

DEYAAR DEVELOPMENT PJSC

**CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION (UNAUDITED)**

**FOR THE NINE MONTH PERIOD
ENDED 30 SEPTEMBER 2018**

Deyaar Development PJSC

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (Unaudited)

For the nine month period ended 30 September 2018

Content	Pages
Independent auditors' report on review of interim financial information	1 – 2
Condensed consolidated statement of financial position	3
Condensed consolidated statement of profit or loss	4
Condensed consolidated statement of profit or loss and other comprehensive income	5
Condensed consolidated statement of changes in equity	6
Condensed consolidated statement of cash flows	7
Notes to the condensed consolidated interim financial information	8 – 24



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Independent Auditors' Report on Review of Interim Financial Information

To the Shareholders of Deyaar Development PJSC

Introduction

We have reviewed the accompanying September 30, 2018 condensed consolidated interim financial information of Deyaar Development PJSC ("the Company") and its subsidiaries (collectively referred to as "the Group") which comprises:

- the condensed consolidated statement of financial position as at September 30, 2018;
- the condensed consolidated statement of profit or loss for the three month and nine month periods ended September 30, 2018;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three month and nine month periods ended September 30, 2018;
- the condensed consolidated statement of changes in equity for the nine month period ended September 30, 2018;
- the condensed consolidated statement of cash flows for the nine month period ended September 30, 2018; and
- notes to the interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying September 30, 2018 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

Emilio Pera
Registration No: 1146
Dubai, United Arab Emirates

Date: **17 OCT 2018**

Deyaar Development PJSC

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Note	30 September 2018 AED'000 (Unaudited)	31 December 2017 * AED'000 (Audited)
ASSETS			
Non-current assets			
Property and equipment		691,831	549,687
Investment properties	6	338,029	338,019
Investments in a joint venture and an associate	13	1,303,579	1,265,038
Trade and other receivables		816	1,908
Advance for purchase of properties	9	254,009	262,068
Long term fixed deposits	7	42,481	51,187
Available-for-sale financial assets		-	19,816
Equity investment at fair value		17,654	-
		2,648,399	2,487,723
Current assets			
Properties held for development and sale	8	1,310,379	1,234,366
Inventories		2,788	2,614
Trade and other receivables		737,379	623,419
Due from related parties	10	808,673	1,817,171
Cash and bank balances	14	445,065	370,950
		3,304,284	4,048,520
Total assets		5,952,683	6,536,243
EQUITY			
Share capital		5,778,000	5,778,000
Legal reserve		277,189	277,189
Available for sale fair valuation reserve		-	481
Equity investment's fair valuation reserve		(1,681)	-
Accumulated losses		(1,615,982)	(1,056,456)
Total equity		4,437,526	4,999,214
LIABILITIES			
Non-current liabilities			
Borrowings	11	664,925	567,386
Retentions payable		46,733	45,135
Provision for employees' end of service benefits		13,861	13,436
		725,519	625,957
Current liabilities			
Borrowings	11	160,857	100,953
Trade and other payables	12	599,933	739,961
Retentions payable		6,558	33,018
Advances from customers		9,066	24,430
Due to related parties	10	13,224	12,710
		789,638	911,072
Total liabilities		1,515,157	1,537,029
Total equity and liabilities		5,952,683	6,536,243

The condensed consolidated interim financial information was approved by the Board of Directors, and authorised for issue on 17 OCT 2018 and signed on their behalf by:

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Saeed Al Qatami
Chief Executive Officer


Hani K. Fansa
Chief Financial Officer

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

The notes on pages 8 to 24 are an integral part of these condensed consolidated interim financial information. The independent auditors' report on review of the condensed consolidated interim financial information is set out on pages 1 and 2.

Deyaar Development PJSC

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine month period ended 30 September 2018

	Note	Nine month ended		Three month ended	
		30 September 2018 AED'000	30 September 2017 * AED'000	30 September 2018 AED'000	30 September 2017 * AED'000
		(Unaudited)		(Unaudited)	
Revenue		466,028	511,805	151,981	195,324
Direct / operating costs		(318,920)	(329,828)	(113,154)	(120,718)
Other operating income	9(ii)	12,485	26,349	4,559	1,637
General and administrative expenses		(113,061)	(106,576)	(40,745)	(36,830)
Provision / expense against claims	12	(10,321)	(12,932)	(173)	(10,168)
Reversal of provision for impairment against balance receivable from a related party	10(c)	31,939	-	31,939	-
Gain from fair value adjustment on investment properties		-	6,802	-	-
Finance cost		(17,555)	(12,941)	(6,583)	(4,383)
Finance income		4,363	5,655	1,778	1,537
Share of results from a joint venture and an associate	13	38,541	8,297	4,741	5,680
Write back of provision for impairment against advances for purchase of properties	9(i)	7,360	3,675	1,270	1,225
Profit for the period		100,859	100,306	35,613	33,304
Earnings per share – basic and diluted		Fils 1.75	Fils 1.74	Fils 0.62	Fils 0.58

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Deyaar Development PJSC

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine month period ended 30 September 2018

	Nine month ended		Three month ended	
	30 September 2018 AED'000	30 September 2017 AED'000	30 September 2018 AED'000	30 September 2017 AED'000
	(Unaudited)		(Unaudited)	
Profit for the period	100,859	100,306	35,613	33,304
Other comprehensive income				
<i>Items that will not be reclassified subsequently to profit or loss</i>				
Equity investment at fair value through other comprehensive income – net change in fair value	(2,162)	(4,267)	(1,915)	(1,423)
Total comprehensive income for the period	98,697	96,039	33,698	31,881

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

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Deyaar Development PJSC

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine month period ended 30 September 2018

	Share capital AED'000	Legal reserve AED'000	Available-for-sale fair valuation reserve AED'000	Equity investment's fair valuation reserve AED'000	Accumulated losses AED'000	Total equity AED'000
Balance at 1 January 2017 (audited) *	5,778,000	264,144	2,851	-	(1,172,327)	4,872,668
<i>Total comprehensive income for the period (unaudited) *</i>						
Profit for the period *	-	-	-	-	100,306	100,306
Other comprehensive income for the period *	-	-	(4,267)	-	-	(4,267)
Total comprehensive income for the period (unaudited) *	-	-	(4,267)	-	100,306	96,039
Adjustments to Board of Directors' remuneration	-	-	-	-	1,080	1,080
Balance at 30 September 2017 (unaudited) *	5,778,000	264,144	(1,416)	-	(1,070,941)	4,969,787
Balance at 1 January 2018, as previously reported	5,778,000	277,189	481	-	(1,056,456)	4,999,214
Cumulative effect on adoption of IFRS 9 – Financial Instruments (refer note 2.3)	-	-	(481)	481	(661,233)	(661,233)
Balance at 1 January 2018 (restated)	5,778,000	277,189	-	481	(1,717,689)	4,337,981
<i>Total comprehensive income for the period (unaudited)</i>						
Profit for the period	-	-	-	-	100,859	100,859
Other comprehensive income for the period	-	-	-	(2,162)	-	(2,162)
Total comprehensive income for the period (unaudited)	-	-	-	(2,162)	100,859	98,697
Adjustments to Board of Directors' remuneration (Refer Note 10 (b))	-	-	-	-	848	848
Balance at 30 September 2018 (unaudited)	5,778,000	277,189	-	(1,681)	(1,615,982)	4,437,526

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

The notes on pages 8 to 24 are an integral part of these condensed consolidated interim financial information.

Deyaar Development PJSC

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine month period ended 30 September 2018

	Note	Nine month ended	
		30 September 2018 AED'000	30 September 2017 * AED'000
(Unaudited)			
Cash flows from operating activities			
Net cash generated from / (used in) operating activities	14	73,026	(242,895)
Cash flows from investing activities			
Additions to property and equipment		(147,540)	(121,690)
Proceeds from disposal of investment in joint venture		-	118
Addition to investment properties	6	(10)	-
Net movement in term deposits with an original maturity after three months		(12,461)	114,395
Income from deposits		3,689	5,655
Net cash used in investing activities		(156,322)	(1,522)
Cash flows from financing activities			
Repayments of borrowings	11	(76,025)	(71,724)
Drawdown of borrowings	11	233,468	179,793
Finance costs paid		(16,606)	(12,120)
Net cash generated from financing activities		140,837	95,949
Net increase / (decrease) in cash and cash equivalents		57,541	(148,468)
Cash and cash equivalents, beginning of the period		265,950	507,172
Effect of adoption of IFRS 9 (refer note 2.3)		(106)	-
Cash and cash equivalents, end of the period		323,385	358,704
For the purpose of statement of cash flows, cash and cash equivalents comprise:			
Cash in hand		119	4,663
Current accounts		235,913	122,469
Fixed deposits		256,107	307,553
		492,139	434,685
Less: provision for impairment		(4,593)	-
Cash and bank balances, net		487,546	434,685
Less: deposits with the original maturity after three months		(164,161)	(75,981)
Cash and cash equivalents		323,385	358,704

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

The notes on pages 8 to 24 are an integral part of these condensed consolidated interim financial information. The independent auditors' report on review of the condensed consolidated interim financial information is set out on pages 1 and 2.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

1 Legal status and activities

Deyaar Development PJSC (“the Company”) was incorporated and registered as a Public Joint Stock Company in the Emirate of Dubai, UAE on 10 July 2007. The registered address of the Company is P. O. Box 30833, Dubai, United Arab Emirates (“UAE”). The Company is listed on Dubai Financial Market.

The principal activities of the Company and its subsidiaries (together, “the Group”) are property investment and development, brokering, facility and property management services.

This condensed consolidated interim financial information has been reviewed, not audited.

2 Basis of preparation and accounting policies

2.1 Basis of preparation

The condensed consolidated interim financial information for the nine month period ended 30 September 2018 have been prepared in accordance with IAS 34 ‘Interim financial reporting’. The condensed consolidated interim financial information should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards and the requirements of UAE Federal Law No. (2) of 2015.

2.2 Significant accounting policies

Except for the changes to accounting and classification for financial instruments resulting from the adoption of IFRS 9, the accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017. The Group has adopted IFRS 9 from 1 January 2018 and has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in accumulated losses and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

2.3 Change in significant accounting policy

IFRS 9 Financial instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The following table summarises the impact of transition to IFRS 9 on opening balances:

	Impact of adopting IFRS 9 on opening balance AED’000
Accumulated losses	
Recognition of expected credit losses under IFRS 9	<u>(661,233)</u>
Impact at 1 January 2018	<u>(661,233)</u>

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

2 Basis of preparation and accounting policies (continued)

2.3 Change in significant accounting policy (continued)

IFRS 9 Financial instruments (continued)

a) Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through other comprehensive income on initial recognition):

1. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
2. the contractual terms of the instrument give rise to cash flows on specified dates that are solely payments of principal and profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

2 Basis of preparation and accounting policies (continued)

2.3 Change in significant accounting policy (continued)

IFRS 9 Financial instruments (continued)

a) Classification and measurement of financial assets and financial liabilities (continued)

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Trade and other receivables (refer (i) below)	Loans and receivables	Amortised cost	625,327	620,129
Due from related parties (refer (i) below)	Loans and receivables	Amortised cost	1,817,171	1,165,193
Long term fixed deposits	Loans and receivables	Amortised cost	51,187	47,247
Cash and bank balances	Loans and receivables	Amortised cost	370,950	370,833
Equity security (refer (ii) below)	Available-for-sale	FVOCI – equity instrument	19,816	19,816
Convertible contingent instrument	Loans and receivables	FVTPL – equity instrument	-	-

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

2 Basis of preparation and accounting policies (continued)

2.3 Change in significant accounting policy (continued)

IFRS 9 Financial instruments (continued)

a) Classification and measurement of financial assets and financial liabilities (continued)

- (i) Trade and other receivables and due from related parties that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of AED 657.2 million in the allowance for impairment over these receivables was recognised in opening accumulated losses at 1 January 2018 on transition to IFRS 9.
- (ii) This equity security represent investments that the Group intends to hold for the long term for strategic purposes. As permitted by IFRS 9, the Group has designated this investment at the date of initial application as measured at FVOCI. Unlike IAS 39, the accumulated fair value reserve related to this investment will never be reclassified to profit or loss.

b) Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI and contract assets, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortised cost consist of trade and other receivables, contract assets, due from related parties, cash at banks, and fixed deposits.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- bank balances, long term fixed deposits and certain related parties for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

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 cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

2 Basis of preparation and accounting policies (continued)

2.3 Change in significant accounting policy (continued)

IFRS 9 Financial instruments (continued)

b) Impairment (continued)

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. 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.

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For financial assets carried at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

Impact on consolidated financial statements

Apart from changes in classification and measurement of financial assets and financial liabilities, the effect of initially applying this standard is mainly attributed to an increase in impairment losses recognised on financial assets. The details of adjustments to the opening accumulated losses and other account balances are detailed below:

	31 December 2017 AED'000 (As previously reported)	Impact of re-measurement under IFRS 9 AED'000	1 January 2018 AED'000 (Restated)
Impairment loss on:			
Trade and other receivables	(112,239)	(5,198)	(117,437)
Due from related parties	(1,345)	(651,978)	(653,323)
Long term fixed deposits	-	(3,940)	(3,940)
Cash and bank balances	-	(117)	(117)

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

3 Estimates and assumptions

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

In preparing the condensed consolidated interim financial information, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017 except for new significant judgements and key sources of estimation uncertainty related to the application of IFRS 9 which are described in note 2.3.

The Group has an established control framework with respect to the measurement of fair values, and management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period in which the change has occurred.

4 Financial risk management

The Group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual consolidated financial information, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017. The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial statements as at and for the year ended 31 December 2017.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

5 Segmental information

Operating segment

The Board of Directors are the Group's chief operating decision maker. Management has determined the operating segments based on segments identified for the purpose of allocating resources and assessing performance. The Group is organised into two major operating segments: property development and properties and facilities management.

Management monitors the operating results of its operating segments for the purpose of making strategic decisions about performance assessment. Segment performance is evaluated based on operating profit or loss.

	Property development activities AED'000	Property and facilities management AED'000	Total AED'000
Nine month period ended 30 September 2018 (unaudited)			
Segment revenues – external	398,009	68,019	466,028
Segment profit	89,850	11,009	100,859
As at 30 September 2018 (unaudited)			
Segment assets	5,715,625	237,058	5,952,683
Segment liabilities	1,308,259	206,898	1,515,157
Nine month period ended 30 September 2017 (unaudited)			
Segment revenues – external	441,393	70,412	511,805
Segment profit	81,177	19,129	100,306
As at 31 December 2017 (audited) *			
Segment assets	6,348,418	187,825	6,536,243
Segment liabilities	1,392,048	144,981	1,537,029

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

Geographic information

The carrying amount of total assets located outside the United Arab Emirates as at 30 September 2018 is AED 3.3 million (31 December 2017: AED 3.3 million).

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

6 Investment properties

	UAE Office building AED'000	UAE Parking spaces AED'000	UAE Stores units AED'000	UAE Retail units AED'000	UAE 30 September 2018 Total AED'000	31 December 2017 Total AED'000
	(Unaudited)				(Audited)	
Fair value hierarchy	3	3	3	3		
Fair value at the beginning of the reporting period	83,707	69,035	10,711	174,566	338,019	330,669
Additions	-	10	-	-	10	223
Transfer from property and equipment	-	-	-	-	-	1,316
Net gain from fair value adjustments on investment properties	-	-	-	-	-	5,811
Fair value at the end of reporting period	83,707	69,045	10,711	174,566	338,029	338,019

In 2017, the Company had reclassified additional units from its portfolio of parking spaces in various buildings from property held for sale to investment properties as a result of change in use of these parking spaces. The parking spaces were reclassified to investment properties at their fair value on the date of transfer based on a fair value assessment carried out by an external valuer resulting in a fair value gain of AED 2.4 million.

The Company had also reclassified certain retail units from property and equipment to investment properties as a result of change in use of these retail units. The additional units were reclassified to investment properties at their fair value on the date of transfer and existing retail units were fair valued at the reporting date based on a fair value assessment carried out by an external valuer resulting in a total fair value gain of AED 4.1 million.

In 2017, the Company had reclassified a commercial unit with a carrying value of AED 1.4 million in its office building to property and equipment as a result of change in use. This unit was earlier recognised in the consolidated financial statements of the Group in accordance with the fair value accounting policy adopted for the measurement of the investment property and upon reclassification, the carrying value of the unit was deemed to be its cost in accordance with the accounting policy adopted for recognition and measurement of property and equipment.

Investment properties with carrying value of AED 258.3 million (31 December 2017: AED 258.3 million) are mortgaged against bank borrowings. (Note 11)

Valuation processes

Retail units, parking spaces and store units included in the Group's investment properties are valued on a periodic basis by independent professionally qualified valuers who hold a recognised relevant professional qualification and have experience in the locations and segments of the investment properties valued. For all investment properties, their current use equates to the highest and best use. Valuation of UAE office building is valued by the Groups' finance department. The Group's finance department includes a team that also reviews the valuations performed by the independent valuers for financial reporting purposes. Discussions of valuation processes and results are held between management and the independent valuers on a regular basis.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

6 Investment properties (continued)

Valuation processes (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) are as follows:

Country	Segment	Valuation	Estimate	Range of inputs	Sensitivity of management estimates	
					Impact lower AED'000	Impact higher AED'000
UAE	Office building	Income capitalisation	Estimated rental value	AED 85 to AED 205 per sqft per annum	(905)	905
			Discount rate	11.35%	11,940	(8,953)

A change of 100 basis points in management's estimate at the reporting date would have increased / (decreased) equity and profit or loss by the amounts shown above.

Valuation techniques underlying management's estimation of fair value:

For office building, the valuation was determined using the income capitalisation method based on following significant unobservable inputs:

Estimated rental value (per sqft p.a.)	based on the actual location, type and quality of the properties and current market rents for similar properties.
Cash flow discount rate	reflecting current market assessments of the uncertainty in the amount and timing of cash flows.

For retail units, parking spaces and store units, the valuation was determined using the indicative fair values of these investment properties as at 31 December 2017 provided by an independent professionally qualified valuer. The valuer has used sales comparison method to determine the fair values of these assets. Management believes that there was no material variance in the value of Group's investment properties in the current period.

7 Long term fixed deposits

In 2014, the Company had signed a financial restructuring plan with a financial institution for settling its Wakala deposit amounting to AED 101 million. Key terms of the financial restructuring plan were as follows:

- The financial institution will pay 20% of the outstanding amount as a down payment upon signing the restructuring plan;
- 65% of the amount will be paid in monthly predetermined instalments, over a period of 12 years and will carry interest rate of 2% per annum; and
- 15% of the remaining amount will be converted into convertible contingent instruments and will be settled in cash or the financial institution's equity shares or combination of both after a period of 12 years. This will carry a profit rate of 1% payment in kind.

In 2014, upon signing the restructuring plan, and considering the key terms of the same, management had recognised an impairment charge of AED 15.3 million and present value impact of AED 6.7 million on the non-current fixed deposit. In 2015 and 2017, the Company received AED 2.3 million and AED 0.9 million respectively against convertible contingent instruments and had accordingly written back the impairment charge by these amount in the respective years.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

7 Long term fixed deposits (continued)

As at 30 September 2018, the Company has cumulatively received AED 38.1 million (*31 December 2017: AED 32.8 million*) from the financial institution towards the repayment of deposit including early repayment of some of the instalments. The balance outstanding amount has been classified as non-current in accordance with the agreement and against which a provision for impairment amounting to AED 4.2 million has been recognised in accordance with the requirements of IFRS 9.

8 Properties held for development and sale

Management's assessment of the net realisable value of the properties held for development and sale resulted in a net reversal of provision for impairment amounting to AED 0.6 million (*31 December 2017: AED 3.2 million and for nine month period ended 30 September 2017: AED 1.3 million*), which was recognized in the condensed consolidated statement of profit or loss under "direct / operating" costs.

Net realisable value has been determined on the basis of committed sale price if the remaining receivable amount is lower than the current market value of the units booked by customers. For units not yet booked by customers, net realisable value takes into consideration the expected market prices.

In 2017, the Company had reclassified additional units from its portfolio of parking spaces in various buildings from property held for sale to investment properties based on change in use and had also reclassified office units from property held for sale to property and equipment based on change in use.

Plots of land with total carrying value of AED 676 million (*31 December 2017: AED 593 million*) and Properties with total carrying value of AED 176 million (*31 December 2017: AED Nil*) are mortgaged under Islamic finance obligations (Note 11).

During the current period, a related party receivable balance has been settled partially through a plot of land. Also refer note 10(c). The Group has recorded the plot of land at the fair value.

In the current period, the Company has recognised an amount of AED 290.6 million (*for nine month period ended 30 September 2017: AED 305.8 million*) in condensed consolidated statement of profit or loss under "directs / operating costs" against revenue recognised of AED 377.9 million (*for nine month period ended 30 September 2017: AED 413.2 million*).

For lands held for future development and use amounting to AED 768.6 million as at the reporting date (*31 December 2017: AED 685.8 million*), management is currently evaluating the feasibility of the projects and considering alternative viable profitable options as well as various offers from potential buyers.

9 Advance for purchase of properties

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited)
Advance for purchase of share in real estate project (i)	397,049	412,468
Advance for purchase of properties (ii)	125,600	125,600
	522,649	538,068
Less: provision for impairment against advance for purchase of share in real estate project (i)	(268,640)	(276,000)
	254,009	262,068

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

9 Advance for purchase of properties (continued)

- i. In previous years, the Company had entered into a Memorandum of Understanding (MoU) for purchase of its share in a portfolio of investment properties in a real estate project. The advance is recoverable by means of transfer of the Company's share of properties in the project. In the current period, the Company has signed an agreement where the parties including the Company will jointly allocate the project's assets in proportion to the share of each party in the project. The allocation of the Company's share of properties is expected to be completed in 2018.
- ii. In 2017, the Company had signed a termination and settlement agreement with a master developer whereby the master developer will swap the plots of land designated as per the original sale and purchase agreement with other new plot(s) at a later date and pay a termination compensation and accordingly, the original purchase amount paid was classified as advance for purchase of properties and the Company recorded a net income of AED 15.9 million as other income representing the agreed compensation value.

10 Related party transactions and balances

Related parties include the significant shareholders, key management personnel, associates, joint ventures, directors and businesses which are controlled or jointly controlled, directly or indirectly, by the significant shareholders or directors or over which they exercise significant management influence.

(a) Related party transactions

During the period, the Group entered into the following significant transactions with related parties:

	Nine month period ended 30 September 2018 AED'000 (Unaudited)	Nine month period ended 30 September 2017 AED'000 (Unaudited)
A significant shareholder		
Other operating income/finance income	1,465	2,740
Finance cost	13,952	8,884

(b) Remuneration of key management personnel

	Nine month period ended 30 September 2018 AED'000 (Unaudited)	Nine month period ended 30 September 2017 AED'000 (Unaudited)
Salaries and other short term employee benefits	9,824	9,117
Termination and post-employment benefits	281	301
	10,105	9,418

During the current period, the Board of Directors' remuneration amounting to AED 1.8 million was paid (31 December 2017: provision of AED 2.6 million) after reversal of AED 0.8 million (during the nine month period ended 30 September 2017: AED 1.1 million) based on the final approval of the shareholders in the Annual General Meeting dated 14 March 2018.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

10 Related party transactions and balances (continued)

(c) Due from related parties

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited) *
Due from a joint venture	5,044	16,098
Due from other related parties	1,200,126	1,802,418
	1,205,170	1,818,516
Less: provision for impairment	(396,497)	(1,345)
	808,673	1,817,171

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

Cash and bank balances include fixed deposits of AED 115 million (31 December 2017: AED 150 million) deposited with a significant shareholder of the company (a bank), at market prevailing profit rates.

In 2010, the Group entered into a sale and purchase agreement with a related party (“the purchaser”) to sell properties for a sale consideration agreed on by both parties as per the initial agreement of AED 3,647.5 million.

Following various amendments to the original agreement and partial settlement of the balance, the outstanding amount from the related party as at 30 September 2018 is AED 1,198.7 million (31 December 2017: AED 1,801 million) against which a provision for impairment amounting to AED 395.1 million exists. In the current period, provision for an amount of AED 651.9 million was recognised as an adjustment to equity as per transition requirements of IFRS 9. Subsequently, on partial settlement of receivable balance during the current period, an amount of AED 224.9 million was written off against the provision for impairment and further, a reversal of provision for impairment based on updated estimates in expected credit loss model amounting to AED 31.9 million has been recognised in the Group’s consolidated interim financial information. To determine the provision for impairment, management has applied certain key assumptions and judgments in accordance with IFRS 9 – Financial Instruments in order to determine the expected credit loss which includes the use of various forward-looking information that could impact the timing and/or amount of recoveries.

The Group is in the process of amending the agreement with the related party to reflect the settlement during the current period.

The outstanding balance based on the last amendment effective from 31 December 2017, is to be settled by the purchaser no later than 31 December 2018.

(d) Due to related parties

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited) *
Current		
Due to a significant shareholder	925	411
Due to a joint venture partner	12,299	12,299
	13,224	12,710

At 30 September 2018, the Group had bank borrowings from a significant shareholder of AED 344.6 million (31 December 2017: AED 319.2 million), at market prevailing profit rates. Also refer Note 11.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

11 Borrowings

	30 September 2018 AED'000 (Unaudited)	31 December 2017 AED'000 (Audited) *
Islamic finance obligations		
Current	160,857	100,953
Non-current	664,925	567,386
Total borrowings	825,782	668,339

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

	Total AED'000
1 January 2017	438,679
Drawdown	325,293
Repayments	(95,633)
31 December 2017 – audited	668,339
1 January 2018	668,339
Drawdown	233,468
Repayments	(76,025)
30 September 2018 – Unaudited	825,782

The Islamic finance obligations represent Ijarah and Murabaha facilities obtained from Dubai Islamic Bank PJSC (a significant shareholder), and from other local Islamic banks. The facilities were availed to finance the properties under construction and working capital requirements. The Islamic finance obligations carry market prevailing profit rates and are repayable in monthly or quarterly instalments over a period of three to twelve years from the reporting date (*31 December 2017: three to twelve years*).

The Islamic finance obligations are secured by mortgages over properties classified under property held for development and sale (Note 8), property and equipment and investment properties (Note 6). Further, certain facilities with banks are subject to financial covenants.

Also refer Note 10.

12 Trade and other payables

Trade and other payables include provision relating to claims made by third parties and customers against the Company. The provisions are based on management's best estimate after considering the potential cash flows in respect of the claim on a case to case basis.

13 Investment in a joint venture and an associate

In the current period, the management has written back provision for impairment against investment in a joint venture amounting to AED 26.7 million based on their assessment of the recoverable amount of the Group's investment in the joint venture.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

14 Cash flows from operating activities

	Nine month ended 30 September	
	2018 AED'000 (Unaudited)	2017 AED'000 (Unaudited) *
Profit for the period	100,859	100,306
Adjustment for		
Depreciation	4,673	4,695
Provision for employees' end of service benefits	1,911	1,943
Reversal of provision for impairment of properties held for development and sale	(660)	(1,265)
Reversal / (provision) for doubtful debts	(26,531)	2,000
Provision for claims	4,497	11,721
Write back of provision for impairment against advance for purchase of properties	(7,360)	(3,675)
Gain on fair valuation of investment properties	-	(6,802)
Compensation from the master developer	-	(9,401)
Finance income	(4,363)	(5,655)
Finance costs	17,555	12,941
Share of results from a joint venture and an associate	(38,541)	(8,297)
Operating cash flows before payment of employees' end of service benefits and changes in working capital	52,040	98,511
Payment of employees' end of service benefits	(1,486)	(1,152)
Changes in working capital:		
Properties held for development and sale (net of project cost accruals)	(299)	41,558
Trade and other receivables – non current	16,511	(127,748)
Trade and other receivables – current	(130,105)	(197,106)
Inventories	(174)	(159)
Retentions payable – non current	1,598	6,754
Retentions payable – current	(26,460)	28,984
Advances from customers – non current	-	(54,052)
Advances from customers – current	(15,364)	10,167
Trade and other payables	14,247	(49,401)
Due from related parties	162,004	-
Due to related parties	514	749
Net cash from / (used in) operating activities	73,026	(242,895)

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

Bank accounts include balance of AED 141 million (31 December 2017: AED 30 million) and fixed deposits of AED 5 million (31 December 2017: AED 95 million) at market prevailing profit rates held in escrow accounts relating to advance collected from customers which are available for payments relating to construction of development properties.

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

15 Commitments

At 30 September 2018, the Group had total commitments of AED 319.5 million (31 December 2017: AED 604.5 million) with respect to project related contracts issued as of the end of period / year net of invoices received and accruals made at that date. The Group also had commitments with respect to purchase of land of AED 170.4 million (31 December 2017: AED 170.4 million) (Refer note 10(c) and note 16).

16 Contingent liabilities

At 30 September 2018, the Group had contingent liabilities in respect of performance bond and guarantees issued by a bank, in the ordinary course of business, amounting to AED 135.7 million (31 December 2017: AED 130.4 million). Also, the Group had contingent liabilities, on behalf of a subsidiary, in respect of guarantees issued by a bank amounting to AED 3.4 million (2017: AED 3.4 million). The Group anticipates that no material liabilities will arise from these performance and other guarantees.

The Company is also a party to certain legal cases in respect of certain plots of land and party to various potential claims from customers and, where necessary, makes adequate provisions against any potential claims. Such provisions are reassessed regularly to include significant claims and instances of potential litigations. Based on review of opinion provided by the legal advisors / internal legal team, management is of the opinion that no material cash outflow in respect of these claims is expected to be paid by the Company in these legal cases over and above the existing provision in the books of accounts. The Company has elected not to present the complete disclosures as required by IAS 37 "Provision and Contingent Liabilities and Contingent Assets" as management is of the view that since the legal claims are sub-judice and are disputed, therefore this information may be prejudicial to their position on these matters. Also refer note 15.

Certain other contingent liabilities may arise during the normal course of business, which based on the information presently available, either cannot be quantified at this stage or in the opinion of the management is without any merit. However, in the opinion of management, these contingent liabilities are not likely to result in any significant cash outflows for the Group.

17 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

30 September 2018 (unaudited)	Amortised cost AED'000	Equity instrument at fair value AED'000	Total AED'000
Assets as per statement of financial position			
Equity instrument at fair value	-	17,654	17,654
Trade and other receivables excluding prepayments and advances	628,795	-	628,795
Due from related parties	808,673	-	808,673
Long term fixed deposits	42,481	-	42,481
Bank balances	444,949	-	444,949
	1,924,898	17,654	1,942,552

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

17 Financial instruments by category (continued)

	Amortised cost		
30 September 2018 (unaudited)	AED'000		
Liabilities as per statement of financial position			
Trade and other payables			599,933
Retentions payable			53,291
Borrowings			825,782
Due to related parties			13,224
			1,492,230
	Loans and receivables	Available- for- sale financial assets	Total
31 December 2017 (audited) *	AED'000	AED'000	AED'000
Assets as per statement of financial position			
Available-for-sale financial assets	-	19,816	19,816
Trade and other receivables	467,872	-	467,872
Due from related parties	1,817,171	-	1,817,171
Long term fixed deposits	51,187	-	51,187
Bank balances	367,333	-	367,333
	2,703,563	19,816	2,723,379

	Amortised cost	
31 December 2017 (audited) *	AED'000	
Liabilities as per statement of financial position		
Trade and other payables		739,961
Retentions payable		78,153
Borrowings		668,339
Due to related parties		12,710
		1,499,163

* The Group has applied IFRS 9 – Financial Instruments effective from 1 January 2018, under the transition method elected, comparative information is not restated. Also refer note 2.3.

The following table presents the Group's financial assets that are measured at fair value, by valuation method:

	Level 1 AED'000	Total AED'000
As at 30 September 2018 (unaudited)		
Equity instrument at fair value	17,654	17,654
As at 31 December 2017 (audited)		
Available-for-sale financial assets	19,816	19,816

Deyaar Development PJSC

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2018

17 Financial instruments by category (continued)

As at 30 September 2018, the Group does not have any investment in or other exposure to Abraaj Group (*31 December 2017: Nil*).

The carrying value less impairment provision of trade receivables is assumed to be approximate their fair values keeping in view the period over which these are expected to be realised. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. Other receivables and payables approximate their fair values.