financial judgements contained in them. Board discussions were supported by relevant and focused papers distributed well in advance of the meetings.

The following section describes the key governance structures and internal controls operating within the business.

BOARD CONSTITUTION AND PROCEDURES

The Board comprises seven members, of which six are Non-Executive Directors and one is an Executive Director:

NAME	BOARD POSITION
Hussain Sajwani	Chairman
Farooq Arjomand	Vice Chairman & Non-Executive Independent Member
Adil Taqi	Group Chief Financial Officer & Executive Member
Prof. John Wright	Non-Executive Independent Member
Nabil Alyousuf	Non-Executive Independent Member
Yahya Nooruddin	Non-Executive Independent Member
Sofyan Al Khatib	Non-Executive Independent Member

The Board has procedures that enable it to review critical business issues in a disciplined manner, to provide leadership within a framework of prudent and effective controls, and to assess and manage risk.

The Chairman is responsible for the running of the Board and communications with all Directors and stakeholders. He ensures that all members of the Board receive sufficient information on agenda items, including financial, business and corporate issues.

AUDIT, COMPLIANCE & RISK COMMITTEE

The Board of Directors has constituted a committee of the Board known as the Audit, Compliance & Risk Committee (ACR Committee).

This enables Board members to be appraised on financial and operational performance and make informed decisions on issues under consideration.

An internal audit function provides independent, objective assurance over the complete control framework that reports to the Chairman of the ACR Committee. The Head of Internal Audit also has direct access to all executive members and in particular, the Chairman.

The ACR Committee comprises the following Board members:

SN	NAME	ROLE	CAPACITY
1.	**Prof. John Wright**	Chairman	Non-Executive / Independent Director
2.	**Farooq Arjomand**	Member	Non-Executive / Independent Director
3.	**Yahya Nooruddin**	Member	Non-Executive / Independent Director

The main duties of the ACR Committee include (but are not limited to) the following in respect of which the Committee shall:

a. Develop and apply the policy for appointment of the external auditors and make a report to the Board to set forth the issues in respect of which an action shall be adopted together with recommendations on necessary to be adopted steps;

b. Follow up and oversee the independence and objectivity of the external auditor and hold discussions with the external auditor on the nature, scope and efficiency of auditing pursuant to approved audit standards;

c. Oversee the integrity of and review the Company's financial statements and annual, semi-annual and quarterly reports in the course of its operations during the year and shall, in particular, focus on:

   i. any changes of accounting policies and practices;

   ii. highlighting matters that are subject to the management's judgement;

   iii. material amendments emerging out of auditing;

   iv. assumption of the Company's going concern;

   v. adherence to the accounting criteria set by the Authority; and

   vi. adherence to listing and disclosure rules as well as other financial reporting legal requirements;

d. Co-ordinate with the Board, the executive management and the financial manager or the manager assuming the same duties in the Company in order to duly fulfil its duties. The Committee shall hold a meeting with the Company's external auditor at least once per annum;

e. Consider any outstanding unconventional issues that are or have to be reflected in these reports and accounts and shall pay necessary attention to any issues raised by the financial manager of the Company, the manager assuming the same duties, the Compliance Officer, the Risk Officer or the external auditor;

f. Review the Company's financial control, internal control and risk management systems;

g. Lay down the scope of and review the findings and suggestions of the Compliance Officer and suggest appropriate corrective measures to the management of the Company;

h. Lay down the scope of and review the findings and suggestions of the Risk Officer and suggest appropriate corrective measures to the management of the Company;

i. Discuss the overall internal control system with management and make sure that it fulfills its duty to develop an effective internal control system;

j. Consider findings of main investigations into internal control issues to be assigned thereto by the Board or at the initiative of the Committee upon the approval of the Board;

k. Ensure co-ordination between internal and external auditors, ensure availability of necessary resources for internal audit body, review and control the efficiency of this body;

l. Review the Company's financial and accounting policies and procedures;

m. Review the mission and action plan of the external auditor and any material inquiries raised by the auditor to the management in respect of accounting records, financial accounts or control systems, respond thereto and approve them if required;

n. Make sure that the Board responds on a timely basis to enquiries and material issues raised in the external auditor's mission;

o. Develop rules that enable the employees of the Company to secretly report any potential violations in financial reports, internal control or other issues and adequate steps to conduct independent, fair investigations into these violations;

p. Oversee the scope of the Company's compliance with its code of conduct and conflict of interest by the Board members and management of the Company;

q. Ensure application of the rules of operation in connection with their duties and powers assigned thereto by the Board;

r. Make a report to the Board on the issues set in this clause;

s. Consider any other issues as the Board may determine.

The ACR Committee met four times during the year 2018, and the minutes of the meetings were recorded and approved. The Chairman of the ACR Committee periodically presents its report on the outcome of the ACR Committee to the subsequent Board meeting held after each ACR Committee meeting, and provides recommendations on periodic financials and other matters.

NOMINATION & REMUNERATION COMMITTEE

The Board of Directors has constituted a committee of the Board known as the Nomination & Remuneration Committee (N&R Committee). The N&R Committee comprises the following Board Members; it met once during 2018:

SN	NAME	ROLE	CAPACITY
1.	**Farooq Arjomand**	Chairman	Non-Executive / Independent Director
2.	**Nabil Alyousuf**	Member	Non-Executive / Independent Director
3.	**Yahya Nooruddin**	Member	Non-Executive / Independent Director

The main duties of the N&R Committee include (but are not limited to) the following:

a. Verification of the ongoing independence of Independent Board Members;

b. Formulation and annual review of the policy on granting remunerations, benefits, incentives and salaries to Board members and employees of the Company and the committee shall verify that remunerations and benefits granted to the senior executive management of the Company are reasonable and in line with the Company's performance;

c. Determination of the Company's needs for qualified staff at the level of the senior executive management and employees and the basis of their selection;

d. Formulation, supervision of application and annual review of the Company's human resources and training policy;

e. Organisation and follow-up of the procedures of nomination to the membership of the Board in line with applicable laws and regulations;

f. To develop a policy for nomination for Board membership aimed at observing diversity of genders in the Board formation and encouraging females to nominate for the Board membership of the Company;

g. Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and to recommend any changes it considers necessary to the Board for approval

INTERNAL CONTROL

The Board of Directors acknowledges that it is responsible to the shareholders for creating and delivering sustainable value through the management of the businesses, hence the Board of Directors has an overall responsibility for ensuring that executive management designs and implements an effective internal control system, which provides assurance of effective and efficient operations, accurate financial reporting and compliance with applicable laws and regulations.

The ACR Committee is delegated by the Board of Directors to oversee the internal control systems and to update the Board periodically on the resourcing, testing, and defectiveness of internal controls in the Company.

DIRECTORS' RESPONSIBILITIES



Villa interior, DAMAC Hills

The Company is compliant with International Financial Reporting Standards (IFRS). The Directors prepare the financial statements for each financial year, which give a true and fair view of the affairs of the Company as at the end of the financial year and of the profit or loss for that period.

The Directors confirm that they have complied with the requirements of the IFRS in preparing the financial statements. They are responsible for keeping proper accounting records that disclose with reasonable accuracy, at any time, the financial position of the Company. They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In preparing the financial statements the Directors are required to:

- Ensure that the financial statements comply with the Memorandum and Articles of Incorporation and IFRS
- Select suitable accounting policies and apply them consistently
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Make judgments and estimates that are reasonable and prudent
- Prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Company will continue in business

HUSSAIN SAJWANI
CHAIRMAN

ADIL TAQI
GROUP CHIEF FINANCE OFFICER

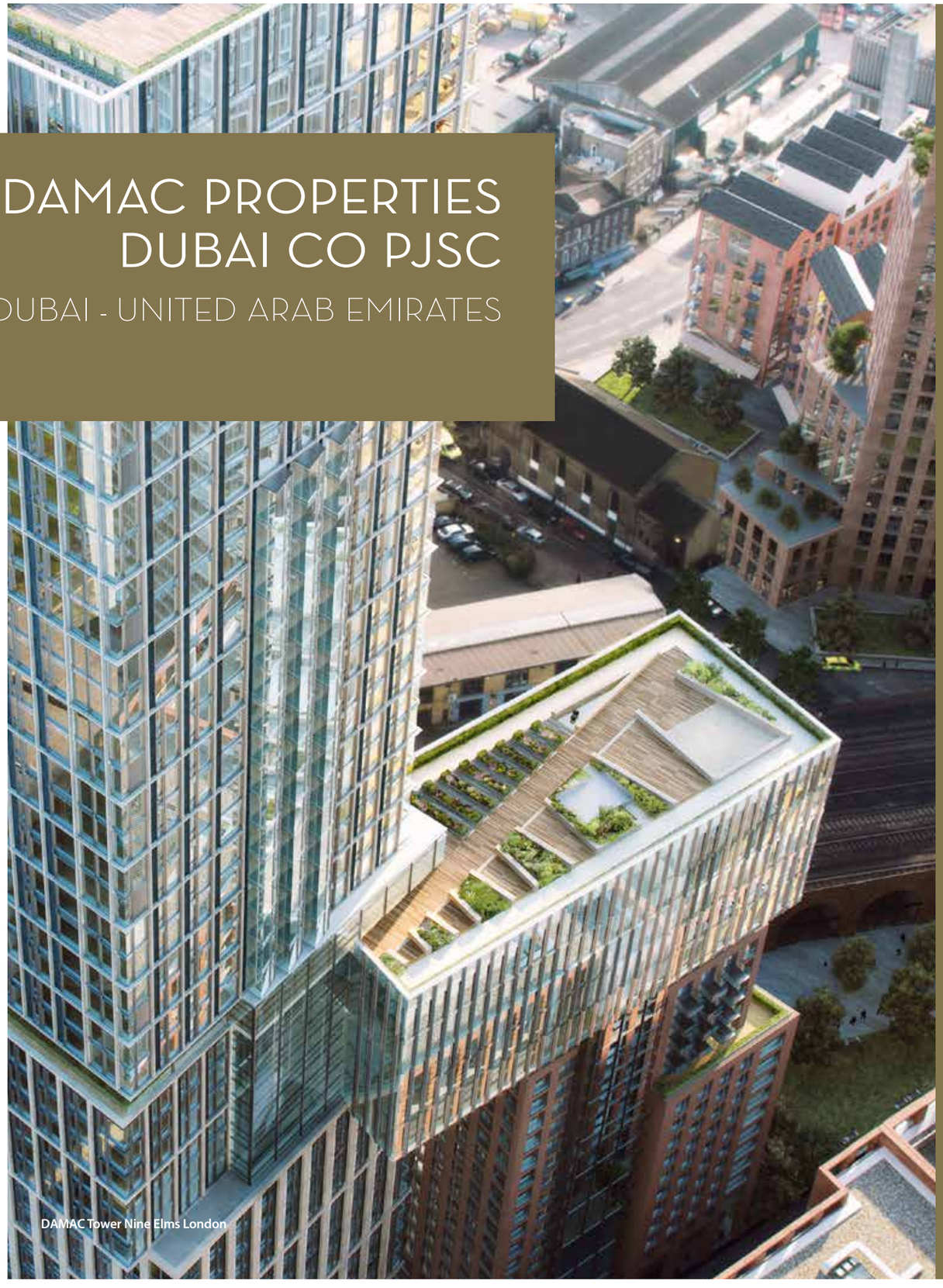
CONSOLIDATED **FINANCIAL STATEMENTS**

Reports and consolidated financial statements for the year ended 31st December 2018

Golf Town, DAMAC Hills

DAMAC PROPERTIES DUBAI CO PJSC

DUBAI - UNITED ARAB EMIRATES



DAMAC Tower Nine Elms London

DIRECTORS' REPORT

The Board of Directors has the pleasure in submitting their report together with the audited consolidated financial statements of DAMAC Properties Dubai Co. PJSC (the "Company") and its subsidiaries (together the "Group") for the financial year ended 31st December 2018. Profit for the year is AED 1,152 million (2017: AED 2,760 million).

PRINCIPAL ACTIVITIES

The principal activity of the Group is investment in real estate development companies.

The movement in retained earnings is as follows:

	AED'000	AED'000
Balance at 1 January 2018		7,013,024
Profit for the year		
• Revenue	**6,132,675**	
• Cost of sales	**(4,011,638)**	
• Income from deposits and other income	**337,143**	
• Expenses	**(1,306,286)**	
Total		**1,151,894**
Transfer to statutory reserve		(101,184)
Cash dividend (note 30)		(907,500)
Balance at 31st December 2018		**7,156,234**

On behalf of the Board of Directors

CHAIRMAN

INDEPENDENT AUDITOR'S REPORT

THE SHAREHOLDERS
DAMAC PROPERTIES DUBAI CO PJSC
DUBAI – UNITED ARAB EMIRATES

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OPINION

We have audited the consolidated financial statements of Damac Properties Dubai Co. PJSC (the "Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Valuation of development properties	
Development properties, which principally comprise the Group's land held for development, projects under development and completed units, are stated at the lower of cost and net realisable value (i.e. the forecast selling price less the remaining costs to build and sell, which is in line with the fair value as at the reporting date). An assessment of the fair value of the development properties is carried out at each reporting date by an external valuation firm, as disclosed in note 4 and 8 to the consolidated financial statements. The valuation of the Group's development properties is the key component of the net asset value and underpins the Group's results for the year. The Group's development properties portfolio is not uniform in nature, and therefore a number of different assumptions are made by the Group's external valuers in determining its fair value. The valuation of development property is inherently subjective. The valuer has used a comparable valuation approach for land and completed units and a residual approach for projects under development to arrive at the net realisable value of the development properties portfolio held by the Group at the reporting date. The valuations were carried out by third party valuers (the "Valuer"). They were engaged by the Directors, in accordance with the RICS Valuation – Professional Standards ("RICS"). The fact that only a small percentage difference in individual property valuations, when aggregated, could result in a material misstatement warrants specific audit focus on this area.	*Experience of Valuer and relevance of their work* We confirmed that the approaches used in the external valuation were consistent with RICS. We assessed the Valuer's competence and capabilities and read their terms of engagement with the Group. *Data provided to the Valuer* We sample tested data provided to the Valuer by the Group. This data included cost incurred to date, cost to complete, historical sales prices, outstanding receivables to be collected and information relating to unsold inventories. *Assumptions and estimates used by the Valuer* We involved our internal real estate valuation specialists to review the valuations reports for selected properties and assessed whether the valuation approach and methods used are in accordance with the established standards for valuation of the properties and suitable for use in determining the fair value for the purpose of assessment of impairment loss. Where we identified estimates and assumptions that are outside the typical ranges used, we discussed these with the Valuer to understand rationale. Based on the outcome of our evaluation we assessed the adequacy of disclosures in the consolidated financial statements.

Key audit matters (continued)

Key audit matter	How the matter was addressed in our audit
Revenue recognition	
The Group recognises revenue both at a point in time and over a period of time depending on the nature of the contract and the relevant laws and regulations of the jurisdiction in which it has entered the contract with its customers (disclosed in note 3.4 to the consolidated financial statements). Revenue recognition on sale of properties, including villas, apartments, commercial units and plots of land, involves significant risks due to the judgment and estimation involved. Audit of judgments around percentage of completion of projects including the costs incurred to date against the total cost of the project and the successful completion of the project in the absence of sale of all units under development was an item requiring significant audit attention in particular consideration of: ➢ ability of the Group to enforce payment for work completed under the terms of its contract thereby meeting International Financial Reporting Standard 15: '*Revenue from contracts with customers*' criteria for revenue recognition over time; ➢ total expected cost of completion of the real estate development; ➢ likelihood of collection of the remaining sales consideration.	In responding to this area of focus our procedures included the following: Assessment of controls over the revenue recognition assessment and calculations. We tested the design and operating effectiveness of relevant controls which included; ➢ budgeting process of the Group to assess the robustness of the budgets with specific focus on the expected total cost to complete the real estate developments. ➢ review and approval process around the preparation of percentage of completion calculations. In addition, we also performed the following substantive audit procedures for a sample of contracts: ➢ verified that the Group has correctly recognised revenue as per the terms of the contracts and the relevant jurisdiction that the project is in; ➢ recalculated the revenue and compared it with the calculation performed by the management; ➢ reviewed and challenged the basis of estimation used by management for assessing the total cost to complete for the respective real estate projects are reasonable; and. ➢ tested the disclosure included within the consolidated financial statements and ensured it meets the disclosure requirements of IFRS 15.

Other information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group. We obtained the Directors' report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

Other information (continued)

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the Group's annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the management and those charged with governance for the consolidated financial statements

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

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

The Board of Directors and Audit, Compliance and Risk Committee are responsible for overseeing the Group's financial reporting process.

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 scepticism 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- 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 Group and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Deloitte.

Report on other legal and regulatory requirements

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

i. we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii. the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE. Federal Law No (2) of 2015;

iii. the Group has maintained proper books of account;

iv. the financial information included in the Directors' report is consistent with the Group's books of account;

v. note 11 to the consolidated financial statements of the Group discloses its investments in equity instruments during the financial year ended 31 December 2018;

vi. note 18 reflects the disclosures relating to material related party transactions and the terms under which they were conducted; and

vii. based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018.

DELOITTE & TOUCHE (ME)



Akbar Ahmad
Registration No 1141
Dubai, United Arab Emirates

27 March, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DAMAC PROPERTIES DUBAI CO PJSC

AS AT 31 DECEMBER 2018

	Notes	2018 AED'000	2017 AED'000
ASSETS			
Property and equipment	**6**	**140,749**	150,452
Investment properties	**7**	**188,896**	197,021
Development properties	**8**	**9,214,522**	9,643,051
Other financial assets	**9**	**1,055,267**	1,024,757
Trade and other receivables	**10**	**8,120,233**	6,607,212
Financial investment	**11**	**283,073**	262,673
Cash and bank balances	**12**	**6,173,522**	7,458,330
Total assets		**25,176,262**	25,343,496
EQUITY AND LIABILITIES			
Equity			
Share capital	**13**	**6,050,000**	6,050,000
Statutory reserve	**3.16**	**903,497**	802,313
Retained earnings		**7,156,234**	7,013,024
Total equity		**14,109,731**	13,865,337
Liabilities			
Bank borrowings	**14**	**667,213**	815,421
Sukuk certificates	**15**	**4,280,434**	3,937,529
Advances from customers	**16**	**2,617,811**	3,274,496
Trade and other payables	**17**	**3,501,073**	3,450,713
Total liabilities		**11,066,531**	11,478,159
Total equity and liabilities		**25,176,262**	25,343,496

CHAIRMAN

DIRECTOR

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

DAMAC PROPERTIES DUBAI CO PJSC

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 AED'000	2017 AED'000
Revenue		**6,132,675**	7,454,350
Cost of sales		**(4,011,638)**	(3,820,120)
Gross profit		**2,121,037**	3,634,230
Other operating income	**19**	**94,655**	290,583
General, administrative and selling expenses	**20**	**(898,440)**	(1,063,498)
Depreciation		**(28,082)**	(26,364)
Provision for impairment on development properties	**8**	**(54,146)**	–
Operating profit		**1,235,024**	2,834,951
Other income	**21**	**80,195**	56,310
Finance income	**22**	**162,293**	141,172
Finance costs	**23**	**(325,618)**	(272,656)
Profit for the year		**1,151,894**	2,759,777
Other comprehensive income for the year		**-**	-
Total comprehensive income		**1,151,894**	2,759,777
Earnings per share			
Basic and diluted (AED)	**29**	**0.19**	0.46

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

DAMAC PROPERTIES DUBAI CO PJSC

FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital	Statutory reserve	Retained earnings	Total
	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2017	6,050,000	634,196	5,933,864	12,618,060
Total comprehensive income for the year	-	-	2,759,777	2,759,777
Transfer to statutory reserve	-	168,117	(168,117)	-
Dividend (note 30)	-	-	(1,512,500)	(1,512,500)
Balance at 31 December 2017	**6,050,000**	**802,313**	**7,013,024**	**13,865,337**
Total comprehensive income for the year	-	-	1,151,894	1,151,894
Transfer to statutory reserve	-	101,184	(101,184)	-
Dividend (note 30)	-	-	(907,500)	(907,500)
Balance at 31 December 2018	**6,050,000**	**903,497**	**7,156,234**	**14,109,731**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

DAMAC PROPERTIES DUBAI CO PJSC

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 AED'000	2017 AED'000
Cash flows from operating activities		
Profit for the year	**1,151,894**	2,759,777
Adjustments for:		
Depreciation on property and equipment and investment properties	**28,082**	26,364
Provision for employees' end-of-service indemnity (note 17)	**13,921**	18,664
Amortisation of issue costs on sukuk certificates (note 15)	**12,736**	11,393
Loss on disposal of property and equipment	**-**	226
Gain on disposal of a subsidiary (note 21)	**(2,936)**	(3,469)
Provision for impairment on development properties (note 8)	**54,146**	-
Reversal of impairment on trade receivables (note 20)	**(107,758)**	(22,308)
Finance costs (note 23)	**325,618**	272,656
Finance income (note 22)	**(162,293)**	(141,172)
Operating cash flows before changes in operating assets and liabilities	**1,313,410**	**2,922,131**
Increase in trade and other receivables	**(1,412,712)**	(1,767,848)
Decrease in development properties	**359,672**	296,100
Increase/(decrease) in trade and other payables	**35,409**	(565,661)
Decrease in advances from customers	**(656,685)**	(922,305)
Employee end-of-service indemnity paid (note 17)	**(11,763)**	(8,725)
Net cash used in operating activities	**(372,669)**	**(46,308)**
Cash flows from investing activities		
Purchases of property and equipment (note 6)	**(10,965)**	(20,684)
Proceeds from disposal of property and equipment	**-**	335
Acquisition of financial investment (note 11)	**(20,400)**	(77,651)
Net cash received on disposal of a subsidiary	**12,845**	14,410
Increase in other financial assets	**(30,510)**	(8,129)
Decrease/(increase) in deposits with an original maturity greater than three months	**787,186**	(290,471)
Interest received	**175,255**	128,394
Net cash generated from/(used in) investing activities	**913,411**	**(253,796)**

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

CONSOLIDATED STATEMENT OF **CASH FLOWS**

DAMAC PROPERTIES DUBAI CO PJSC

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 AED'000	2017 AED'000
Cash flows from financing activities		
Proceeds from bank borrowings during the year (note 14)	**422,229**	495,200
Repayment of bank borrowings during the year (note 14)	**(406,593)**	(905,502)
Proceeds from issuance of sukuk certificates – net (note 15)	**1,457,138**	2,274,897
Redemption and repurchase of sukuk certificates (note 15)	**(1,126,969)**	(1,002,359)
Dividend paid (note 30)	**(907,500)**	(1,512,500)
Finance costs paid	**(312,825)**	(260,908)
Net cash used in financing activities	**(874,520)**	(911,172)
Net decrease in cash and cash equivalents	**(333,778)**	(1,211,276)
Cash and cash equivalents at the beginning of the year (note 12)	**5,876,667**	7,087,943
Cash and cash equivalents at the end of the year (note 12)	**5,542,889**	5,876,667

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DAMAC PROPERTIES DUBAI CO PJSC

FOR THE YEAR ENDED 31 DECEMBER 2018

1. General information

DAMAC Properties Dubai Co PJSC (the "Company" or the "Parent") was incorporated in Dubai on 20 June 1976 as a Public Stock Company and operates in the United Arab Emirates under a trade licence issued in Dubai. The Company is listed on the Dubai Financial Market. The address of the Company's registered office is P.O. Box 2195, Dubai, United Arab Emirates ("UAE").

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

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

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

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

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

The Group has applied, for the first time, IFRS 9 *Financial Instruments* (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The impact of the initial application of these standards is disclosed under respective notes in these consolidated financial statements.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements.

- Amendments to IFRS 2 *Share Based Payments* regarding classification and measurement of share based payment transactions.
- Amendments to IAS 40 *Investment Properties*. Amendment to para 57 states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.
- Annual improvements to IFRSs 2014-2016 cycle to remove short-term exemptions and clarifying certain fair value measurements.
- Amendments to IAS 28 *Investment in Associates and Joint Ventures* providing clarification on measuring investees at fair value through profit or loss.

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*: The interpretation addresses foreign currency transactions or parts of transactions where::

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

IMPACT OF INITIAL APPLICATION OF IFRS 9 *FINANCIAL INSTRUMENTS*

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9 that allow an entity not to restate comparatives. Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments*: Disclosures that were applied to the disclosures for 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

Classification and measurement of financial assets:

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

Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39; however there are differences in the requirements applying to the measurement of an entity's own credit risk.

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

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

Impact assessment of IFRS 9 Financial Instruments (continued)

Impairment:

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss ("ECL") model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets irrespective of the occurrence of a credit event.

Specifically, IFRS 9 requires the Group to recognise a loss allowance for expected credit losses at an amount equal to lifetime ECL on:

- Trade and other receivables (excluding prepayments and advances);
- Other financial assets; and
- Short term deposits with original maturities greater than three months.

Hedge accounting:

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

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

Derecognition:

The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the management has assessed that trade and other receivables, other financial assets and cash and cash equivalents are subject to impairment provisions of IFRS 9.

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

Impact of initial application of IFRS 9 Financial Instruments (continued)

The following table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			AED'000	AED'000
Financial assets				
Other financial assets	Loans and receivables	Amortised cost	1,024,757	1,024,757
Trade and other receivables	Loans and receivables	Amortised cost	5,995,179	5,995,179
Cash and bank balances	Loans and receivables	Amortised cost	7,458,330	7,458,330
Financial liabilities				
Bank borrowings	Amortised cost	Amortised cost	815,421	815,421
Sukuk certificates	Amortised cost	Amortised cost	3,958,989	3,958,989
Trade and other payables	Amortised cost	Amortised cost	3,403,151	3,403,151

2.2 New and revised IFRSs in issue but not yet effective

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

NEW AND REVISED IFRSs	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
IFRIC 23 *Uncertainty over Income Tax Treatments* The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: ➢ Whether tax treatments should be considered collectively; ➢ Assumptions for taxation authorities' examinations; ➢ The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and ➢ The effect of changes in facts and circumstances	1 January 2019
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3. *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes and* IAS 23 *Borrowing Costs.*	1 January 2019
Amendments to IFRS 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)

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

NEW AND REVISED IFRSs	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
IFRS 16 *Leases:* specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
Amendment to IAS 19 *Employee Benefits* relating to amendment, curtailment or settlement of a defined benefit plan.	1 January 2019
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework	1 January 2020
Amendment to IFRS 3 *Business Combinations* relating to definition of a business	1 January 2020
Amendments to IAS 1 and IAS 8 relating to definition of material	1 January 2020
IFRS 17 *Insurance Contracts*: requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	1 January 2021
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

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

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

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the applicable requirements of the laws in the U.A.E.

3.2 Basis of preparation

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

The consolidated financial statements of the Group have been prepared on the historical cost basis, except for certain financial instruments that have been measured at fair value at the end of each reporting period. Historical cost is generally based on fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements of the Group are presented in Arab Emirates Dirhams ("AED") which is the Group's reporting currency. The individual financial statements of Group entities are prepared in respective local currencies, being the currency in the primary economic environment in which these entities operate (the functional currency).

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant accounting policies (continued)

3.3 Basis of consolidation

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has the rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cashflows relating to transactions between members of the Group are eliminated in full on consolidation.

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Company.

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 profit or loss; and
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

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

** the holding company includes 80 subsidiaries, the results of which are consolidated in DRED.*
As required by Securities and Commodities Authority circular no. 411/2018 dated 07 July 2018, the Group does not hold any investment in Abraaj Group.

3.4 Revenue recognition

Revenue from contracts with customers

Revenue is measured at fair value of the consideration received or receivable.

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

Step 1 Identify the contract with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for each of those rights and obligations.

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

Step 3 Determine the transaction price: Transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to a customer, excluding amounts collected on behalf of third parties.

Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

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

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant accounting policies (continued)

3.4 Revenue recognition (continued)

Revenue from contracts with customers (continued)

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

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

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

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

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

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

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

Property management fees

Management fees principally relate to property management services provided to owners of the Group's completed developments. Revenue in respect of these fees is recognised in line with the property management contracts and, following the accrual basis, is recognised in the period to which the services relate.

Income from deposits

Income from deposits is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Income from deposits is accrued on a timely basis, by reference to the principal outstanding and at the effective profit or interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing income

The Group's policy for recognition of revenue from operating leases is described under Leases (note 3.11).

3. Significant accounting policies (continued)

3.5 Investment properties

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

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

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

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

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

3.6 Development properties

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

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

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

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

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

3.7 Property and equipment

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

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

Depreciation is recognised so as to write off the cost other than freehold land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

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

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

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

3.8 Impairment of tangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit, typically the development project, to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. Significant accounting policies (continued)

3.9 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.10 Provision for employees' end-of-service benefits

The Group provides end of service benefits to its expatriate 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 as stipulated in the Labour Laws of the respective countries of operations. The expected costs of these benefits are accrued over the period of employment. Pension and national insurance contributions for the U.A.E. Nationals are made by the Group in accordance with Federal Law No. 7 of 1999 (as amended).

3.11 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

3.12 Foreign currencies

At each reporting date, monetary items denominated in foreign currencies are retranslated at the closing rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the consolidated statement of profit or loss and other comprehensive income in the period in which they arise.

3.13 Accounting policies for financial instruments introduced on adoption of IFRS 9

Financial assets

Classification and measurement

Financial assets are regular way purchases or sales that require delivery of assets within the time frame established by regulation or convention in the marketplace. All such regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in the consolidated statement of profit or loss.

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

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows from payments of principal and interest on the outstanding principal, are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, are subsequently measured at FVOCI;
- all other debt instruments such as debt instruments managed on a fair value basis or held for sale and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable designation at initial recognition of a financial asset on an asset-by-asset basis:
  - the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
  - the Group may irrevocably designate a debt instrument that meets the amortised cost or FVOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The Group has financial assets under "trade and other receivables" (excluding prepayments and advances), "other financial assets" and "cash and cash equivalents" that are subject to the expected credit loss model under IFRS 9 (note 2.1).

3. Significant accounting policies (continued)

3.13 Accounting policies for financial instruments introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following change in business model. During the current financial year and previous accounting period, there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassesses its business models for each reporting period to determine whether the business models have changed since the preceding period.

When a debt instrument measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. When an equity investment designated as measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is not subsequently reclassified to profit or loss but is reclassified to retained earnings.

Debt instruments that are subsequently measured at amortised cost or at FVOCI are subject to impairment.

Impairment

IFRS 9 replaces the "incurred loss" model under IAS 39 with an "expected credit loss" (ECL) model. The Group recognises loss allowances for expected credit losses on 'trade and other receivables', 'other financial assets' and 'cash and bank balances'.

Other than for purchased or originated credit impaired financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date (12-month ECL), (referred to as Stage 1); or
- lifetime ECL that result from all possible default events over the life of the financial instrument (life time ECL), (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. Loss allowance for financial investments measured at amortised costs are deducted from gross carrying amount of assets. For debt securities at FVOCI, the loss allowance is recognised in the OCI.

The Group has elected to measure loss allowances for cash and bank balances, other financial assets and trade and other receivables at an amount equal to life time ECLs.

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant accounting policies (continued)

3.13 Accounting policies for financial instruments introduced on adoption of IFRS 9 (continued)

Financial assets (continued)

Impairment (continued)

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue costs or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and forward-looking information. For certain categories of financial assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables.

Impairment losses related to loans and advances are presented separately in the consolidated statement of profit or loss and OCI. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of the grade of the investment.

Measurement of ECL

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arisi from the weighting of multiple future economic scenariost.

Credit impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. At each reporting date, the Group assesses whether financial assets carried at amortised costs and debt securities at FVOCI are credit-impaired.

Financial liabilities and equity instruments issued by the Group

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The requirements for classification and measurement of financial liabilities under IFRS 9 are largely as existing under IAS 39. All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant accounting policies (continued)

3.14 Accounting policies for financial instruments under IAS 39

The accounting policies applied to the comparative figures of financial instruments prior to 1 January 2018 as per IAS 39 are disclosed below:

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into the following specified categories: 'loans and receivables' and 'available-for-sale' ("AFS"). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables including trade and other receivables, other financial assets and cash and bank balances (excluding advances and prepayments) are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

AFS financial assest are non-derivative financial assets that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

The Group's investments in shares are classified as being available-for-sale and are carried at cost less any identified impairment losses at the end of each reporting period.

AFS equity instruments that do not have an active market and whose fair value cannot be reliably measured are carried at cost less any identified impairment losses at the end of each reporting period.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

DAMAC PROPERTIES DUBAI CO PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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3. Significant accounting policies (continued)

3.14 Accounting policies for financial instruments under IAS 39 (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets of the Group are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interests or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties..

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the provision account. Changes in the carrying amount of the provision account are recognised in the consolidated statement of profit or loss and other comprehensive income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of profit or loss and other comprehensive income to the extent that the carrying amount of the investment, at the date the impairment is reversed, does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

If an available-for-sale financial asset is impaired, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

3. Significant accounting policies (continued)

3.14 Accounting policies for financial instruments under IAS 39 (continued)

Financial assets (continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in statement of comprehensive income.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in statement of comprehensive income. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

Other financial liabilities include bank borrowings, Sukuk certificates and trade and other payables (excluding provision for employees' end-of-service indemnity). These are subsequently measured at amortised cost applying the effective interest method.

DAMAC PROPERTIES DUBAI CO PJSC

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FOR THE YEAR ENDED 31 DECEMBER 2018

3. Significant accounting policies (continued)

3.14 Accounting policies for financial instruments under IAS 39 (continued)

Financial liabilities and equity instruments issued by the Group (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of comprehensive income.

3.15 Taxation

There is no income tax applicable to the Group operations in the U.A.E. In jurisdictions other than the U.A.E., in some cases foreign taxes will be withheld at source on dividends and certain interest received by the Group. Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas subsidiaries that are operating in taxable jurisdictions in accordance with relevant tax regulations in respective countries in which the Group operates. Expense on the statement of profit or loss and other comprehensive income is the expected tax payable on the current year taxable income using prevailing rates at reporting date, and any adjustments to the tax payable in respect of prior years.

3.16 Statutory reserve

As required by the U.A.E. Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such transfers when the reserve totals 50% of the paid up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

3.17 Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at bank with original maturities of less than three months less bank overdrafts, and are used by the Group in the management of its short-term commitments.

3.18 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. An operating segment's operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance. Segment results that are reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

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

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Classification of properties

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

Fair value of investment properties

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

Financial investment

Financial investment represents the Group's 20% equity interest in a related entity (note 11). Management has assessed the impact of IAS 28 Investments in Associates and Joint Ventures and has concluded that the Group does not have any significant influence in the form of participation in the financial and operating policy decisions of the investee and hence the investment has not been accounted for as an 'Associate'.

Satisfaction of performance obligations under IFRS 15 *Revenue from Contracts with Customers*

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 customers, 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.

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

Critical judgments in applying accounting policies (continued)

Determination of transaction prices

In the process of determining transaction prices in respect of its contracts with customers, the Group assesses impact of any variable consideration in the contract due to discounts, penalties, the existence of any significant financing component or any non-cash consideration. In determining the impact of variable consideration the Group uses the most likely amount method under IFRS 15 whereby the transaction price is determined by reference to the single most likely amount in a range of possible consideration amounts.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of property and equipment

The Group assesses whether there are any indicators of impairment for property and equipment at each reporting date. Property and equipment 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 CGU and determines a suitable discount rate in order to calculate the present value of those cash flows.

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.

Effective 1 January 2018, amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied based on expected credit losses on such receivables. Until 31 December 2017, impairment was assessed and provision applied according to the length of the time past due.

Impairment of investment properties

The Group assesses whether there are any indicators of impairment for investment properties at each reporting date. The investment properties are tested for impairment when there are indicators that the carrying amounts are higher than their fair values.

At 31 December 2018, the Group has estimated the market value of its investment properties on the basis of valuation carried out by an independent external valuation expert. The valuations were determined using the Income Capitalisation Method which includes current and estimated rental values with allowances for void periods, running costs and other operating expenses. Management believes that the highest returns from and the best use of its investment properties is in their current use.

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

Key sources of estimation uncertainty (continued)

Net realisable value of development properties

The realisable values of development properties were determined by the management based on valuations performed by qualified and independent chartered surveyors and property consultants. These valuations have been prepared in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors (RICS), and are reflective of the economic conditions prevailing as at the reporting date, and changes in the development plan of certain projects.

The valuation method used for 'properties under development' was the residual land valuation method which is based on a discounted cash flow approach that determines the value of the property by deducting the estimated costs to complete the development from the estimated value on completion derived from the sales proceeds of the property. This method entails estimating the gross realisation from the projected sales price of the properties. From this is deducted the outstanding estimated cost to service the property including a developer's margin to arrive at a residual value. The resultant value expressed in net present value terms represents the estimated price that a well-informed rational and efficient developer or investor would pay for the subject property. The method takes into account the time value of money concept where future cash flows are discounted at rates ranging from 12.5% to 20% (2017: 12% to 20%) depending on the nature and scale of the project under development and the timeframe over which it is expected to be developed. The properties are expected to be developed over a period varying between 1 to 5 years.

The valuation method used for 'completed properties' and 'land held for development' was the comparable method which is based on similar transactions in the market adjusted for market risk, legal risk and property risk inherent to each of the properties.

Completion of 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 and the cost of meeting other contractual obligations to the customers.

Useful lives of property and equipment and investment properties

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

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5. Segment analysis

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

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

	2018 AED'000	2017 AED'000
Revenue		
Domestic	**5,321,629**	6,504,225
International	**811,046**	950,125
	6,132,675	7,454,350

	2018 AED'000	2017 AED'000
Development properties		
Domestic	**8,172,378**	8,207,859
International	**1,042,144**	1,435,192
	9,214,522	9,643,051

6. Property and equipment

	Building AED'000	**Furniture and fixtures AED'000**	**Tools and office equipments AED'000**	**Motor vehicles AED'000**	**Total AED'000**
Cost					
At 1 January 2017	-	72,803	95,058	4,583	172,444
Transfer from development properties (note 8)	91,858	-	-	-	91,858
Additions	-	4,087	15,313	1,284	20,684
Disposals	-	-	(265)	(559)	(824)
At 31 December 2017	91,858	76,890	110,106	5,308	284,162
Additions	-	4,082	6,883	-	10,965
Disposals	-	(4,224)	(1,187)	(751)	(6,162)
At 31 December 2018	91,858	76,748	115,802	4,557	288,965

6. Property and equipment (continued)

	Building	Furniture and fixtures	Tools and office equipment	Motor vehicles	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Accumulated depreciation					
At 1 January 2017	-	47,601	63,789	2,312	113,702
Charge for the year	3,103	12,073	3,925	1,170	20,271
Disposals	-	-	(170)	(93)	(263)
At 31 December 2017	3,103	59,674	67,544	3,389	133,710
Charge for the year	3,724	3,166	12,378	689	19,957
Disposals	-	(4,014)	(756)	(681)	(5,451)
At 31 December 2018	6,827	58,826	79,166	3,397	148,216
Carrying value as at 31 December 2018	**85,031**	**17,922**	**36,636**	**1,160**	**140,749**
As at 31 December 2017	88,755	17,216	42,562	1,919	150,452

7. Investment properties

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

Movement during the year is as follows:

	2018	2017
	AED'000	AED'000
Cost		
Balance at the beginning of the year	**197,021**	-
Transfer from development properties (note 8)	**-**	203,114
Depreciation for the year	**(8,125)**	(6,093)
Balance at the end of the year	**188,896**	197,021

Fair value of the investment properties were determined under the Income Capitalisation Method which involves the capitalisation of current and estimated rental values at an equivalent yield of approximately 8.3% (2017: 7.5%) and vacancy rate of 15% (2017: 8%) with allowances for void periods, running costs and other operating expenses. The valuation was performed in accordance with RICS Appraisals and Valuation Standards as adapted for Dubai and U.A.E. Laws and Regulations, and is reflective of the economic conditions prevailing as at the reporting date.

At 31 December 2018, the fair value of the completed investment properties and related land was AED 304 million (2017: AED 301 million) on the basis of a valuation carried out by an independent external valuation expert. The investment properties are located in the U.A.E., and are categorised under Level 3 in the fair value hierarchy.

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8. Development properties

Development properties represent development and construction costs incurred on properties being developed for sale. Movement during the year is as follows:

	2018	2017
	AED'000	AED'000
Balance at the beginning of the year	**9,643,051**	10,245,064
Additions	**3,639,059**	3,513,108
Transfer to cost of sales	**(3,998,731)**	(3,809,208)
Transfer to investment properties (note 7)	**-**	(203,114)
Transfer to property and equipment (note 6)	**-**	(91,858)
Disposal of a subsidiary	**(14,711)**	(10,941)
Provision for impairment	**(54,146)**	-
Balance at the end of the year	**9,214,522**	9,643,051

Impairment of development properties

At 31 December 2018, the Group reviewed the carrying value of its land held for future development, properties under development and completed properties by assessing the net realisable value of each project. The key judgment in this review was estimating the realisable value of a project, which is determined by forecasting sales rates, expected sales prices and estimated costs to complete. In support of the review work performed, the Group engaged an independent external valuation expert to determine the market value for each of the projects including the expected sales prices.

This review resulted in an impairment provision of AED 54 million during the current year (2017: AED nil).

For impairment losses recognised in prior periods, the Group has assessed, based on internal and external sources of information, and concluded that the carrying value of the related development property is appropriately stated as per IAS 2.

Assets held as development properties

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

	2018	2017
	AED'000	AED'000
Land held for future development	**576,908**	534,663
Properties under development	**6,546,544**	7,626,907
Completed properties	**2,091,070**	1,481,481
	9,214,522	9,643,051

No borrowing costs have been capitalised to development properties.

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9. Other financial assets

	2018 AED'000	2017 AED'000
Escrow retention accounts	**1,019,836**	1,009,668
Margin deposits	**33,426**	8,699
Other	**2,005**	6,390
	1,055,267	1,024,757

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

Other financial assets are assessed to have low credit risk of default since these assets are held with banks that are highly regulated by the central banks of the respective countries. Accordingly, the management of the Group estimates the loss allowance at the end of the reporting period at an amount equal to 12 month ECL. Taking into account the historical default experience and the current credit ratings of the banks, the management of the Group have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

At 31 December 2018, margin deposits are held by banks under lien against credit facilities issued to the Group and earn profit or interest at relevant commercial rates.

At the reporting date, an amount of AED 646 million (31 December 2017: AED 586 million) is held with Islamic banks and the remaining balance is held with conventional banks.

10. Trade and other receivables

	2018 AED'000	2017 AED'000
Unbilled receivables *(i)*	**4,447,471**	5,118,024
Trade receivables *(ii)*	**2,775,209**	983,403
Provision for impairment on trade receivables *(iii)*	**(24,108)**	(131,866)
	7,198,572	5,969,561
Advances and deposits	**778,766**	573,947
Other receivables and prepayments	**142,895**	63,704
	8,120,233	6,607,212

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

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

(iii) Movement in the provision for impairment on trade receivables during the year is as follows:

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10. Trade and other receivables (continued)

Movement in unbilled receivables during the year is as follows:

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	**5,118,024**	3,287,357
Increase due to project progress	**3,122,381**	3,723,117
Transfer to trade receivables	**(3,792,934)**	(1,892,450)
Balance at the end of the year	**4,447,471**	5,118,024

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	**131,866**	154,174
Net reversal of impairment during the year (note 20)	**(107,758)**	(22,308)
Balance at the end of the year	**24,108**	131,866

The Group has assessed and provided for doubtful trade receivables at the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

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 has entered into contracts for the sale of residential and commercial units and plots of land on an installment basis. The installments are specified in the contracts. The Group is exposed to credit risk in respect of installments due. However, the legal ownership of residential, commercial units and plots of land is transferred to the buyer only after all the installments are recovered. In addition, installment 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 expected credit losses in respect of trade, unbilled and other receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group has calibrated the matrix to adjust the historical credit loss experience with forward-looking information.

10. Trade and other receivables (continued)

Ageing of unbilled and trade receivables that are not impaired is as follows::

	Neither past due nor impaired	Past due but not impaired				
		1 – 60 days	61 – 120 days	121 – 180 days	Above 180 days	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2018	**4,447,471**	**283,418**	**513,047**	**260,279**	**1,694,357**	**7,198,572**
31 December 2017	5,118,024	224,215	118,343	111,989	396,990	5,969,561

Ageing of impaired trade receivables is as follows:

	1 – 60 days	61 – 120 days	121 – 180 days	Above 180 days	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2018	**221**	**190**	**880**	**22,817**	**24,108**
31 December 2017	803	406	662	129,995	131,866

11. Financial investment

During the year, the Group increased its investment in Damac International Limited, a related entity whose principal activity is property development, from AED 263 million to AED 283 million (2017: from AED 185 million to AED 263 million) which represents a 20% (2017: 20%) equity interest in the related entity. The financial investment is categorised under Level 3 in the fair value hierarchy.

12. Cash and bank balances

	2018	2017
	AED'000	AED'000
Cash on hand	**1,468**	835
Cash held in escrow	**5,127,448**	5,979,509
Bank balances	**74,858**	59,551
Fixed deposits	**969,748**	1,418,435
Cash and bank balances	**6,173,522**	7,458,330
Fixed deposits with an original maturity of greater than three months	**(630,633)**	(1,417,819)
Bank overdrafts (note 14)	**-**	(163,844)
Cash and cash equivalents	**5,542,889**	5,876,667

12. Cash and bank balances (continued)

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

Balances with banks are assessed to have low credit risk of default since these assets are held with banks that are highly regulated by the central banks of the respective countries. Accordingly, the management estimates the loss allowance at the end of the reporting period at an amount equal to 12 month ECL. Taking into account the historical default experience and the current credit ratings of the banks, the management have assessed that there is no impairment, and hence have not recorded any loss allowances on these balances.

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

At the reporting date, fixed deposits and bank balances of AED 200 million (2017: AED 195 million) are held by banks under lien against credit facilities issued to the Group.

At the reporting date, an amount of AED 3,487 million (2017: AED 4,585 million) is held with Islamic banks and the remaining balance is held with conventional banks.

13. Share capital

	2018	2017
	AED'000	AED'000
Issued, subscribed and fully paid shares of AED 1 each	**6,050,000**	6,050,000

14. Bank borrowings

	2018	2017
	AED'000	AED'000
Bank facilities	**667,213**	651,577
Overdrafts (note 12)	**-**	163,844
	667,213	815,421

a) At the reporting date, an amount of AED 194 million (2017: AED 222 million) is outstanding with Islamic banks and the remaining balance with conventional banks.

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

Islamic banks and financial institutions

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

- AED 250 million Ijarah facility with a commercial bank at a rate of 3 months EIBOR plus 3.25% per annum, repayable by 2020. Out of this, AED 56 million was repaid as at 31 December 2018.

14. Bank borrowings (continued)

Conventional banks and financial institutions

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

- AED 276 million revolving term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.75% per annum, repayable in 2020.
- AED 147 million term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.75% per annum, repayable in 2021.
- AED 165 million term loan facility with a commercial bank bearing interest at 3 months LIBOR plus 3.25% per annum, repayable by 2019. Out of this, AED 124 million was repaid as at 31 December 2018.
- AED 67 million term loan with a commercial bank bearing interest at 3 months EIBOR plus 3.5% per annum, repayable by 2020. Out of this, AED 57 million was repaid as at 31 December 2018.

c) As at 31 December 2018, the Group had arranged for bank facilities amounting to AED 1,972 million (2017: AED 1,833 million) in the form of letters of credit and guarantees out of which AED 754 million (2017: AED 896 million) remained unutilised as at the reporting date.

d) The non-funded facilities are mainly secured by mortgages over certain properties owned by the Group with a market value of AED 598 million (2017: AED 614 million), corporate guarantees of the Company and pledges over bank accounts and deposits of AED 200 million (2017: AED 195 million).

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

	2018 AED'000	2017 AED'000
On demand or within one year	**237,201**	542,577
In the second and third years	**430,012**	272,844
	667,213	815,421

f) The cash flows from bank facilities represent net drawdown of borrowings in the consolidated statement of cash flows.

	1 January 2018 AED'000	Cash flows *(i)* AED'000	Other changes AED'000	31 December 2018 AED'000
Bank facilities	651,577	15,636	-	667,213

(i) The cash flows from bank facilities represent drawdowns net of repayments during the year in the consolidated statement of cash flows.

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15. Sukuk certificates

	2018 AED'000	2017 AED'000
Sukuk certificates	**4,300,440**	3,958,989
Unamortised issue costs	**(20,006)**	(21,460)
Carrying amount	**4,280,434**	3,937,529

Movement in unamortised issue costs during the year is as follows:

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	**21,460**	10,875
Incurred during the year	**11,282**	21,978
Amortised during the year	**(12,736)**	(11,393)
Unamortised issue costs at the end of the year	**20,006**	21,460

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

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

  On 20 April 2017, the Group repurchased sukuk certificates worth US$ 197.7 million (AED 727 million) at a premium. On 19 April 2018, the Group repurchased sukuk certificates worth US$ 181 million (AED 667 million) at a premium.

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

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

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15. Sukuk certificates (continued)

- On 30 September 2018, the Group redeemed US$ 125 million (AED 459 million) of sukuk certificates on maturity.
- On 18 April 2018, the Group issued US$ 400 million (AED 1,470 million) Sukuk Trust Certificates (the "Certificates") maturing in 2023. Alpha Star Holding V Limited is the Issuer and Trustee pursuant to Declaration of Trust and DRED is the Guarantor. The Certificates are listed on the Irish Stock Exchange and NASDAQ Dubai. The sukuk is structured on the basis of service agency whereby the service agent for and on behalf of the issuer enters into Ijara (leasing) and Murabaha contracts with the DRED. Holders of the Certificates from time to time (the "Certificateholders") have the right to receive certain payments arising from an undivided ownership interest in the Trust Assets and the Trustee will hold such Trust Assets upon trust absolutely for the Certificateholders pro rata according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates.and conditions of the Certificates.

  The Certificateholders are paid returns at the rate of 6.625% per annum.

The repayment profile of sukuk certificates is as follows::

	2018 AED'000	2017 AED'000
Amount due for settlement within 12 months	**993,324**	455,618
Amount due for settlement after 12 months	**3,287,110**	3,481,911
	4,280,434	3,937,529

Reconciliation of liabilities arising from financing activities

	1 January 2018 AED'000	Cash flows *(i)* AED'000	Other changes *(ii)* AED'000	31 December 2018 AED'000
Sukuk certificates	3,937,529	330,169	12,736	4,280,434

(i) The cash flows from sukuk certificates represent proceeds from the issuance of sukuk certificates net of repurchases, redemptions and issue cost payments in the statement of cash flows.

(ii) Other changes represent issue costs amortised to the consolidated statement of profit or loss and other comprehensive income during the year.

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16. Advances from customers

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

Movement during the year is as follows:

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	**3,274,496**	4,196,801
Amounts billed during the year	**5,504,120**	6,792,480
Revenue recognised during the year	**(6,070,137)**	(7,433,574)
Other operating income recognised during the year (note 19)	**(90,668)**	(281,211)
Balance at the end of the year	**2,617,811**	3,274,496

As at reporting date, the aggregate amount of transaction price allocated to unsatisfied, or partially satisfied performance obligations is AED 10,327 million (2017: AED 13,228 million). The Group will recognise this revenue as project progress is achieved, which is expected to occur over the next 1 to 4 years.

17. Trade and other payables

	2018 AED'000	2017 AED'000
Accruals	**1,036,997**	1,077,961
Retentions payable *(i)*	**944,702**	872,611
Deferred consideration payable for land	**360,000**	799,597
Other payables *(ii)*	**1,109,654**	652,982
Provision for employees' end-of-service indemnity *(iii)*	**49,720**	47,562
	3,501,073	3,450,713

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

(ii) Reconciliation of liabilities arising from financing activities

	1 January 2018 *(a)* AED'000	Cash flows *(b)* AED'000	Other changes *(c)* AED'000	31 December 2018 *(a)* AED'000
Other liabilities	45,788	(312,825)	325,618	58,581

(a) Balance at the beginning and the end of the year represent provision for finance costs that are included under other payables.
(b) The cash flows represent finance costs paid during the year in the statement of cash flows.
(c) Other changes represent finance costs charged to the consolidated statement of profit or loss and other comprehensive income during the year.

17. Trade and other payables (continued)

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

	2018 AED'000	2017 AED'000
Balance at the beginning of the year	**47,562**	37,623
Charge for the year	**13,921**	18,664
Payments made during the year	**(11,763)**	(8,725)
Balance at the end of the year	**49,720**	47,562

18. Related party transactions

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

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

	2018 AED'000	2017 AED'000
Entities under the control of Chairman		
Investment in Damac International Limited *(i)*	**(20,400)**	(77,651)
Support services fees *(ii)*	**4,836**	8,535

(i) Investment in DAMAC International Limited

During the year, the Group increased its investment in Damac International Limited by AED 20 million (2017: AED 78 million), a related entity under the control of the Chairman (note 11).

(ii) Support services fees

During the year, the Group received AED 4.8 million (2017: AED 8.5 million) towards support services rendered to Damac International Limited and DICO Investments Co. LLC, both related entities under the control of the Chairman (note 21).

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18. Related party transactions (continued)

Remuneration of key management personnel

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

	2018 AED'000	2017 AED'000
Salaries and other short-term employee benefits	**11,647**	13,479
Other long term benefits	**496**	651
	12,143	14,130

19. Other operating income

	2018 AED'000	2017 AED'000
Income from cancellation of units (note 16)	**90,668**	281,211
Penalties from overdue customers	**3,983**	8,830
Unit registration and transfer fees	**4**	542
	94,655	290,583

20. General, administrative and selling expenses

	2018 AED'000	2017 AED'000
Staff costs	**480,265**	470,886
Selling and marketing expenses	**271,951**	370,108
Repairs and maintenance	**56,046**	41,806
Rent and license fees	**43,743**	48,641
Legal and professional	**50,557**	36,803
Travel and communication	**35,016**	29,846
Bank charges	**16,706**	26,852
Insurance	**17,079**	13,140
Tax expense	**7,910**	12,696
Reversal of impairment on trade receivables (note 10)	**(107,758)**	(22,308)
Other	**26,925**	35,028
	898,440	1,063,498

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21. Other income

	2018 AED'000	2017 AED'000
Property management fees	**57,853**	25,648
Support services fees (note 18)	**4,836**	8,535
Gain on disposal of a subsidiary	**2,936**	3,469
Other	**14,570**	18,658
	80,195	56,310

22. Finance income

	2018 AED'000	2017 AED'000
Islamic banks and financial institutions	**89,515**	72,024
Conventional banks and financial institutions	**72,778**	69,148
	162,293	141,172

23. Finance costs

	2018 AED'000	2017 AED'000
Islamic banks and financial institutions	**279,190**	214,621
Conventional banks and financial institutions	**46,428**	58,035
	325,618	272,656

24. Contingent liabilities

	2018 AED'000	2017 AED'000
Bank guarantees	**1,218,555**	937,251

The Group has contingent liabilities in respect of bank guarantees issued in the normal course of business from which it is anticipated that no material liabilities will arise as at 31 December 2018.

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25. Commitments

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

	2018 AED'000	2017 AED'000
Contracted for	**4,585,581**	5,407,712

Operating lease commitments – Group as a lessee

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

	2018 AED'000	2017 AED'000
Within one year	**45,039**	8,055
After one year but no more than five years	**64,672**	34,635
More than five years	**196,137**	204,997
Total	**305,848**	247,687

Operating lease commitments – Group as a lessor

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

26. Financial instruments

(a) Significant accounting policies

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

(b) Categories of financial instruments

	2018 AED'000	2017 AED'000
Financial assets		
At amortised cost	14,440,017	14,478,266
Financial investments	283,073	262,673
	14,723,090	14,740,939
Financial liabilities		
At amortised cost	8,399,000	8,156,101

26. Financial instruments (continued)

(c) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Differences can therefore arise between book value under historical cost method and fair value estimates.

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values. The entire portfolio of financial investments (note 11) is classified as Level 3.

27. Financial risk management

Management reviews overall financial risk covering specific areas, such as market risk, credit risk, liquidity risk and investing excess cash.

The Group does not hold or issue derivative financial instruments.

The Group's profile with respect to exposure to financial risks identified below continues to be consistent.

(a) 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 and interest rate risk, which will affect the Group's income or the value of its holdings of financial instruments. Financial instruments affected by market risk include interest-bearing loans and borrowings, deposits and financial assets at fair value through other comprehensive income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group does not hold or issue derivative financial instruments.

(b) Interest rate risk management

The Group is exposed to interest rate risk as the Group deposits/borrows funds at floating interest rates. The Group's exposure to interest rates on financial assets and liabilities are detailed in the liquidity risk management section of this note.

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27. Financial risk management (continued)

(b) Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for non-derivative financial instruments at the reporting date. The analysis is prepared assuming the amount of assets/liabilities outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2018 would decrease/increase by AED 6.8 million (2017: AED 5.8 million). This is mainly attributable to the Group's exposure to variable rate financial instruments.

(c) Foreign currency risk management

Foreign currency transactions and balances of the Group are denominated in US Dollar or currencies pegged to the US Dollar (AED, Saudi Riyal, Bahraini Dinar, Qatari Riyal, Iraqi Dinar, Jordanian Dinar and Lebanese Pound). As a result foreign currency transactions and balances do not represent significant currency risk to the Group.

(d) Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Ongoing credit evaluation is performed on the financial condition of trade receivables.

The carrying amount of financial assets, excluding financial investments, recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

(e) Liquidity risk management

The ultimate responsibility for liquidity risk management rests with the management. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

27. Financial risk management (continued)

(e) Liquidity risk management (continued)

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below are the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table consists only of principal cash flows:

	Weighted average effective interest rate %	Less than 1 year AED'000	1 – 2 years AED'000	3 – 5 years AED'000	Total AED'000
31 December 2018:					
Non-interest bearing	-	3,376,353	75,000	-	**3,451,353**
Fixed interest rate instruments	6.08	994,520	-	3,305,920	**4,300,440**
Variable interest rate instruments	6.38	237,201	381,007	49,005	**667,213**
		4,608,074	456,007	3,354,925	**8,419,006**
31 December 2017:					
Non-interest bearing	-	3,043,151	360,000	-	**3,403,151**
Fixed interest rate instruments	5.64	-	1,662,114	1,837,500	**3,499,614**
Variable interest rate instruments	4.82	1,001,952	50,605	222,239	**1,274,796**
		4,045,103	2,072,719	2,059,739	**8,177,561**

The following table details the Group's expected maturity for its non-derivative financial assets. The table below has been drawn up based on the undiscounted contractual maturities of the financial assets except where the Group anticipates that the cash flow will occur in a different period:

	Weighted average effective interest rate %	Less than 1 year AED'000	1 – 2 years AED'000	3 – 5 years AED'000	Total AED'000
31 December 2018:					
Non-interest bearing	-	12,415,002	-	-	**12,415,002**
Variable interest rate instruments	2.67	2,025,015	-	-	**2,025,015**
		14,440,017	-	-	**14,440,017**
31 December 2017:					
Non-interest bearing	-	12,035,074	-	-	**12,035,074**
Variable interest rate instruments	2.19	2,443,192	-	-	**2,443,192**
		14,478,266	-	-	**14,478,266**

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28. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 14 and 15, cash and cash equivalents and equity attributable to owners of the Group, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

29. Earnings per share

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

	2018	2017
Profit for the year (AED'000)	**1,151,894**	2,759,777
Weighted average number of ordinary shares ('000)	**6,050,000**	6,050,000
Earnings per ordinary share – Basic and diluted (AED)	**0.19**	0.46

30. Dividend

On 22 April 2018 the Company held its annual general meeting which, among other things, approved a cash dividend equal to AED 0.15 per share amounting to AED 907.5 million. The dividend was paid on 15 May 2018.

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

31. Approval of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 was approved by the Board of Directors and authorised for issue on 27 March 2019.

DAMAC PROPERTIES DUBAI CO PJSC

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