

CFO's Message

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Strong platform for growth

Aldar achieved strong financial performance in 2015. The growth in our recurring revenues lead to a better quality of earnings further supported by improved margins as new key assets stabilised and contributed meaningfully to the bottom line. We also saw a significant strengthening of our balance sheet driven by the collection of Government receivables and further repayment of debt which now sits at our Board approved debt policy levels.

RECURRING REVENUE GROWTH

Our recurring revenue assets, which predominantly includes our asset management business segment, saw a 49% growth in gross profit in 2015, led by stabilisation of the fully leased Yas Mall where retailers opened shops throughout 2015 and by increased contribution from our expanded residential asset base.

We have seen unprecedented demand for our assets, with all real estate asset classes contributing to growth as we now reach mature levels of occupancy. Yas Mall reached 96% trading occupancy as at year end and now has all key anchors fully in place, which will drive footfall growth. Our residential and office portfolios continue to perform strongly with occupancy reaching 98% and 95% respectively, with rents remaining stable to low single digit growth despite wider market softening towards the latter part of the year.

Our hotel portfolio also performed well with occupancy at 79% during 2015, in line with 2014. At the same time, we have managed to increase rates ahead of the wider Abu Dhabi market.

Whilst we saw significant growth in our recurring revenues over 2015, this level of growth is set to stabilise as all asset classes are now fully in place and reaching mature operational levels. Beyond 2016, we have set a clear target to achieve 40% growth in our net operating income from our recurring revenue assets by 2020 through a combination of organic growth and AED 3.0 billion investment plan, of which AED 900 million or 30% has been committed or deployed as of today.

DEVELOPMENT REVENUE RECOGNITION

During 2015, Aldar sold AED 3.0 billion of residential off-plan development product across over 900 units. AED 2.0 billion of these sales related to Aldar's project developments including Nareel, Merief, Meera and Mayan and AED 0.9 billion related to over 200 unit sales for the West Yas development management project.

A significant factor that has impacted the financial reporting of development activities during the year was the early adoption of IFRS 15, a new revenue accounting standard governing revenue recognition and contracts with customers.



Under the prior accounting policy, IAS 18, revenues were fully recognised on handover of a completed off-plan sale unit to the buyer. The new accounting standard considers the terms of our sales agreements with residential customers and recognises revenues over time for development off-plan sales and as such provides a very different development revenue profile to that under IAS 18. Development revenues in 2014 were recorded under the previous standard and were supported by the high number of handovers during the year which essentially closed out the last development cycle. During 2015, we started to recognise revenue on our new developments on a percentage completion basis as per IFRS 15. This will provide a visible development revenue profile going forward, as revenue is matched to the completion of project reflecting the underlying activities of the development business.

Development revenues during 2015 were AED 1.0 billion. This included the recognition of AED 0.6 billion under IFRS 15 for new Aldar development projects. During 2016, as construction on key projects such as Ansam and Al Hadeel progresses, revenue will be recorded as percentage completion progresses on site.

BALANCE SHEET STRENGTH

Debt has been a major focal area for management in recent years in order to achieve a robust and financially flexible balance sheet. During 2015, a further AED 3.1 billion dirhams of debt was paid down and today, Aldar is operating in line with its debt policy to maintain gross debt at 35-40% against the value of its recurring revenue assets. Debt as at 31 December 2015 stood at AED 6.0 billion and we do not expect any major pay down going forward.

Collection of receivables was another theme in 2015, with AED 3.4 billion collected from the Government of Abu Dhabi for asset transaction sales and infrastructure recoverables and a further AED 400 million in land receivables supporting the repayment of debt during the year and build up of cash.

Our balance sheet today stands strong and we want to ensure we maintain this strength and flexibility to support the business in delivering its strategy going forward.

COMMITMENT TO SHAREHOLDER RETURNS

The formalisation of a dividend policy from 2016 will provide investors with clear visibility on cash flows and shareholder return. This is a significant move, demonstrating the maturity of the business today and recognition of shareholder returns as a key part of our capital allocation strategy.

The dividend policy is based on the underlying cash flow performance of business. The policy will have two components, a 65-80% pay-out range of the distributable free cash flow of 100% owned investment properties and operating businesses and a discretionary pay-out of cash profits on completion of newly launched off-plan developments.

Overall, we have made significant progress towards our strategy in 2015. Going forward our financial position provides the business with the necessary platform for the next stage of growth as indicated by our ambition to grow the recurring revenue business and continue to target untapped segments of the real estate development market.

Our balance sheet today stands strong and we want to ensure that we maintain this strength and flexibility to support the business in delivering its strategy going forward.