

**Emaar Properties PJSC and its  
Subsidiaries**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2012**

**Emaar Properties PJSC and its Subsidiaries**

**Consolidated Financial Statements  
For the year ended 31 December 2012**

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## DIRECTORS' REPORT

The Board of Directors of Emaar Properties PJSC (the "Company") and its Subsidiaries (the "Group") has pleasure in submitting the consolidated statement of financial position of the Group as at 31 December 2012 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended 31 December 2012.

### *Principal activities*

The principal activities of the Group during the year ended 31 December 2012 were property investment and development, shopping malls and retail, hospitality, property management and utility services, and investment in providers of financial services.

### *Financial results*

The Group has recorded a net profit attributable to the owners of the parent of AED 2,119 million for the year ended 31 December 2012 (2011: AED 1,794 million).

In accordance with the Articles of Association of the Company and UAE Federal Commercial Companies Law No. 8 of 1984, as amended, an appropriation of AED 212 million is made to a general reserve from the distributable profit of AED 2,119 million.

The transfer to statutory reserve has been suspended as the reserve has reached 50% of the paid up share capital.

The Board of Directors of the Company has proposed a cash dividend of 10%, which is subject to the approval of the shareholders at the forthcoming Annual General Meeting of the Company.

The balance of the distributable profit of AED 1,298 million after considering appropriation to general reserve and proposed dividend (subject to approval of the shareholders at the Annual General Meeting) will be transferred to retained earnings.

Total shareholders' funds as at 31 December 2012 amount to AED 32,534 million (2011: AED 31,308 million) prior to proposed dividend.

### *Outlook for 2013*

In 2012, Dubai restated its credentials as a global business and tourism hub and the Group capitalised on the city's resurgence by launching prime real estate assets and the announcement of the largest joint venture in the Region's real estate sector for the development of the Mohammed Bin Rashid City.

The Group will continue to build on the current strong performance of its recurring revenue business segments (Shopping malls, retail, hospitality and leisure) by developing several key projects such as the Dubai Modern Art Museum and Opera House District in Downtown Dubai, the one million square feet expansion to the Dubai Mall, new properties in our Address hotels portfolio and Emaar Square in both Turkey and Uptown Cairo, Egypt.

The Group's focus on adding value for its stakeholders and creating self-sustaining business entities that contribute to the recurring revenue streams will remain constant.

## **DIRECTORS' REPORT (continued)**

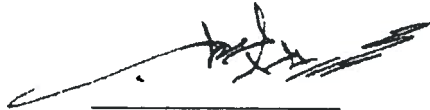
### *Directors*

H.E. Mohamed Ali Alabbar	(Chairman)
Mr. Hussain Ahmad Al Qemzi	(Vice Chairman)
Mr. Ahmed Jamal Jawa	(Director)
Mr. Fadhel Abdulbaqi Alali	(Director)
Mr. Jamal Majed Theniyah	(Director)
Mr. Ahmad Thani Al Matrooshi	(Director)
Mr. Marwan Abedin	(Director)
Mr. Abdulla Saeed Al Ghobash	(Director)
Mr. Arif Obeid Aldehail	(Director)
Mr. Abdulrahman Hareb Al Hareb	(Director)
Mr. Abdulla Saeed Belyoahah	(Director)

### *Auditors*

Ernst and Young were appointed as external auditors of the Group for the year ended 31 December 2012. The Board of Directors has recommended Ernst and Young as the auditors for 2013 for approval by the shareholders at the forthcoming Annual General Meeting.

On behalf of the Board



**Mohamed Ali Alabbar**  
**Chairman**  
Dubai, United Arab Emirates  
25 February 2013

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
EMAAR PROPERTIES PJSC AND ITS SUBSIDIARIES****Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of **Emaar Properties PJSC** (the "Company") and its **Subsidiaries** (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Cont'd...

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF  
EMAAR PROPERTIES PJSC AND ITS SUBSIDIARIES (continued)**

***Emphasis of Matter***

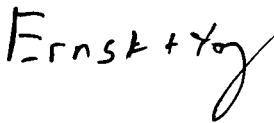
We draw attention to notes 14 (iv) and (v) to the consolidated financial statements regarding the Group's investment in Amlak Finance PJSC. Our opinion is not qualified in respect of this matter.

***Other Matter***

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by another auditor who expressed an unmodified opinion on those statements on 19 March 2012.

**Report on Other Legal and Regulatory Requirements**

Also, in our opinion, the consolidated financial statements include in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of Emaar Properties PJSC; proper books of account have been kept by Emaar Properties PJSC, an inventory was duly carried out and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of Emaar Properties PJSC have occurred during the year which would have had a material effect on the business of Emaar Properties PJSC or on its financial position.



Signed by  
Anthony O'Sullivan  
Partner  
Registration No. 687

Dubai, United Arab Emirates  
25 February 2013

# Emaar Properties PJSC and its Subsidiaries

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

(US\$ 1.00 = AED 3.673)

	Note	2012 AED'000	2011 AED'000
Revenue	4	8,239,928	8,112,332
Cost of revenue	4	(4,061,051)	(3,876,781)
<b>GROSS PROFIT</b>		<b>4,178,877</b>	<b>4,235,551</b>
Other operating income		182,439	173,473
Other operating expenses		(119,238)	(116,142)
Selling, general and administrative expenses	5	(1,948,253)	(1,924,680)
Finance income	6	344,140	392,336
Finance costs		(705,115)	(562,255)
Other income		274,912	160,249
Share of results of associates and joint ventures	14	(96,601)	(231,266)
Impairment of assets	11, 14(vi)	-	(173,516)
<b>PROFIT BEFORE TAX</b>		<b>2,111,161</b>	<b>1,953,750</b>
Income tax expense	7	(4,237)	(35,809)
<b>PROFIT FOR THE YEAR</b>		<b>2,106,924</b>	<b>1,917,941</b>
<b>ATTRIBUTABLE TO:</b>			
Owners of the parent		2,119,124	1,793,535
Non-controlling interests		(12,200)	124,406
		<b>2,106,924</b>	<b>1,917,941</b>
Earnings per share attributable to the owners of the parent:			
- basic and diluted earnings per share (AED)	27	0.35	0.29

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

Emaar Properties PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

		<i>(US\$ 1.00 = AED 3.673)</i>	
		<u>2012</u>	<u>2011</u>
		<i>AED'000</i>	<i>AED'000</i>
	<i>Note</i>		
Profit for the year		2,106,924	1,917,941
<b>Other comprehensive income:</b>			
Decrease in hedging reserve	26	(73,476)	(498)
Increase in unrealised gains/(losses) reserve		97,009	181,450
Realised gain/(loss) on fair value movement through other comprehensive income		34,489	(409,921)
Decrease in foreign currency translation reserve		(362,484)	(607,157)
<b>Other comprehensive income for the year</b>		<u>(304,462)</u>	<u>(836,126)</u>
<b>Total comprehensive income for the year</b>		<u>1,802,462</u>	<u>1,081,815</u>
<b>Attributable to:</b>			
Owners of the parent		1,834,829	986,724
Non-controlling interests		(32,367)	95,091
		<u>1,802,462</u>	<u>1,081,815</u>

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

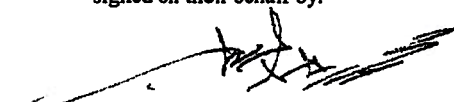



**Emaar Properties PJSC and its Subsidiaries**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
As at 31 December 2012

(US\$ 1.00 = AED 3.673)

	Note	2012 AED'000	2011 AED'000
<b>ASSETS</b>			
Bank balances and cash	8	3,710,561	2,865,272
Trade receivables	9	958,608	776,485
Other assets, receivables, deposits and prepayments	10	2,600,569	2,757,996
Development properties	11	26,998,226	26,611,285
Investments in securities	12	1,264,924	896,895
Loans to associates and joint ventures	13	3,104,026	3,116,627
Investments in associates and joint ventures	14	6,428,367	6,684,476
Property, plant and equipment	15	8,209,114	8,300,420
Investment properties	16	7,830,730	7,998,584
Goodwill	17	46,066	46,066
<b>TOTAL ASSETS</b>		<b>61,151,191</b>	<b>60,054,106</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Trade and other payables	18	8,277,985	8,313,847
Advances from customers	19	7,631,764	8,145,142
Retentions payable	20	698,744	814,917
Interest-bearing loans and borrowings	21	6,212,555	7,528,718
Convertible notes - liability component	22	1,785,947	1,771,584
Sukuk	23	3,647,597	1,820,509
Provision for employees' end-of-service benefits	24	77,269	70,482
<b>TOTAL LIABILITIES</b>		<b>28,331,861</b>	<b>28,465,199</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the parent</b>			
Share capital	25	6,091,239	6,091,239
Employees' performance share program		(1,684)	(1,684)
Reserves	26	14,599,863	14,706,735
Convertible notes - equity component	22	37,155	37,155
Retained earnings		11,807,367	10,474,790
		<b>32,533,940</b>	<b>31,308,235</b>
<b>Non-controlling interests</b>		<b>285,390</b>	<b>280,672</b>
<b>TOTAL EQUITY</b>		<b>32,819,330</b>	<b>31,588,907</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>61,151,191</b>	<b>60,054,106</b>

The consolidated financial statements were authorised for issue on 25 February 2013 by the Board of Directors and signed on their behalf by:

  
.....  
Chairman

  
.....  
Director

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

## Emaar Properties PJSC and its Subsidiaries

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

(US\$ 1.00 = AED 3.673)

	Attributable to the owners of the parent					
	Share capital AED '000	Employees' performance share program AED '000	Reserves AED '000	Convertible notes - equity component AED '000	Retained earnings AED '000	Total equity AED '000
Balance at 1 January 2012	6,091,239	(1,684)	14,706,735	37,155	10,474,790	31,308,235
Profit/(loss) for the year	-	-	-	-	2,119,124	2,119,124
Other comprehensive income for the year	-	-	(318,784)	-	34,489	(284,295)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>(318,784)</b>	<b>-</b>	<b>2,153,613</b>	<b>1,834,829</b>
Transfer to reserves (Note 26)	-	-	211,912	-	(211,912)	-
Dividend (Note 30)	-	-	-	-	(609,124)	(609,124)
Movement in non-controlling interests (net)	-	-	-	-	37,085	37,085
<b>Balance at 31 December 2012</b>	<b>6,091,239</b>	<b>(1,684)</b>	<b>14,599,863</b>	<b>37,155</b>	<b>11,807,367</b>	<b>32,533,940</b>
					<b>285,390</b>	<b>32,819,330</b>

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

Emaar Properties PJSC and its Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2012

(US\$ 1.00 = AED 3.673)

	Attributable to the owners of the parent							
	Share capital AED '000	Employees' performance share program AED '000	Reserves AED '000	Convertible notes - equity component AED '000	Retained earnings AED '000	Total AED '000	Non-controlling interests AED '000	Total equity AED '000
Balance at 1 January 2011 (Audited)	6,091,239	(1,684)	14,924,271	37,155	10,017,943	31,068,924	231,107	31,300,031
Correction of a prior period error*	-	-	-	-	(138,289)	(138,289)	-	(138,289)
Balance at 1 January 2011 (Restated)	6,091,239	(1,684)	14,924,271	37,155	9,879,654	30,930,635	231,107	31,161,742
Profit for the year	-	-	-	-	1,793,535	1,793,535	124,406	1,917,941
Other comprehensive income for the year	-	-	(396,890)	-	(409,921)	(806,811)	(29,315)	(836,126)
Total comprehensive income for the year	-	-	(396,890)	-	1,383,614	986,724	95,091	1,081,815
Transfer to reserves (Note 26)	-	-	179,354	-	(179,354)	-	-	-
Dividend (Note 30)	-	-	-	-	(609,124)	(609,124)	-	(609,124)
Movement in non-controlling interests (net)	-	-	-	-	-	-	(45,526)	(45,526)
Balance at 31 December 2011	6,091,239	(1,684)	14,706,735	37,155	10,474,790	31,308,235	280,672	31,588,907

\*IFRIC 15 *Agreements for the Construction of Real Estate* was issued in July 2008 and became effective on 1 January 2009. The Group had reviewed the impact of IFRIC 15 on revenue recognition in each of the jurisdictions in which it operates and using the guidelines of the Interpretation, the Group had determined the appropriate accounting policy for revenue recognition for each jurisdiction. Accordingly, in 2009, the Group had restated the Retained Earnings as at 1 January 2009 as required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for the effect of adoption of IFRIC 15 on all revenue recognised prior to 1 January 2009. During 2011, the management identified certain errors in the computation of the restated amounts with an impact of AED 138 million on the prior years retained earnings. In order to correct this error, the Group adjusted its opening retained earnings as at 1 January 2011 and corresponding adjustments were made to Development Properties and Advances from Customers as disclosed in Notes 11 and 19 to the consolidated financial statements, respectively.

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

# Emaar Properties PJSC and its Subsidiaries

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

(US\$ 1.00 = AED 3.673)

	Note	2012 AED'000	2011 AED'000
<b>Cash flows from operating activities</b>			
Profit before tax		2,111,161	1,953,750
Adjustments for:			
Share of results of associates and joint ventures	14	96,601	231,266
Depreciation	5	767,217	762,479
Provision for employees' end-of-service benefits, net	24	6,787	11,982
Loss/(gain) on disposal of property, plant and equipment		10,043	(1,272)
Finance cost		705,115	562,255
Finance income	6	(344,140)	(392,336)
Impairment of assets/provision for doubtful debts/write off		23,422	264,193
Cash from operations before working capital changes:		<u>3,376,206</u>	<u>3,392,317</u>
Trade receivables	9	(189,210)	70,388
Other assets, receivables, deposits and prepayments	10	164,171	172,494
Development properties, net	11	(407,011)	(41,088)
Advances from customers, net	19	(513,378)	(1,806,474)
Trade and other payables	18	(188,141)	(681,295)
Retentions payable	20	(116,173)	(333,987)
Income tax, net	7	8,450	(13,679)
<b>Net cash from operating activities</b>		<u>2,134,914</u>	<u>758,676</u>
<b>Cash flows from investing activities</b>			
Purchase of securities	12	(296,152)	(450,233)
Proceeds from disposal of securities	12	65,709	26,438
Finance income received		111,727	279,669
Dividend received from associates and joint ventures		86,218	51,304
Additional investments in and loans to associates and joint ventures, net	13, 14	11,523	(1,133,393)
Amounts incurred on investment properties	16	(14,266)	(17,984)
Purchase of property, plant and equipment	15	(504,049)	(407,931)
Proceeds from sale of property, plant and equipment		2,393	50,864
Deposits maturing after three months (including deposits under lien)	8	426,895	1,482,496
<b>Net cash used in investing activities</b>		<u>(110,002)</u>	<u>(118,770)</u>
<b>Cash flows from financing activities</b>			
Dividend paid	30	(593,626)	(588,302)
Proceeds from interest-bearing loans and borrowings	21	5,967,144	883,877
Repayment of interest-bearing loans and borrowings	21	(7,283,307)	(2,765,271)
Proceeds from issuance of sukuk	23	1,836,500	1,836,500
Funds invested by non-controlling interests, net		37,085	(45,526)
Finance cost paid		(662,732)	(613,874)
<b>Net cash used in financing activities</b>		<u>(698,936)</u>	<u>(1,292,596)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		<u>1,325,976</u>	<u>(652,690)</u>
Net foreign exchange difference		(53,792)	(41,243)
Cash and cash equivalents at the beginning of the year	8	1,079,559	1,773,492
<b>Cash and cash equivalents at the end of the year</b>	8	<u>2,351,743</u>	<u>1,079,559</u>

The accompanying notes 1 to 34 form an integral part of these consolidated financial statements.

### 1 DOMICILE AND ACTIVITIES

Emaar Properties Public Joint Stock Company (the “Company” or the “Parent”) was established as a public joint stock company by Ministerial Decree number 66 in the year 1997. The Company was established on 23 June 1997 and commenced operations on 29 July 1997. The Company and its subsidiaries constitute the Group (the “Group”). The Company’s registered office is at P.O. Box 9440, Dubai, United Arab Emirates (“UAE”). The shares of the Company are traded on the Dubai Financial Market.

The principal activities of the Group are property investment and development, shopping malls and retail, hospitality, property management and utility services and investments in providers of financial services.

### 2.1 BASIS OF PREPARATION

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

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

The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments and financial assets at fair value through other comprehensive income that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

#### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial policies of an entity so as to obtain benefits from its activities.

#### *Subsidiaries*

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

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

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

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

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 2.1 BASIS OF PREPARATION (continued)

##### Basis of consolidation (continued)

Details of the Company's significant subsidiaries as at 31 December 2012 are as follows:

Subsidiary	Place of incorporation	Principal activities	Percentage of beneficial interest
Emaar Malls Group LLC	UAE	Retail development, management of shopping centre, and leisure and entertainment activities	100.00%
Emaar Hospitality Group LLC	UAE	Providing hospitality services	100.00%
Emaar Properties Gayrimenkul Gelistirme Anonim Sirketi	Republic of Turkey ("Turkey")	Property investment and development	100.00%
Emaar Libadiye Gayrimenkul Gelistirme A.S.	Republic of Turkey ("Turkey")	Property investment and development, development of retail, shopping malls and hospitality assets.	100.00%
Emaar Misr for Development SAE	Arab Republic of Egypt ("Egypt")	Property investment and development	100.00%
Hamptons International Dubai LLC	UAE	Property management services	100.00%
Manarat Al Manzil	Kingdom of Saudi Arabia ("KSA")	Property investment and development	92.20%
Emaar Middle East LLC	Kingdom of Saudi Arabia ("KSA")	Property investment and development	61.00%
Emaar IGO S.A.	Syrian Arab Republic ("Syria")	Property investment and development	60.00%

##### *Associated companies and joint ventures*

Associated companies are companies in which the Group has significant influence, but not control, over the financial and operating policies. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

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

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

##### *Special purpose entities*

Special purpose entities are entities that are created to accomplish a narrow and well-defined objectives. The financial information of special purpose entities is included in the Group's consolidated financial statements where the substance of the relationship is that the Group controls the special purpose entity and hence, they are accounted for as subsidiaries.

## 2.2 CHANGES IN THE ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted by the Group are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

### New and revised Accounting Standards and Interpretations

**(a) Standards, amendments and interpretations effective from 1 January 2012 which are adopted by the Group:**

*IAS 12 - Deferred Tax: Recovery of Underlying Assets (Amendment)*

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date of this amendment is for annual periods beginning on or after 1 January 2012.

The Group does not have any investment properties at fair value and assets under IAS 16 valued under the revaluation model. While the amendment is applicable, it has no impact on the consolidated financial statement of the Group.

**(b) Standards, amendments and interpretations effective in 2012 but not relevant to the Group's operations:**

*IFRS 1 - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)*

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.

*IFRS 7 - Disclosures - Transfers of financial assets (Amendment)*

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

At 31 December 2012

**2.2 CHANGES IN THE ACCOUNTING POLICIES AND DISCLOSURES (continued)****(c) Standards, amendments and interpretations in issue but not yet effective:**

The Group has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

	<b>Effective for annual periods beginning on or after</b>
• Amendments to IAS 1 <i>Presentation of financial statements</i> - Presentation of Items of Other Comprehensive Income.	1 July 2012
• Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
• Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014
• Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> : These amendments require first-time adopters to apply the requirements of IAS 20 <i>Accounting for Government Grants and Disclosure for Government Assistance</i> , prospectively to government loans at the date of transition to IFRS.	1 January 2013
• Amendments to IFRS 7 <i>Financial Instruments - Disclosures</i> : enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
• IFRS 10 <i>Consolidated Financial Statements</i> * uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 <i>Separate Financial Statements</i> *, IAS 28 <i>Investments in Associates</i> and IAS 31 <i>Joint Ventures</i> * have been amended for the issuance of IFRS 10.	1 January 2015
• IFRS 11 <i>Joint Arrangements</i> * establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 <i>Investments in Associates</i> and IAS 31 <i>Joint Ventures</i> * have been amended for the issuance of IFRS 11.	1 January 2013
• IFRS 12 <i>Disclosure of Interests in Other Entities</i> * combines the disclosure requirements for an entity’s interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard.	1 January 2013
• IFRS 13 <i>Fair Value Measurement</i> issued in May 2012 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.	1 January 2013
• IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	1 January 2013



At 31 December 2012

## 2.2 CHANGES IN THE ACCOUNTING POLICIES AND DISCLOSURES (continued)

### (c) Standards, amendments and interpretations in issue but not yet effective (continued):

- \* In May 2012, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2012) and IAS 28 (as revised in 2012). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management is in the process of assessing the impact of the standards, amendments and interpretations in issue but not yet effective. However, management anticipates that the adoption of these standards, amendments and interpretations in future years will not have a material impact on the consolidated financial statements of the Group in the period of initial application.

### (d) Improvements to IFRS:

#### *Issued in May 2012*

These improvements will not have an impact on the Group, but include:

#### *IFRS 1 First-time adoption of International Financial Reporting Standards*

This improvement clarifies that an entity that stopped applying the IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

#### *IAS 1 Presentation of Financial Statements*

This improvement clarifies the differences between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

#### *IAS 16 Property Plant and Equipment*

This improvement clarifies that the major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

#### *IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributors to equity holders are accounted for in accordance with IAS 12 Income Taxes.

#### *IAS 34 Interim Financial Reporting*

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

## 2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES AND ASSUMPTIONS

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

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

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

**2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES AND ASSUMPTIONS  
(continued)**

**Judgments**

*Revenue recognition for real estate units*

In making their judgment, the management considered the detailed criteria for the recognition of revenue from the sale of real estate units as set out in IAS 18 *Revenue*, IFRIC 15 *Agreements for the Construction of Real Estate* and, in particular, whether the Group had transferred to the buyer the significant risks and rewards of ownership of the real estate units.

*Revenue recognition for leases*

Lease income from operating leases is recognised in the consolidated income statement in accordance with the terms of the lease contracts with the tenants over the lease term on a systematic basis as management is of the opinion that this method is more representative of the time pattern in which benefits are derived from the leased asset.

*Revenue recognition for turnover rent*

The Group recognises income from turnover rent on the basis of audited turnover reports submitted by the tenants. In the absence of audited reports, management makes its own assessment about the tenants achieving or exceeding the stipulated turnover in the lease contracts based on their historical performance.

*Investment properties*

The Group has elected to adopt the cost model for investment properties. Accordingly, investment properties are carried at cost less accumulated depreciation and any accumulated impairment losses.

*Classification of investment properties*

The Group determines whether a property qualifies as investment property in accordance with IAS 40 *Investment Property*. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by the Group. The Group has determined that hotels and serviced apartment buildings owned by the Group are to be classified as part of property, plant and equipment rather than investment properties since the Group also operates these assets.

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

The Group sells real estate assets in its ordinary course of business. When the real estate assets which were previously classified as property, plant and equipment are identified for sale in the ordinary course of business, then the assets are transferred to development properties at their carrying value at the date of identification and become held for sale. Sale proceeds from such assets are recognised as revenue in accordance with IAS 18 *Revenue*.

*Operating lease commitments - Group as lessor*

The Group has entered into commercial and retail property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and so accounts for the contracts as operating leases.

*Classification of investments*

Management designates at the time of acquisition of securities whether these should be classified as at fair value or amortised cost. In judging whether investments in securities are classified as at fair value or amortised cost, management has considered the detailed criteria for determination of such classification as set out in IFRS 9 *Financial Instruments*.

**Estimations and assumptions**

*Valuation of investment properties*

The Group hires the services of third party professionally qualified valuers to obtain estimates of the market value of investment properties using recognised valuation techniques for the purposes of their impairment review and disclosures in the consolidated financial statements.

**2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES AND ASSUMPTIONS  
(continued)**

**Estimations and assumptions (continued)**

*Impairment of trade and other receivables*

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

*Useful lives of property, plant and equipment and investment properties*

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

*Cost to complete the projects*

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

*Taxes*

The Group is subject to income and capital gains taxes in certain jurisdictions. Significant judgment is required to determine the total provision for current and deferred taxes. The Group established provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provision is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretations may arise on a wide variety of issues depending on the conditions prevailing in the respective domicile of the Group companies.

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

*Impairment of non-financial assets*

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

**2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Revenue recognition**

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

Revenue is recognised in the consolidated income statement to the extent that it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably. The specific criteria described below must also be met before revenue is recognised.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (continued)

#### *Sale of property*

The Group recognises revenue when it is probable that the economic benefits from the sale will flow to the Group, the revenue and costs can be measured reliably and the risks and rewards of ownership of the property have been transferred to the buyer, which is normally on unconditional exchange of contracts. For conditional exchanges, sales are recognised only when all the significant conditions are satisfied.

In jurisdictions where the Group transfers risks and rewards of ownership of the property in its entirety at a single point of time, revenue and the associated costs are recognised at that point of time. Although this trigger is determined by reference to the sales contract and the relevant local laws, and so may differ from transaction to transaction, in general the Group determines the point of recognition to be the time at which the buyer is entitled to take possession of the property.

In jurisdictions where the Group transfers to the buyer the control and the significant risks and rewards of ownership of the work-in-progress in its current state as the work progresses, the revenues and related costs of development are recognised on a progressive basis using the percentage of completion method.

#### *Lease to buy scheme*

Sales under the lease to buy scheme are accounted for as follows:

- Rental income during the period of lease is accounted for on a straight-line basis until such time the lessee exercises its option to purchase;
- When the lessee exercises its option to purchase, a sale is recognised in accordance with the revenue recognition policy for sale of property as stated above; and
- When recognising the sale, revenue is the amount payable by the lessee at the time of exercising the option to acquire the property.

#### *Rental income from lease of investment property*

Rental income from investment properties is recognised, net of discount, in accordance with the terms of the lease contracts over the lease term on a systematic basis, as this method is more representative of the time pattern in which use of benefit are derived from the leased assets.

#### *Hospitality revenue*

Revenue from hotel accommodation, food and beverages and other related services are recognised, net of discount and municipality fees, at the point at which the services are rendered.

#### *Interest income*

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

#### *Services*

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

### Borrowing costs

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

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

### Income tax

Taxation is provided in accordance with the relevant fiscal regulations of the countries in which the Group operates.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted as at the reporting date, and any adjustments to the tax payable in respect of prior years.

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

**Income tax (continued)**

Income tax relating to items recognised directly in other comprehensive income or equity is recognised directly in other comprehensive income or equity and not in the consolidated income statement.

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted as at the reporting date.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or liability is settled, based on tax rates that have been enacted at the reporting date.

**Property, plant and equipment**

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

Leasehold improvements	2 - 15 years
Sales centers (included in land and buildings)	1 - 5 years
Buildings	10 - 45 years
Computers and office equipment	2 - 5 years
Plant, machinery and heavy equipment	3 - 20 years
Motor vehicles	3 - 5 years
Furniture and fixtures	2 - 10 years
Leisure, entertainment and other assets	2 - 25 years

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

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

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

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

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

**Investment properties**

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the estimated useful lives as follows:

Buildings	10 - 45 years
Furniture and fixtures	4 - 10 years

No depreciation is charged on land.

The useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from these assets.

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

The Group determines at each reporting date whether there is any objective evidence that the investment properties are impaired. Whenever the carrying amount of an investment property exceeds their recoverable amount, an impairment loss is recognised in the consolidated income statement. The recoverable amount is the higher of investment property's net selling price and the value in use. The net selling price is the amount obtainable from the sale of an investment property in an arm's length transaction less related costs while value in use is the present value of estimated future cash flows expected to arise from the continuing use of the investment property and from its disposal at the end of its useful life.

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

**Development properties**

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

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

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

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

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

**Inventories**

Inventories represent consumables and other goods relating to hospitality and retail business segments of the Group. Inventories are stated at the lower of cost and net realisable value with due allowance for any obsolete or slow moving items.

Costs are those expenses incurred in bringing each product to its present location and condition on a weighted average cost basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investment in associates

The Group's investments in its associate, an entity in which the Group has significant influence, is accounted for using the equity method. Investments in associated companies are accounted from the date the significant influence commences until the date that significant influence ceases.

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

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

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

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

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any differences between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated income statement.

### Interest in joint ventures

The Group has interests in joint ventures, which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. The arrangement requires unanimous agreement for financial and operating decisions among the venturers. The Group recognises its interest in the joint ventures using the equity method until the date on which the Group ceases to have joint control over the joint venture. The interest in the joint venture is carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Group's share of net assets of the joint venture, less any impairment in value. Goodwill relating to a joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made, where necessary, to bring the accounting policies in line with those of the Group.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Derivative financial instruments**

The Group enters into derivative financial instruments to manage its exposure to interest rate risk and foreign exchange rate risk, including foreign exchange forward contracts. Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting date. The resulting gain or loss is recognised in the consolidated income statement immediately, unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated income statement depends on the nature of the hedge relationship. The Group designates derivatives as hedges of interest rate risk and foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability.

### *Hedge accounting*

The Group designates certain hedging instruments as either fair value hedges or cash flow hedges. Hedges of interest rate risk and foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

### *Fair value hedges*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated income statement immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the consolidated statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidated income statement from that date.

### *Cash flow hedges*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the consolidated statement of comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are reclassified to the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement, in the same line of the consolidated statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated income statement.

### **Financial assets**

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



## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Financial assets (continued)**

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

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

### *Classification of financial assets*

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

### *Equity investments*

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

### *Debt instruments*

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

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

### *Cash and cash equivalents*

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

### *Trade receivables*

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

### *Foreign exchange gains and losses*

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial assets (continued)

#### *Derecognition of financial assets*

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

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

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

#### *Impairment of financial assets*

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

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

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

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual agreements. Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivative instrument as appropriate. The Group determines the classification of its financial liabilities at the initial recognition.

#### *Trade and other payables*

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

#### *Loans and borrowings*

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

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

#### *Sukuk*

The sukuk are stated at amortised cost using the effective interest rate method. Profit attributable to the sukuk is calculated by applying the prevailing market profit rate, at the time of issue, for similar sukuk instruments and any difference with the profit distributed is added to the carrying amount of the sukuk.

#### *Convertible notes*

Convertible notes are convertible into share capital, at the option of the holder, are accounted for as compound financial instruments. The net proceeds received from the issue of convertible notes are separated into liability and equity components based on the terms of the contract at the date of issue. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible notes. The difference between the proceeds of issue of the convertible notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the group, is included in equity and is not remeasured. The liability component is carried at amortised cost using the effective interest method until extinguishment upon conversion or at the instrument's maturity date.

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

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

*Convertible notes (continued)*

Issue costs are apportioned between the liability and equity components of the convertible notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate, at the time of issue, for similar non-convertible notes to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes.

*Other financial liabilities*

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

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

*Derecognition of financial liabilities*

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

*Offsetting of financial instruments*

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

**Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

*Group as a lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement in accordance with the terms of the lease contracts over the lease term based on a systematic basis as this method is more representative of the time pattern in which use of benefit are derived from the leased assets.

*Group as a lessor*

The Group has entered into leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases. Lease income is recognised in the consolidated income statement in accordance with the terms of the lease contracts over the lease term on a systematic basis as this method is more representative of the time pattern in which use of benefit are derived from the leased assets.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### **Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at fair value on the date of acquisition. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through the consolidated income statement. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39: *Financial Instruments: Recognition and Measurement* in the consolidated statement of comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the fair value of net identifiable tangible and intangible assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill is tested for impairment annually as at the reporting date and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in the consolidated income statement. Impairment losses relating to goodwill cannot be reversed in future periods.

### **End-of-service benefits**

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

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

### **Provisions**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Provisions (continued)

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

### Share based payment transactions

Employees (including senior executives) of the Group also receive remuneration in the form of share based payment transactions, whereby employees render services as consideration for equity instruments ("equity settled transactions"). The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which the awards are granted. The cost of equity settled transactions with employees is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled ending on the date on which the employees become fully entitled to the award ("vesting date"). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Under the Company's policy, awards, which represent the right to purchase the Company's ordinary shares at par, are allocated to eligible employees (including executive directors) of the Company.

### Foreign currency translations

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

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

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

### Contingencies

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

### Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

The fair value of forward foreign exchange contracts is calculated by reference to current forward exchange rates with the same maturity.

Fair value of interest rate swap contract is determined by reference to market value for similar instruments.

At 31 December 2012

**3 SEGMENT INFORMATION**

Management monitors the operating results of its business segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

**Business segments**

For management purposes, the Group is organised into three major segments, namely, real estate (develop and sell condominiums, villas, commercial units and plots of land), leasing and related activities (develop, lease and manage malls, retail, commercial and residential spaces) and hospitality (develop, own and/or manage hotels, serviced apartments and leisure activities). Other segments include businesses that individually do not meet the criteria for a reportable segment as per IFRS 8 *Operating Segments*. These businesses are property management and utility services and investments in providers of financial services.

Revenue from sources other than property sales, leasing and related activities and hospitality are included in other operating income.

**Geographic segments**

The Group is currently developing a number of international business opportunities outside the UAE that will have a significant impact in future years.

The domestic segment includes business activities and operations in the UAE and the international segment includes business activities and operations outside the UAE.

*Business segments*

The following tables include revenue, profit/(loss), and certain assets and liabilities information regarding business segments for the years ended 31 December 2012 and 2011.

	<i>Real estate</i> <i>AED'000</i>	<i>Leasing and related activities</i> <i>AED'000</i>	<i>Hospitality</i> <i>AED'000</i>	<i>Others</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
<b>2012:</b>					
<b>Revenue</b>					
Revenue from external customers	4,144,150	2,718,650	1,377,128	-	8,239,928
<b>Results</b>					
Contribution for the year	798,756	1,461,631	239,274	70,099	2,569,761
Unallocated selling, general and administrative expenses					(344,183)
Unallocated finance cost, net					(114,417)
Profit for the year before tax					2,111,161
<b>Assets and liabilities</b>					
Segment assets	43,786,272	10,395,480	4,678,379	2,291,060	61,151,191
Segment liabilities	22,334,643	5,229,330	674,736	93,152	28,331,861
<b>Other segment information</b>					
Capital expenditure (property, plant and equipment and investment properties)	77,943	349,877	65,831	24,664	518,315
Depreciation (property, plant and equipment and investment properties)	127,420	413,141	201,797	24,859	767,217

# Emaar Properties PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

### 3 SEGMENT INFORMATION (continued)

*Business segments (continued)*

2011:

	<i>Real estate AED'000</i>	<i>Leasing and related activities AED'000</i>	<i>Hospitality AED'000</i>	<i>Others AED'000</i>	<i>Total AED'000</i>
<b>Revenue</b>					
Revenue from external customers	4,750,766	2,137,128	1,224,438	-	8,112,332
<b>Results</b>					
Contribution for the year	1,366,699	956,795	135,458	(194,910)	2,264,042
Unallocated selling, general and administrative expenses					(291,782)
Unallocated finance cost, net					(18,510)
<b>Profit for the year before tax</b>					<b>1,953,750</b>
<b>Assets and liabilities</b>					
Segment assets	42,848,971	9,652,621	4,864,222	2,688,292	60,054,106
Segment liabilities	25,645,601	2,249,630	511,973	57,995	28,465,199
<b>Other segment information</b>					
Capital expenditure (property, plant and equipment and investment properties)	72,982	104,827	244,463	3,643	425,915
Depreciation (property, plant and equipment and investment properties)	123,706	416,200	192,450	30,123	762,479

#### Geographic segments

The following tables include revenue and certain asset and liability information regarding geographic segments for the years ended 31 December 2012 and 2011.

	<i>Domestic AED'000</i>	<i>International AED'000</i>	<i>Total AED'000</i>
<b>2012:</b>			
<b>Revenue</b>			
Revenue from external customers	6,765,492	1,474,436	8,239,928
<b>Assets</b>			
Segment assets	34,903,905	19,818,919	54,722,824
Investments in associates and joint ventures	1,560,879	4,867,488	6,428,367
<b>Total assets</b>	<b>36,464,784</b>	<b>24,686,407</b>	<b>61,151,191</b>
<b>Other Segment Information</b>			
Capital expenditure (property, plant and equipment and investment properties)	480,808	37,507	518,315



**Emaar Properties PJSC and its Subsidiaries**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

At 31 December 2012

**3 SEGMENT INFORMATION (continued)**

**Geographic segments (continued)**

	<i>Domestic AED'000</i>	<i>International AED'000</i>	<i>Total AED'000</i>
<i>2011:</i>			
Revenue			
Revenue from external customers	6,684,128	1,428,204	8,112,332
Assets			
Segment assets	34,690,788	18,678,842	53,369,630
Investments in associates and joint ventures	1,572,459	5,112,017	6,684,476
Total assets	36,263,247	23,790,859	60,054,106
<b>Other Segment Information</b>			
Capital expenditure (property, plant and equipment and investment properties)	225,041	200,874	425,915

**4 REVENUE AND COST OF REVENUE**

	<i>2012 AED'000</i>	<i>2011 AED'000</i>
<b>Revenue</b>		
<b>Revenue from property sales</b>		
Sale of condominiums	2,524,841	1,112,640
Sale of villas	937,111	958,738
Sale of commercial units, plots of land and others	682,198	2,679,388
<b>Revenue from hospitality</b>	1,377,128	1,224,438
<b>Rental income from leased properties and related income</b>	2,718,650	2,137,128
	<u>8,239,928</u>	<u>8,112,332</u>
<b>Cost of revenue</b>		
<b>Cost of revenue from property sales</b>		
Cost of condominiums	1,713,520	771,522
Cost of villas	669,340	653,141
Cost of commercial units, plots of land and others	350,345	1,195,643
<b>Operating cost of hospitality</b>	795,164	734,043
<b>Operating cost of leased properties</b>	532,682	522,432
	<u>4,061,051</u>	<u>3,876,781</u>

Cost of revenue includes AED 171,234 thousands (2011: AED Nil) of costs incurred on certain projects in Dubai, which are discontinued. Revised development plans have been prepared for these projects in view of changed market conditions.

Emaar Properties PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

**5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Payroll and related expenses	363,613	352,316
Sales and marketing expenses	314,563	195,501
Depreciation of property, plant and equipment (Note 15)	450,123	442,592
Depreciation of investment properties (Note 16)	317,094	319,887
Property management expenses	219,205	236,950
Land registration fees	15,807	37,641
Provision for doubtful debts/write off, net	23,422	90,677
Pre-operating expenses	1,481	15,572
Other expenses	242,945	233,544
	<u>1,948,253</u>	<u>1,924,680</u>

**6 FINANCE INCOME**

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Finance income on fixed deposits with banks	66,488	109,064
Other finance income	277,652	283,272
	<u>344,140</u>	<u>392,336</u>

**7 INCOME TAX**

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
<b>Consolidated income statement</b>		
Current income tax (expense)/ credit	(18,501)	4,157
Deferred income tax, net	14,264	(39,966)
	<u>(4,237)</u>	<u>(35,809)</u>
<b>Consolidated statement of financial position</b>		
Income tax payable, balance at the beginning of the year	3,545	17,224
Charge for the year	18,501	8,343
Reversal during the year	-	(12,500)
Paid during the year	(10,051)	(9,522)
	<u>11,995</u>	<u>3,545</u>
Income tax payable, balance at the end of the year (Note 18)	<u>11,995</u>	<u>3,545</u>

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 7 INCOME TAX (continued)

The tax expense relates to the tax payable on the profit earned by the subsidiaries, as adjusted in accordance with the taxation laws and regulations of the countries in which the subsidiaries operate. The relationship between the tax expense and the accounting profit can be explained as follows:

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Profit from continuing operations	2,111,161	1,953,750
Profit not subject to tax, net	<b>(1,898,085)</b>	<b>(1,808,433)</b>
Accounting profit subject to income tax, net	<u>213,076</u>	<u>145,317</u>
Current income tax expense	<u><b>(18,501)</b></u>	<u><b>(8,343)</b></u>
UAE applicable tax rate	<u>0.00%</u>	<u>0.00%</u>
Effective tax rate as percentage of accounting profit	<u><b>8.68%</b></u>	<u><b>5.74%</b></u>

The income tax charge arises primarily from the Group's operations in the United States of America, Turkey, Morocco, India, Pakistan, Lebanon, Oman, KSA, the United Kingdom, Syria and Italy.

#### 8 BANK BALANCES AND CASH

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Cash in hand	7,727	7,907
Current and call bank deposit accounts	1,135,802	650,793
Fixed deposits maturing within three months	1,208,214	420,859
Cash and cash equivalents	<u>2,351,743</u>	<u>1,079,559</u>
Deposits under lien (Note 21)	76,408	400,750
Fixed deposits maturing after three months	1,282,410	1,384,963
	<u><b>3,710,561</b></u>	<u><b>2,865,272</b></u>
	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
<b>Bank balances and cash located:</b>		
Within UAE	3,362,535	2,412,828
Outside UAE	348,026	452,444
	<u><b>3,710,561</b></u>	<u><b>2,865,272</b></u>

At 31 December 2012

**8 BANK BALANCES AND CASH (continued)**

Bank balances and cash are denominated in the following currencies:

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
United Arab Emirates Dirham (AED)	3,362,535	2,412,828
United States Dollar (USD)	97,515	170,397
Saudi Riyal (SAR)	97,189	124,251
Egyptian Pound (EGP)	47,908	72,066
Syrian Pound (SYP)	31,239	20,453
Moroccan Dirham (MAD)	35,231	20,855
Other currencies	38,944	44,422
	<u>3,710,561</u>	<u>2,865,272</u>

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

Fixed deposits maturing after three months earn interest at rates between 1.4% and 2.4% per annum (2011: 1.2% and 3.6% per annum).

Bank balances maintained in the UAE includes an amount of AED 96,102 thousands (2011: AED 122,000 thousands) committed for investments in the Syrian project and are in line with the Central Bank of Syria regulations.

The Company is required to maintain certain deposits/balances amounting to AED 674,093 thousands (2011: AED 699,796 thousands) with banks in UAE for financing facilities obtained by the Group, unclaimed dividends and advances received from customers against sale of development properties which are deposited into escrow accounts. These deposits/balances are not under lien.

**9 TRADE RECEIVABLES**

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Amounts receivable within 12 months, net	735,964	572,615
Amounts receivable after 12 months, net	222,644	203,870
	<u>958,608</u>	<u>776,485</u>

Trade receivables include AED 191,519 thousands (2011: AED 138,021 thousands) relating to sale of properties where the amounts are payable in installments and these installments are accrued but not yet due under agreed credit terms.

The above trade receivables are net of AED 122,392 thousands (2011: AED 127,073 thousands) relating to provision for doubtful debts representing management's best estimate of doubtful trade receivables which are past due for more than 90 days. All other receivables are considered recoverable.

Emaar Properties PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

**9 TRADE RECEIVABLES (continued)**

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

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Balance at the beginning of the year	127,073	84,814
Provision made during the year, net	7,087	55,149
Allowance written off during the year	<b>(11,768)</b>	<b>(12,890)</b>
Balance at the end of the year	<b>122,392</b>	<b>127,073</b>

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

	<i>Neither Past due nor Impaired AED'000</i>	<i>Past due but not impaired</i>				
		<i>Less than 30 days AED'000</i>	<i>Between 30 to 60 days AED'000</i>	<i>Between 60 to 90 days AED'000</i>	<i>More than 90 days AED'000</i>	
<b>2012</b>	<b>958,608</b>	<b>382,718</b>	<b>183,152</b>	<b>112,943</b>	<b>102,783</b>	<b>177,012</b>
<b>2011</b>	<b>776,485</b>	<b>327,268</b>	<b>96,014</b>	<b>96,249</b>	<b>44,025</b>	<b>212,929</b>

Refer to Note 32 on credit risks of trade and other receivables, which discusses how the Group manages and measures credit quality of trade receivables that are neither past due nor impaired.

**10 OTHER ASSETS, RECEIVABLES, DEPOSITS AND PREPAYMENTS**

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Advances for acquisition of leasehold interest	1,234,612	1,234,612
Advances to contractors and others	406,321	504,761
Value added tax recoverable	312,196	250,043
Receivables from Communities Owner Associations	93,026	173,294
Prepayments	108,987	165,924
Inventory - Hospitality and Retail business segments	90,698	80,721
Deposits for acquisition of land	64,074	65,164
Recoverable from non-controlling interests	26,247	34,796
Deferred income tax assets	38,388	39,981
Accrued interest and other income receivables	7,778	11,821
Other receivables and deposits	218,242	196,879
	<b>2,600,569</b>	<b>2,757,996</b>

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 10 OTHER ASSETS, RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

	2012 AED'000	2011 AED'000
Amounts recoverable within 12 months	1,305,816	1,454,564
Amounts recoverable after 12 months	1,294,753	1,303,432
	<u>2,600,569</u>	<u>2,757,996</u>

#### 11 DEVELOPMENT PROPERTIES

	2012 AED'000	2011 AED'000
Balance at the beginning of the year	26,611,285	26,492,486
Add: cost incurred during the year	3,140,216	2,661,394
Add: acquisition of a subsidiary	-	197,530
Less: transferred to investment properties (Note 16)	(25,318)	(119,568)
Less: cost transferred to cost of revenue during the year	(2,733,205)	(2,620,306)
Less: correction of a prior period error	-	(76,067)
Add: cost transferred from property, plant and equipment, net (Note 15)	5,248	76,974
Less: impairment of development properties (refer note below)	-	(1,158)
Balance at the end of the year	<u>26,998,226</u>	<u>26,611,285</u>
<i>Development properties located:</i>		
Within UAE	13,843,544	14,297,537
Outside UAE	13,154,682	12,313,748
	<u>26,998,226</u>	<u>26,611,285</u>

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

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

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

Management of the Group assess its development properties for impairment on a periodic basis and based on such assessment the Group had provided an impairment loss of AED 1,158 thousands for certain International development properties during 2011.

The valuation of most of the Group's development properties is carried out by independent professionally qualified valuers in accordance with RICS appraisals and valuation standards. Accordingly, the fair value of the development properties as at the reporting date is in excess of AED 41,597,625 thousands (2011: AED 35,391,680 thousands).

# Emaar Properties PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

### 11 DEVELOPMENT PROPERTIES (continued)

For the purpose of comparison of fair value to the carrying value of development properties, which comprise the cost incurred to date for the projects under construction and unsold inventory, the realised value from sale of the properties under construction is added to the above stated fair value in the cases where valuation is carried out using discounted cash flow method (which depicts the residual value of the Group in the development properties, net of amount collected from sales and the cost incurred to date) .

The fair value of the development properties, including the realised value from sale of properties under construction of AED 1,583,225 thousands (2011: AED 2,334,227 thousands), is in excess of AED 43,180,850 thousands (2011: AED 37,725,907 thousands) compared to the carrying value of AED 26,998,226 thousands (2011: AED 26,611,285 thousands).

During the year, an amount of AED 240,397 thousands (2011: AED 181,939 thousands) was capitalised as cost of borrowings for the construction of development properties.

### 12 INVESTMENTS IN SECURITIES

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Financial assets at fair value through other comprehensive income	540,601	449,950
Financial assets at amortised cost	724,323	446,945
	<u>1,264,924</u>	<u>896,895</u>
<i>Investments in securities located:</i>		
Within UAE	1,218,442	866,328
Outside UAE	46,482	30,567
	<u>1,264,924</u>	<u>896,895</u>

#### *Fair value hierarchy*

The Group uses the following hierarchy for determining and disclosing the fair value of financial assets at fair value through other comprehensive income by valuation technique:

	<i>Total</i> <i>AED'000</i>	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>
<b>2012</b>	<u>540,601</u>	<u>60,640</u>	<u>458,259</u>	<u>21,702</u>
2011	<u>449,950</u>	<u>48,890</u>	<u>379,358</u>	<u>21,702</u>

**Level 1:** Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Fair value measurements are those derived from inputs other than quoted prices included within 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:** Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers made between Level 1 and Level 2 during the year.

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 12 INVESTMENTS IN SECURITIES (continued)

The following table shows a reconciliation of the opening and closing amount of Level 3 financial assets which are recorded at fair value:

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Purchase/fair value at initial recognition	<b>432,227</b>	432,227
Total loss recorded in other comprehensive income	<b>(410,525)</b>	(410,525)
Balance at the end of the year	<b>21,702</b>	21,702

Financial assets at fair value through other comprehensive income include fund investments managed by an external fund manager. Equity investments are in quoted, unquoted and index linked securities.

#### 13 LOANS TO ASSOCIATES AND JOINT VENTURES

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Amlak Finance PJSC (i)	<b>242,968</b>	594,957
Emaar MGF Land Limited and its related parties (ii)	<b>2,688,985</b>	2,360,706
Golden Ace Pte Ltd (iii)	<b>163,455</b>	152,637
Other associates and joint ventures	<b>8,618</b>	8,327
	<b>3,104,026</b>	3,116,627

- (i) The amount due from Amlak Finance PJSC ("Amlak") is unsecured and earns an average return of 1.45% per annum (2011: average return ranging from 3.13% to 4% per annum).

During the year, Emaar has received full settlement of outstanding receivable amounts of AED 326,344 thousands overdue from Amlak (2011: AED 128,937 thousands) for which debit notes, carrying non-settlement charges on the outstanding amounts, had been issued. These receivables relate to Emaar's customers' under construction milestone payments for real estate projects developed by Emaar which had been mortgaged by Amlak.

The Group's management believes that the remaining loan due from Amlak is fully recoverable (also refer Note 14 (iv) and 14 (v)).

- (ii) The amount due from Emaar MGF Land Limited ("EMGF") and its related parties include an amount of AED 1,965,360 thousands which is secured against certain development properties of EMGF. The loans to EMGF and its related parties earn a compound return ranging from 7% to 15% per annum other than on Compulsory Convertible Debentures (refer Note 14 (ii)) (2011: compound return ranging from 7% to 15% per annum).
- (iii) The amount owed by Golden Ace Pte Ltd is unsecured and earns an average return ranging from 4.21% to 9.73% per annum (2011: average return ranging from 4.21% to 9.53% per annum).



# Emaar Properties PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

### 14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
<b>Carrying value of investments in:</b>		
<b>Associates:</b>		
Emaar MGF Land Limited [(i) & (ii)]	2,428,825	2,694,810
Emaar, The Economic City (Saudi Joint Stock Company) - quoted (iii)	2,191,353	2,167,581
Amlak Finance PJSC - quoted [(iv) & (v)]	723,875	723,875
Emaar Industries and Investment (Pvt) JSC	136,791	174,238
Dead Sea Company for Tourist and Real Estate Investment	135,200	137,101
Emrill Services LLC	20,800	19,751
Other associates	112,111	112,525
	<u>5,748,955</u>	<u>6,029,881</u>
<b>Joint Ventures:</b>		
Emaar Bawadi LLC	436,133	403,804
Turner International Middle East Ltd	243,279	250,791
	<u>679,412</u>	<u>654,595</u>
	<u><u>6,428,367</u></u>	<u><u>6,684,476</u></u>

- (i) On 5 April 2006, the Group entered into an option agreement (the “agreement”) with various parties (the “investors”). The agreement provided the right to the investors to require the Group to buy back the shares purchased by the investors in EMGF, in the event of an Initial Public Offering (“IPO”) of EMGF not occurring within 39 months from the date of purchase of shares of EMGF, which was subsequently extended to 31 March 2010 and 30 June 2011 under the agreements dated 29 March 2009 and 29 March 2010 respectively.

Since the IPO had not occurred at 30 June 2011, the Group paid an amount of USD 70,580 thousands (AED 259,240 thousands) during 2011, to buy back all the shares purchased by the investors in accordance with the agreements. Subsequently, the other promoter group transferred additional shares out of its shareholding in EMGF to the Group equivalent to 50% of the above amount paid by the Group based on the estimated share value of EMGF for IPO purpose.

- (ii) During the year, the Group has invested an amount of USD 49,975 thousands (AED 183,560 thousands) into 5% Compulsory Convertible Debentures (“CCD”) issued by EMGF. These CCDs can be converted into equity shares of EMGF after the expiry of six months from the date of allotment of the CCDs at the discretion of the Group. It is mandatory to convert these CCDs into equity shares on the date of issue of any draft red herring prospectus by EMGF, or on expiry of 10 years from the date of allotment if the above option of early conversion is not exercised.
- (iii) The market value of the shares held in Emaar, The Economic City (“EEC”) (quoted on the Saudi Stock Exchange - Tadawul) as at 31 December 2012 was AED 2,113,604 thousands (2011: AED 1,872,021 thousands).
- (iv) The Consortium of Depositors and Financiers of Amlak Finance PJSC (“Amlak”) have elected some of its members to a Coordinating Committee (“Committee”) in connection with certain proposals relating to the restructuring of existing facilities availed by Amlak. The Governmental Steering Committee established to look into the status of some public joint stock companies in UAE including Amlak has approved the establishment of the Committee including its composition. The Committee will seek to facilitate discussion between Amlak and its Depositors/Financiers relating to the financing arrangements of Amlak. Trading in Amlak’s shares on the Dubai Financial Market have been suspended until these discussions are finalised. The Group’s management is not in a position to assess its investment for any impairment pending the finalization of the discussions of the Committee.

At 31 December 2012

**14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)**

- (v) The auditors have issued a qualified opinion on the consolidated financial statements of Amlak as of 31 December 2011 with respect to valuation of investment properties and advances for investment properties amounting to AED 3,297 million and AED 792 million, respectively. Management of Amlak believes that property prices have generally declined since these assets were acquired but are unable to quantify the amount of decline in view of the limited number of transactions currently taking place in the market and accordingly continued to carry such assets at their acquisition cost.
- (vi) During 2011, the Government of Dubai announced that it has taken over Dubai Banking Group PJSC (Dubai Bank) with immediate effect to protect the interest of depositors, with the support of the UAE Central Bank and the UAE Ministry of Finance. The Government announcement also stated that it will make a capital injection in Dubai Bank, which will effectively fully dilute the complete holding of its existing shareholders. On the basis of the aforementioned announcement, the management of the Group impaired the entire net carrying value of the Group's investment in Dubai Bank as at 31 March 2011 of AED 172,358 thousands.

The Group has the following ownership interest in its significant associates and joint ventures:

	<i>Country of incorporation</i>	<i>Ownership</i>	
		<i>2012</i>	<i>2011</i>
<b>Associates:</b>			
Emaar MGF Land Limited	India	48.86 %	48.86 %
Emaar The Economic City (Saudi Joint Stock Company)	KSA	30.59 %	30.59 %
Amlak Finance PJSC	UAE	48.08 %	48.08 %
Emaar Industries and Investments (Pvt) JSC	UAE	40.00 %	40.00 %
Emrill Services LLC	UAE	33.33 %	33.33 %
Dead Sea Company for Tourist and Real Estate Investment	Jordan	29.33 %	29.33 %
<b>Joint Ventures:</b>			
Emaar Bawadi LLC	UAE	50.00 %	50.00 %
Turner International Middle East Ltd	UAE	50.00 %	50.00 %

The following table summarises information of the Group's investment in associates:

	<i>2012 AED'000</i>	<i>2011 AED'000</i>
Group's share in assets and liabilities of its associates:		
Total assets	16,596,928	17,035,685
Total liabilities	(12,579,577)	(12,737,408)
Net assets	4,017,351	4,298,277
Goodwill	1,731,604	1,731,604
	<b>5,748,955</b>	<b>6,029,881</b>
Share of associates' revenues and results:		
Revenues	704,734	799,867
Results	(162,878)	(288,761)

At 31 December 2012

**14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)**

The following table summarises information of the Group's investments in joint ventures:

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Group's share in assets and liabilities of its joint ventures:		
Total assets	<b>848,500</b>	852,490
Total liabilities	<b>(280,720)</b>	(309,527)
Net assets	<b>567,780</b>	542,963
Goodwill	<b>111,632</b>	111,632
	<b>679,412</b>	654,595
Share of joint ventures' revenues and results:		
Revenues	<b>74,950</b>	114,689
Results	<b>66,277</b>	57,495

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2012

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements AED '000	Land and buildings AED '000	Computers and office equipment AED '000	Plant, machinery and heavy equipment AED '000	Motor vehicles AED '000	Furniture and fixtures AED '000	Leisure, entertainment and other assets AED '000	Capital work-in- progress AED '000	Total AED '000
<b>Cost:</b>									
At 1 January 2012	371,583	5,621,265	204,284	848,583	49,912	593,146	1,017,855	1,156,818	9,863,446
Additions	13,988	22,488	29,137	9,524	10,723	33,746	28,542	355,901	504,049
Disposals/adjustments	(1,357)	-	(2,100)	(7,812)	(2,440)	(13,013)	(9,376)	-	(36,098)
Transfers	17,663	186,481	2,302	15,957	(235)	(895)	(3,278)	(217,995)	-
Transferred (to)/from development properties (Note 11)	-	(40,540)	(2,691)	(2,201)	(327)	(15,803)	-	33,197	(28,365)
Transferred to investment properties (Note 16)	-	-	-	-	-	-	(35,500)	(77,706)	(113,206)
Foreign currency translation differences	3,031	(22,144)	(1,754)	(2,542)	(1,028)	(1,880)	(2,979)	262	(29,034)
<b>At 31 December 2012</b>	<b>404,908</b>	<b>5,767,550</b>	<b>229,178</b>	<b>861,509</b>	<b>56,605</b>	<b>595,301</b>	<b>995,264</b>	<b>1,250,477</b>	<b>10,160,792</b>
<b>Accumulated depreciation:</b>									
At 1 January 2012	10,923	642,239	171,726	242,005	33,179	279,436	183,518	-	1,563,026
Depreciation charge for the year	27,825	195,127	24,296	58,773	7,731	59,035	77,336	-	450,123
Eliminated on disposals/adjustments	(1,139)	-	(1,964)	(4,144)	(1,993)	(8,949)	(5,473)	-	(23,662)
Transfers	(28)	26	(419)	(1,013)	738	696	-	-	-
Transferred to development properties (Note 11)	-	(9,918)	(2,400)	(1,890)	(327)	(8,582)	-	-	(23,117)
Transferred to investment properties (Note 16)	-	-	-	-	-	-	(3,550)	-	(3,550)
Foreign currency translation differences	246	(4,984)	(1,336)	(1,475)	(493)	(1,543)	(1,557)	-	(11,142)
<b>At 31 December 2012</b>	<b>37,827</b>	<b>822,490</b>	<b>189,903</b>	<b>292,256</b>	<b>38,835</b>	<b>320,093</b>	<b>250,274</b>	<b>-</b>	<b>1,951,678</b>
<b>Net carrying amount:</b>									
<b>At 31 December 2012</b>	<b>367,081</b>	<b>4,945,060</b>	<b>39,275</b>	<b>569,253</b>	<b>17,770</b>	<b>275,208</b>	<b>744,990</b>	<b>1,250,477</b>	<b>8,209,114</b>

The valuation of the Group's significant revenue generating property, plant and equipment is carried out by independent professionally qualified valuers. At 31 December 2012, the fair value of revenue generating property, plant and equipment is AED 7,752,700 thousands (2011: AED 7,709,080 thousands) compared with a carrying value of AED 5,442,318 thousands (2011: AED 5,768,563 thousands).

Certain property, plant and equipments are pledged as security against interest-bearing loans and borrowings as disclosed under Note 21.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

At 31 December 2012

## 15 PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements AED '000	Land and buildings AED '000	Computers and office equipment AED '000	Plant, machinery and heavy equipment AED '000	Motor vehicles AED '000	Furniture and fixtures AED '000	Leisure, entertainment and other assets AED '000	Capital work-in-progress AED '000	Total AED '000
Cost:									
At 1 January 2011	13,200	5,598,558	202,074	829,392	46,191	577,322	936,164	1,544,626	9,747,527
Additions	276	7,676	20,033	43,817	8,986	21,600	68,057	237,486	407,931
Disposals/adjustments	(308)	(20,706)	(14,962)	(44,101)	(6,173)	(19,592)	(6,622)	(193)	(112,657)
Transfers	359,317	214,075	73	14,342	1,882	18,266	20,575	(628,530)	-
Transferred (to)/from development properties (Note 11)	-	(70,364)	(1,327)	16,512	(28)	1,521	514	(40,497)	(93,669)
Transferred to investment properties (Note 16)	-	(74,510)	-	-	-	(956)	-	(1,134)	(76,600)
Acquisition of subsidiary	-	-	4	-	-	329	1,105	52,249	53,687
Foreign currency translation differences	(902)	(33,464)	(1,611)	(11,379)	(946)	(5,344)	(1,938)	(7,189)	(62,773)
At 31 December 2011	371,583	5,621,265	204,284	848,583	49,912	593,146	1,017,855	1,156,818	9,863,446
Accumulated depreciation:									
At 1 January 2011	7,243	481,895	150,158	190,403	29,430	239,720	109,388	-	1,208,237
Depreciation charge for the year	5,269	187,187	34,187	67,592	8,443	65,036	74,878	-	442,592
Eliminated on disposals/adjustments	(106)	(248)	(11,540)	(7,470)	(4,381)	(16,067)	(2,996)	-	(42,808)
Transfers	(794)	4,009	311	(2,066)	285	(4,992)	3,247	-	-
Transferred to development properties (Note 11)	-	(16,695)	-	-	-	-	-	-	(16,695)
Transferred to investment properties (Note 16)	-	(5,579)	-	-	-	(183)	-	-	(5,762)
Acquisition of subsidiary	-	-	4	-	-	126	-	-	130
Foreign currency translation differences	(689)	(8,330)	(1,394)	(6,454)	(598)	(4,204)	(999)	-	(22,668)
At 31 December 2011	10,923	642,239	171,726	242,005	33,179	279,436	183,518	-	1,563,026
Net carrying amount:									
At 31 December 2011	360,660	4,979,026	32,558	606,578	16,733	313,710	834,337	1,156,818	8,300,420

Emaar Properties PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

16 INVESTMENT PROPERTIES

	<i>Land</i> <i>AED'000</i>	<i>Buildings</i> <i>AED'000</i>	<i>Furniture and fixtures</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
<b>Cost:</b>				
At 1 January 2012	28,097	9,028,583	3,606	9,060,286
Additions	-	14,266	-	14,266
Transferred from development properties (Note 11)	-	25,318	-	25,318
Transferred from property, plant and equipment (Note 15)	-	113,206	-	113,206
<b>At 31 December 2012</b>	<b>28,097</b>	<b>9,181,373</b>	<b>3,606</b>	<b>9,213,076</b>
<b>Accumulated depreciation:</b>				
At 1 January 2012	-	1,058,096	3,606	1,061,702
Depreciation charge for the year	-	317,094	-	317,094
Transferred from property, plant and equipment (Note 15)	-	3,550	-	3,550
<b>At 31 December 2012</b>	<b>-</b>	<b>1,378,740</b>	<b>3,606</b>	<b>1,382,346</b>
<b>Net carrying amount:</b>				
<b>At 31 December 2012</b>	<b>28,097</b>	<b>7,802,633</b>	<b>-</b>	<b>7,830,730</b>
	<i>Land</i> <i>AED'000</i>	<i>Buildings</i> <i>AED'000</i>	<i>Furniture and fixtures</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
<b>Cost:</b>				
At 1 January 2011	28,097	8,814,431	3,606	8,846,134
Additions	-	17,984	-	17,984
Transferred from development properties (Note 11)	-	119,568	-	119,568
Transferred from property, plant and equipment (Note 15)	-	76,600	-	76,600
<b>At 31 December 2011</b>	<b>28,097</b>	<b>9,028,583</b>	<b>3,606</b>	<b>9,060,286</b>
<b>Accumulated depreciation:</b>				
At 1 January 2011	-	732,557	3,496	736,053
Depreciation charge for the year	-	319,777	110	319,887
Transferred from property, plant and equipment (Note 15)	-	5,762	-	5,762
<b>At 31 December 2011</b>	<b>-</b>	<b>1,058,096</b>	<b>3,606</b>	<b>1,061,702</b>
<b>Net carrying amount:</b>				
<b>At 31 December 2011</b>	<b>28,097</b>	<b>7,970,487</b>	<b>-</b>	<b>7,998,584</b>

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 16 INVESTMENT PROPERTIES (continued)

The fair value of Group's investment properties was determined by the management based on valuations performed by qualified and independent chartered surveyors and property consultants. The valuation was performed using an approved method of valuation in accordance with the RICS Valuation Standards which is the Capitalization Method. The Market Value of the Properties have been determined through analysis of the income flow achievable for the building and takes into account the projected annual expenditure. Both the contracted rent and market rental values have been considered in the valuation with allowance of void period, running costs, vacancy rates and other cost. The net income has been capitalised at an equivalent yield in the range of 8% to 10.50% to determine the value of each of the investment properties.

The fair value of investment properties is AED 16,112,050 thousands (2011: AED 14,505,306 thousands) compared with a carrying value of AED 7,830,730 thousands (2011: AED 7,998,584 thousands).

Certain investment properties pledged as security against interest bearing loans and borrowings as disclosed under Note 21.

Investment properties represent the Group's interest in land and buildings situated in the UAE and Turkey.

#### 17 GOODWILL

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Balance at the beginning and end of the year	<u>46,066</u>	<u>46,066</u>

The goodwill relates to the operations of Hamptons in the MENA region and has been tested for impairment using a value in use model. The calculation of value in use was sensitive to the following assumptions:

*Gross margins* - Gross margins were based on the expectations of management based on past experience and expectation of future market conditions.

*Discount rates* - Discount rates reflected management's estimate of the specific risks. The discount rate was based on the risk free rate of the investment's country, market risk premium related to the industry and individual unit related risk premium/ discount. This was the benchmark used by management to assess performance and to evaluate future investment proposals. Management estimated that such discount rate to be used for evaluation of the investment should be between 7% and 8%.

*Growth rate estimates* - Management prepared a five year budget based on their expectations of future results, thereafter a growth rate of 0.5% to 1% was assumed.

#### **Sensitivity to changes in assumptions**

With regard to the assessment of value in use of the Goodwill, management believes that no reasonably possible change in a key assumption would cause the carrying value of the goodwill to materially exceed its recoverable amount.

Emaar Properties PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

**18 TRADE AND OTHER PAYABLES**

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Project contract cost accruals and provisions	4,294,507	4,637,630
Payable to non-controlling interests	927,059	967,562
Trade payables	736,481	836,165
Dividends payable	112,369	96,871
Deferred income tax payable	24,006	35,527
Income tax payable (Note 7)	11,995	3,545
Other payables and accruals	2,171,568	1,736,547
	<u>8,277,985</u>	<u>8,313,847</u>

Trade and other payables are non-interest bearing and for explanations on the Group's credit risk management process, refer to Note 32.

**19 ADVANCES FROM CUSTOMERS**

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Balance at the beginning of the year	8,145,142	9,889,394
Add: amount billed during the year	6,397,935	5,153,575
Add: correction of a prior period error	-	62,222
Less: revenue recognised during the year	(6,862,800)	(6,887,894)
Less: forfeiture/other income recognised during the year	(48,513)	(72,155)
	<u>7,631,764</u>	<u>8,145,142</u>

**20 RETENTIONS PAYABLE**

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Retentions payable within 12 months	472,495	560,215
Retentions payable after 12 months	226,249	254,702
	<u>698,744</u>	<u>814,917</u>



# Emaar Properties PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

### 21 INTEREST-BEARING LOANS AND BORROWINGS

	2012 AED'000	2011 AED'000
Balance at the beginning of the year	7,528,718	9,410,112
Borrowings drawn down during the year	5,967,144	883,877
Borrowings repaid during the year	(7,283,307)	(2,765,271)
Balance at the end of the year	<u>6,212,555</u>	<u>7,528,718</u>
Maturing within 12 months	1,558,176	5,234,446
Maturing after 12 months	4,654,379	2,294,272
Balance at the end of the year	<u>6,212,555</u>	<u>7,528,718</u>
<b><i>Interest-bearing loans and borrowings located:</i></b>		
Within UAE	4,304,698	3,842,178
Outside UAE	1,907,857	3,686,540
	<u>6,212,555</u>	<u>7,528,718</u>

The Group has the following secured and unsecured interest-bearing loans and borrowings:

#### Secured

- Indian Rupees (INR) 594,500 thousands (AED 39,810 thousands) loan from financial institutions, secured by way of first charge on certain property, plant and equipment and receivables in India, carries interest at benchmark rate plus 3.33% per annum. This loan is payable in quarterly instalments and is fully repayable by 2016.
- Canadian Dollar (CAD) 5,625 thousands (AED 20,725 thousands) loan from a financial institution, secured against certain development properties owned by the Group in Canada, carries interest at prime rate plus 3.25% per annum and is repayable by 2015.
- USD 25,000 thousands (AED 91,825 thousands) loan from a commercial bank, secured against certain development properties owned by the Group in Turkey, carries interest at USD LIBOR plus 3.75% per annum and is repayable in 2014.
- USD 50,000 thousands (AED 183,650 thousands) loan from a commercial bank, secured against certain development properties owned by the Group in Turkey and a bank guarantee, carries interest at 7.60% per annum and is repayable in 2014.
- USD 134,939 thousands (AED 495,631 thousands) loan from a commercial bank, secured against certain property, plant and equipment owned by the Group in UAE, carries interest at USD LIBOR plus 1.85% per annum and is repayable by 2021.
- USD 56,920 thousands (AED 209,067 thousands) loan from a commercial bank, secured against certain property, plant and equipment owned by the Group in UAE, carries interest at USD LIBOR plus 1.55% per annum and is repayable by 2021.
- AED 3,600,000 thousands of Syndicated facility, secured against certain investment properties owned by the Group in UAE, carries interest at EIBOR plus 3.50% per annum and is fully repayable by 2019. The bank has a lien on certain cash collaterals amounting to AED 65,988 thousands (Note 8). One of the subsidiaries of the Group has given an irrevocable undertaking to deposit the proceeds of its revenue into the specific account maintained with a financing bank.

At 31 December 2012

## 21 INTEREST-BEARING LOANS AND BORROWINGS (continued)

### Secured (continued)

- Pakistani Rupee (PKR) 775,000 thousands (AED 29,263 thousands) loan from a commercial bank, secured against receivables from projects in Pakistan, carries interest at KIBOR plus 1.25% per annum and is fully repayable by 2014. The bank has a lien on certain cash collaterals amounting to AED 10,420 thousands (Note 8).

- USD 37,057 thousands (AED 136,110 thousands) loan from a commercial bank, secured against certain assets in Lebanon and carries interest at 7.5% per annum and repayable by 2014.

### Unsecured

- PKR 1,030,403 thousands (AED 38,907 thousands) loan from commercial banks, bearing interest at KIBOR plus 1.65% per annum and is repayable in 2013.

- PKR 1,038,500 thousands (AED 39,213 thousands) loan from a commercial bank, bearing interest at KIBOR plus 1.65% per annum and is repayable in 2013.

- PKR 768,993 thousands (AED 29,037 thousands) loan from a commercial bank, bearing interest at KIBOR plus 1.65% per annum and is repayable by 2013.

- PKR 2,429,573 thousands (AED 91,739 thousands) loan from a commercial bank, bearing interest at KIBOR plus 1.65% per annum and is fully repayable by 2013.

- Egyptian Pound (EGP) 1,014,361 thousands (AED 586,343 thousands) of funding facilities from commercial banks, carries interest at rates of 11% to 13% per annum and repayable by 2014.

- USD 159,136 thousands (AED 584,505 thousands) of funding facility from commercial banks in Egypt, carries interest at 3% to 7% per annum and is repayable by 2015.

- USD 10,000 thousands (AED 36,730 thousands) of funding facility from commercial banks in Turkey, carries interest at 6% per annum and is repayable by 2014.

## 22 CONVERTIBLE NOTES

The Company has issued guaranteed convertible notes ("the Notes") in 2010 for USD 500,000 thousands (AED 1,836,500 thousands) through its wholly-owned subsidiary Pyrus Limited (Pyrus), a British Virgin Island incorporated company. The Notes were approved by the Company's shareholders at an Extraordinary General Meeting held on 8 November 2010. The Notes mature on 20 December 2015 and have a fixed interest rate of 7.5% per annum, to be paid quarterly. The Notes were admitted on the official list of the Luxembourg Stock Exchange (LSE) and admitted to trade on the Euro MTF market of the LSE on 20 December 2010.

The Notes issued are unconditionally and irrevocably guaranteed by the Company (the Guarantor). Each Note entitles the holder an option to convert such Note into new and/or existing shares between the period from 30 January 2011 till 25 November 2015 (final maturity date for conversion) as fully paid at a conversion price of AED 4.46 per share of the Company. Unless previously purchased and cancelled, redeemed or converted, the Notes will be redeemed at their principal amount on the final maturity date.

The Notes are hybrid financial instrument and the option to convert is an embedded derivative. The carrying value of the Notes on initial recognition is based on the net proceeds of issuance of the Notes reduced by the fair value of the embedded derivatives and is subsequently carried at amortised cost.

The embedded derivatives are separated from the carrying value of the Notes as their risks and characteristics are not closely related to those of the Notes and the Notes are not carried at fair value. The embedded derivatives and the Notes are presented under a separate line item in the consolidated statement of financial position.

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 22 CONVERTIBLE NOTES (continued)

The Notes are presented in the consolidated statement of financial position as follows:

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Liability component as at the end of the year	<u>1,785,947</u>	<u>1,771,584</u>
Equity component on initial recognition	<u>37,155</u>	<u>37,155</u>

#### 23 SUKUK

Emaar Sukuk Limited (the "Issuer"), a limited liability company registered in the Cayman Islands and a wholly-owned subsidiary of the Group, has established a trust certificate issuance programme (the "Programme") pursuant to which the Issuer may issue from time to time up to USD 2,000,000 thousands (AED 7,346,000 thousands) of trust certificates in series.

##### Series 1:

On 3 February 2011, the Issuer has issued first series of trust certificates (the "Sukuk 1") amounting to USD 500,000 thousands (AED 1,836,500 thousands) under the Programme. The Sukuk 1 is listed on the London Stock Exchange and is due for repayment in 2016. Sukuk 1 carries a profit distribution at the rate of 8.5% per annum to be paid semi-annually. The carrying value of Sukuk 1 is as follows:

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Sukuk liability as at the end of the year	<u>1,823,494</u>	<u>1,820,509</u>

##### Series 2:

On 18 July 2012, the Issuer has issued the second series of the trust certificates (the "Sukuk 2") amounting to USD 500,000 thousands (AED 1,836,500 thousands) under the Programme. The Sukuk 2 is listed on NASDAQ Dubai and is due for repayment in 2019. Sukuk 2 carries a profit distribution at the rate of 6.4% per annum to be paid semi-annually. The carrying value of Sukuk 2 is as follows:

	<i>2012</i> <i>AED'000</i>
Proceeds from issuance of the Sukuk	1,836,500
Less: Sukuk issuance cost	(13,095)
Sukuk liability on initial recognition	<u>1,823,405</u>
Profit accrued up to year end	698
Sukuk liability as at the end of the year	<u>1,824,103</u>

The total liability under the Programme is as follows:

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Sukuk 1	1,823,494	1,820,509
Sukuk 2	1,824,103	-
Sukuk liability at the end of the year	<u>3,647,597</u>	<u>1,820,509</u>

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 24 EMPLOYEE BENEFITS

##### *End-of-Service Benefits*

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

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Balance at the beginning of the year	70,482	58,500
Provided during the year	17,018	22,116
Paid during the year	(10,231)	(10,134)
Balance at the end of the year	<u>77,269</u>	<u>70,482</u>

##### *Employees' Performance Share Programme*

The Company has an Employee Performance Share Programme ("the Programme") to recognise and retain high performing staff. The Programme gives the employee the right to purchase the Company's shares at par. The shares carry full dividend and voting rights, and the option can be exercised at any time from the stipulated vested dates on the condition that the employee is still under employment at the exercise date. There are no cash settlement alternatives and the options have no contractual expiry date.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the year.

	<i>2012</i>		<i>2011</i>	
	No.	WAEP	No.	WAEP
Outstanding at the beginning of the year	59,743	AED 1.00	59,743	AED 1.00
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	<u>59,743</u>	<u>AED 1.00</u>	<u>59,743</u>	<u>AED 1.00</u>

The fair value of the vested shares is determined by reference to the official price list published by the Dubai Financial Market (DFM) for the 5 consecutive trading days prior to and after the vested date. As the options are granted deep in the money, management considers this to be an appropriate means of valuation.

The expense recognised during the year in respect of the programme was AED Nil (2011: AED Nil).

#### 25 SHARE CAPITAL

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Authorised capital 6,096,325,000 shares of AED 1 each (31 December 2011: 6,096,325,000 shares of AED 1 each)	<u>6,096,325</u>	<u>6,096,325</u>
Issued and fully paid-up – 6,091,238,503 shares of AED 1 each (31 December 2011: 6,091,238,503 shares of AED 1 each)	<u>6,091,239</u>	<u>6,091,239</u>

Emaar Properties PJSC and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

**26 RESERVES**

	Statutory reserve AED '000	Capital reserve AED '000	General reserves AED '000	Hedging reserves AED '000	Net unrealised gains/(losses) reserve AED '000	Foreign currency translation reserve AED '000	Total AED '000
Balance at 1 January 2011	13,808,707	3,660	2,735,200	(8,955)	(1,604,815)	(9,526)	14,924,271
(Decrease)/increase in unrealised reserves	-	-	-	(498)	181,521	-	181,023
Decrease in foreign currency translation reserve	-	-	-	-	-	(577,913)	(577,913)
Net (loss)/income recognised directly in equity	-	-	-	(498)	181,521	(577,913)	(396,890)
Net movement during the year	-	-	179,354	-	-	-	179,354
Balance at 31 December 2011	13,808,707	3,660	2,914,554	(9,453)	(1,423,294)	(587,439)	14,706,735
(Decrease)/increase in unrealised reserves	-	-	-	(73,476)	96,777	-	23,301
Decrease in foreign currency translation reserve	-	-	-	-	-	(342,085)	(342,085)
Net (loss)/income recognised directly in equity	-	-	-	(73,476)	96,777	(342,085)	(318,784)
Net movement during the year	-	-	211,912	-	-	-	211,912
<b>Balance at 31 December 2012</b>	<b>13,808,707</b>	<b>3,660</b>	<b>3,126,466</b>	<b>(82,929)</b>	<b>(1,326,517)</b>	<b>(929,524)</b>	<b>14,599,863</b>

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 26 RESERVES (continued)

According to Article number 57 of the Articles of Association of the Company and Article 193 of the U.A.E. Federal Commercial Companies Law, 10% of annual net profits are allocated to the statutory reserve and another 10% to the general reserve. The transfers to the statutory reserve may be suspended when the reserve reaches 50% of the paid-up capital. Transfers to the general reserve may be suspended by the ordinary general assembly when the reserve reaches 50% of the paid-up capital.

The statutory reserve is in excess of 50% of the paid-up share capital of the Company and therefore in accordance with a resolution of the Annual General Meeting, the Group has ceased further transfers to this reserve.

The statutory reserve includes:

- AED 2,475,000 thousands being the premium collected at AED 15 per share (shares par value at that time was AED 10 per share) on the 1:1.65 rights issue during the year ended 31 December 1998; and
- AED 11,321,656 thousands being the premium collected to date at AED 4 per share (share per value at that time was AED 1 per share) on the 1:1 rights issue announced during the year ended 31 December 2005.

The capital reserve was created from the gain on sale of treasury shares in 2003.

Net unrealised gains/(losses) reserve:

- This reserve records fair value changes in financial assets at fair value through other comprehensive income and the Group's share in fair value reserve of the associated companies.

Foreign currency translation reserve:

- The foreign currency translation reserve is used to record exchange difference arising from translation of the financial statements of foreign subsidiaries and associates.

Hedging reserves:

- Hedging reserves represents the effective portion of the gain or loss on the interest rate swap and forward foreign exchange contracts held by the Group.

#### 27 EARNINGS PER SHARE

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

Diluted earnings per share amounts are calculated by dividing the net profit or loss attributable to the owners of the parent (after adjusting for interest on the convertible notes) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

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

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
<b>Earnings:</b>		
Profit attributable to the owners of the parent for basic earnings	2,119,124	1,793,535
Interest on convertible notes	152,147	150,461
<b>Profit attributable to the owners of the parent adjusted for the effect of dilution</b>	<b>2,271,271</b>	<b>1,943,996</b>

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 27 EARNINGS PER SHARE (continued)

##### *Shares in thousands*

	<i>2012</i>	<i>2011</i>
Weighted average number of ordinary shares for basic earnings per share	6,091,239	6,091,239
<i>Effect of dilution:</i>		
Convertible notes	<u>411,771</u>	<u>386,632</u>
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b><u><u>6,503,010</u></u></b>	<b><u><u>6,477,871</u></u></b>

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

	<i>2012</i>	<i>2011</i>
<b>Earnings per share:</b>		
- basic and diluted earnings per share	<b><u><u>AED 0.35</u></u></b>	<b><u><u>AED 0.29</u></u></b>

#### 28 GUARANTEES

The Group has the following guarantees outstanding as at 31 December 2012:

- Loans taken by an associate from commercial banks amounting to AED 183,881 thousands (31 December 2011: AED 194,480 thousands) are guaranteed by the Group.
- The Group has issued a financial guarantee of AED 13,291 thousands (31 December 2011: AED 9,117 thousands) for the letter of credit issued by a commercial bank.
- The Group has provided a financial guarantee of AED 5,000 thousands (31 December 2011: AED 5,000 thousands) as a security for the letter of guarantee issued by a commercial bank for issuance of a trade license from Government of Dubai.
- The Group has provided a financial guarantee of AED 3,287 thousands (31 December 2011: AED 3,287 thousands) as a security for the performance of its contractual obligations.
- The Group has provided a financial guarantee of AED 922 thousands (31 December 2011: AED 922 thousands) as a security for the performance of its contractual obligations.
- The Group has provided a financial guarantee of AED 304,010 thousands (31 December 2011: AED Nil) to Real Estate Regulatory Authority (RERA), Dubai for its new projects as per RERA regulations.
- The Group has provided a corporate guarantee of AED 73,460 thousands (31 December 2011: AED 110,190 thousands) to a commercial bank as a security for the guarantees issued by the bank on behalf of the joint venture of the Group.

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

#### 29 COMMITMENTS

At 31 December 2012, the Group had commitments of AED 4,624,870 thousands (2011: AED 6,158,649 thousands) which include project commitments of AED 4,346,198 thousands (2011: AED 5,825,958 thousands). This represents the value of contracts issued as at 31 December 2012 net of invoices received and accruals made as at that date.

Certain claims were submitted by contractors relating to different projects of the Group in the ordinary course of business from which it is anticipated that no material un-provided liabilities will arise.

The Group had entered into a joint venture agreement (the "agreement") with Bawadi LLC, (a subsidiary of Tatweer LLC) to jointly develop plots of land in the Bawadi development in Dubai. According to the terms of agreement, the Group is committed to contribute AED 3,850,000 thousands over the expected construction period of 7 to 10 years as and when the joint venture partner contributes the equivalent value of land.

##### Operating lease commitments - Group as lessee

The Group has entered into various operating lease agreements for properties, office facilities and equipment. These leases have an average life of between 1 to 10 years. There are no restrictions placed upon by the Group on entering into these leases. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Within one year	16,608	547,281
After one year but not more than five years	139,776	446,822
More than five years	90,466	108,559
	<u>246,850</u>	<u>1,102,662</u>

##### Operating lease commitments - Group as lessor

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

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Within one year	1,386,627	1,108,567
After one year but not more than five years	2,361,799	2,219,513
More than five years	986,010	1,061,132
	<u>4,734,436</u>	<u>4,389,212</u>

#### 30 DIVIDENDS

A cash dividend of AED 0.10 per share (total of AED 609,124 thousands) for the year 2011 was approved by the shareholders of the Company at the Annual General Meeting of the Company held on 23 April 2012. A cash dividend of AED 0.10 per share for 2012 is proposed by the Board of Directors of the Company subject to the approval of the shareholders in the forthcoming Annual General Meeting.



# Emaar Properties PJSC and its Subsidiaries

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

### 31 RELATED PARTY DISCLOSURES

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

#### Related party transactions

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

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
<b>Associates and joint ventures:</b>		
Islamic finance income	10,767	22,720
Finance income earned on loans	<u>227,901</u>	<u>209,540</u>
<b>Directors and their related parties:</b>		
Rental income from leased properties and related income	65,994	55,780
Revenue from Hospitality	1,248	-
Islamic finance income	1,535	220
Selling, general and administrative expenses	1,200	-
Finance income on bank balances and cash	1,168	25,689
Islamic finance cost on interest-bearing loans and borrowings	3,464	-
Finance cost on interest-bearing loans and borrowings	<u>48,043</u>	<u>18,991</u>

#### Related party balances

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

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
<b>Directors and their related parties:</b>		
Bank balances and cash	201,674	215,361
Trade receivables	4,433	18,219
Other assets, receivables, deposits and prepayments	21,877	9,051
Investment in securities at amortised cost (Certificate of deposits with Mashreq Bank)	-	446,945
Investment in securities at fair value through other comprehensive income	79,682	44,604
Interest-bearing loans and borrowings	885,825	234,329
Trade and other payables	<u>3,596</u>	<u>-</u>

During the year, the Company has paid bonus of AED 500 thousands to each of the members of the Board of Directors of the Company for the year 2011 as approved by the shareholders at the Annual General Meeting of the Company held on 23 April 2012.

#### Compensation of key management personnel

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

	<i>2012</i> <i>AED'000</i>	<i>2011</i> <i>AED'000</i>
Short-term benefits	157,944	155,291
Employees' end-of-service benefits	7,705	6,326
	<u>165,649</u>	<u>161,617</u>

During the year, the number of key management personnel was 157 (31 December 2011: 150).

## 32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Overview

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

- a) Credit risk,
- b) Market risk, and
- c) Liquidity risk.

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

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

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

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

The Group's principal financial liabilities, other than derivatives, comprise interest-bearing loans and borrowings, convertible notes, sukuk, retentions payable and trade and other payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The Group also enters into derivative transactions, primarily interest rate swap and forward currency contracts. The purpose is to manage the interest rate risk and the currency risks arising from the Group's operations and its sources of finance.

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

### a) Credit risk

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

#### *Trade and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less influence on credit risk. The Group earns its revenues from a large number of customers spread across different geographical segments. However, geographically 96% (2011: 99%) of the Group's trade receivables are based in Middle East and North Africa.

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 and 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.

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

**a) Credit risk (continued)**

***Trade and other receivables (continued)***

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

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

With respect to credit risk arising from the other financial assets of the Group, which comprise bank balances and cash, financial assets at fair value through other comprehensive income, financial assets at amortised cost, loans to associates and joint ventures and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these assets.

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

***Guarantees***

The Group's policy is to provide financial guarantees only to its subsidiaries and certain associates and joint ventures. For details of guarantees outstanding as at the reporting date refer to Note 28 to the consolidated financial statements.

***Excessive risk concentration***

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

In order to avoid excessive concentration of risk, the Group's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

**b) Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices, such as currency risk, interest rate risk and equity prices risks, which will affect the Group's income or the value of its holdings of financial instruments. Financial instruments affected by market risk include interest-bearing loans and borrowings, deposits, financial assets at fair value through other comprehensive income and derivative financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group also enters into derivative transactions, primarily interest rate swap and forward currency contracts. The purpose is to manage the interest rate risk and the currency risks arising from the Group's operations and its sources of finance.

The Group does not hold or issue derivative financial instruments for speculative purposes.

***Exposure to interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

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

##### b) Market risk (continued)

###### *Exposure to interest rate risk (continued)*

The Group manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. Interest on financial instruments having floating rates is re-priced at intervals of less than one year and interest on financial instruments having fixed rates is fixed until the maturity of the instrument. Other than commercial and overall business conditions, the Group's exposure to market risk for changes in interest rate environment relates mainly to its borrowing from financial institutions, investment in financial products and fixed deposits.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, after the impact of hedge accounting, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is only an immaterial impact on the Group's equity.

	2012		2011	
	<i>Change in basis points</i>	<i>Sensitivity of interest income/expense AED'000</i>	<i>Change in basis points</i>	<i>Sensitivity of interest income/expense AED'000</i>
Financial asset	± 100	432	± 100	2,779
Financial liability	± 100	33,514	± 100	55,136

The interest rate sensitivity set out above relates primarily to the AED and USD denominated financial assets and financial liabilities as the Group does not have any significant net exposure for non-trading financial assets and financial liabilities denominated in currencies other than the AED or currencies pegged to the AED and USD.

The investments in financial products are not for trading or speculative purposes but placed in securities or fixed deposits, with the objective of achieving better returns than cash at bank. The interest rates on loans to associates are described in Note 13 to the consolidated financial statements. Interest rates on loans from financial institutions are disclosed in Note 21 to the consolidated financial statements.

###### *Exposure to foreign currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's significant monetary assets and liabilities denominated in foreign currencies are either in USD or in currencies pegged to USD. As the AED is currently pegged to the USD, balances in USD and other currencies pegged against USD are not considered to represent significant currency risk.

However, the Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's net investments in those subsidiaries and associates where functional currencies are denominated in a different currency from the Group's functional currency. The foreign currency exchange differences arising upon consolidation of these entities for the purpose of preparation of the Group's consolidated financial statements are recorded in the consolidated statement of changes in equity through the consolidated statement of comprehensive income.

The table below indicates the sensitivity analysis of a change in foreign exchange rates of these currencies and their impact on other comprehensive income:

Currency	2012		2011	
	<i>Change in currency rate in %</i>	<i>Effect on equity AED'000</i>	<i>Change in currency rate in %</i>	<i>Effect on equity AED'000</i>
EGP	±10	81,724	±10	78,290
INR	±10	320,754	±10	302,844
Other currencies not pegged to US Dollar	±10	62,852	±10	44,237

At 31 December 2012

**32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)****b) Market risk (continued)*****Exposure to equity price risk***

Equity price risk is the risk that the fair values of equities increase or decrease as a result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio. Equity price risk arises from equity instruments held at fair value through other comprehensive income held by the Group. Management of the Group monitors equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed by qualified fund managers as well as on an individual basis. The primary goal of the Group's investment strategy is to maximize investment returns.

The effect on equity (as a result of a change in the fair value of equity instruments held at fair value through other comprehensive income as at 31 December 2012) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2012		2011	
	<i>Change in equity price in %</i>	<i>Effect on equity AED'000</i>	<i>Change in equity price in %</i>	<i>Effect on equity AED'000</i>
Quoted investments	±10	42,729	±10	33,802

***Exposure to overseas country risks***

Management monitors political and economic events and developments in countries where the Group operates to assess the likelihood of any potential impact to the Group's financial position and results of operations.

**c) Liquidity risk**

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

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

The Group currently has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations.

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

## Emaar Properties PJSC and its Subsidiaries

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

At 31 December 2012

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

##### c) Liquidity risk (continued)

Financial liabilities	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
<i>As at 31 December 2012</i>					
Interest-bearing loans and borrowings	249,595	1,701,751	4,694,606	731,860	7,377,812
Retentions payable	87,703	384,792	226,249	-	698,744
Payable to non-controlling interests	-	-	927,059	-	927,059
Dividend payable	112,369	-	-	-	112,369
Convertible notes	34,434	103,303	2,111,975	-	2,249,712
Sukuk	136,819	136,819	2,892,488	1,954,036	5,120,162
Other liabilities	1,835,151	2,221,186	2,587,063	382,365	7,025,765
<b>Total undiscounted financial liabilities</b>	<b>2,456,071</b>	<b>4,547,851</b>	<b>13,439,440</b>	<b>3,068,261</b>	<b>23,511,623</b>
<i>As at 31 December 2011</i>					
Interest-bearing loans and borrowings	2,509,992	2,063,540	3,506,834	163,281	8,243,647
Retentions payable	99,813	460,402	254,702	-	814,917
Payable to non-controlling interests	-	-	967,562	-	967,562
Dividend payable	96,871	-	-	-	96,871
Convertible notes	34,434	103,303	2,249,713	-	2,387,450
Sukuk	78,051	78,051	2,460,910	-	2,617,012
Other liabilities	1,752,751	2,358,773	3,028,006	-	7,139,530
<b>Total undiscounted financial liabilities</b>	<b>4,571,912</b>	<b>5,064,069</b>	<b>12,467,727</b>	<b>163,281</b>	<b>22,266,989</b>

##### d) Capital management

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

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio between 33% and 50%. The Group includes within net debt, interest bearing loans and borrowings, less cash and cash equivalents. Capital includes equity attributable to the owners of the parent less the net unrealised gains/(losses) reserve. At 31 December 2012, the Groups' gearing ratio is 22% (31 December 2011: 23%). The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Board of Directors also monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to shareholders, the return of capital to shareholders or issuance of new shares to maintain or adjust the capital structure.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

Neither the Company nor any of its subsidiaries is subject to externally imposed capital requirements other than the statutory requirements in the jurisdictions where the Group entities are incorporated.

At 31 December 2012

**33 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise financial assets and financial liabilities.

Financial assets of the Group include bank balances and cash, trade receivables, securities, loans and advances, other receivables and due from related parties. Financial liabilities of the Group include customer deposits, interest-bearing loans and borrowings, convertible notes, sukuk, accounts payable and retentions payable.

The fair values of the financial assets and liabilities are not materially different from their carrying value unless stated otherwise.

**34 HEDGING ACTIVITIES****Cash flow hedges**

At 31 December 2012, the Group held certain interest rate swap contract designated as a hedge of expected future payments under the borrowing contracts entered by the Group for which it has firm commitments. The interest rate swap contract is being used to hedge the interest rate risk of the firm commitments. The nominal amount of these contracts is USD 232,389 thousands and AED 1,800,000 thousands respectively (2011: USD 232,389 thousands and AED Nil respectively).

At 31 December 2011, the Group held certain forward foreign exchange contracts designated as hedges of expected future payments under payment contracts entered by the Company for which the Group had firm commitments. The forward foreign exchange contracts were being used to hedge the foreign currency risk of the firm commitments. The nominal amount of these contracts is USD 62,500 thousands (AED 229,563 thousands).

	2012		2011	
	<i>Assets</i> <i>AED'000</i>	<i>Liabilities</i> <i>AED'000</i>	<i>Assets</i> <i>AED'000</i>	<i>Liabilities</i> <i>AED'000</i>
<i>Interest rate swap contracts</i>				
Fair value	-	82,929	-	9,449
<i>Forward foreign exchange contracts</i>				
Fair value	-	-	-	4
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of cash flow hedges by valuation technique:

	<i>Total</i> <i>AED'000</i>	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>
<b>2012</b>				
Interest rate swap contracts	82,929	-	82,929	-
Forward foreign exchange contracts	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>2011</b>				
Interest rate swap contracts	9,449	-	9,449	-
Forward foreign exchange contracts	4	-	4	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Level 1:** Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

**Level 2:** Fair value measurements are those derived from inputs other than quoted prices included within 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:** Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).