Press Release

Union Properties statement on Q2 2017 financial results

- **New UP board takes prudent approach to shore up finances and address prior errors**
- **UP takes provisions of AED 2.8 billion resulting in a Q2 2017 net loss of AED2.3 billion**
- **External investigation ongoing after revealing accounting irregularity**

Dubai August 15, 2017: Union Properties PJSC ("UP" or "The Company"), one of the leading property investment developers in the UAE, has today reported its financial results for the second quarter of 2017.

Following a thorough accounting review and in the long-term interests of the company, UP's new management team has taken the decision to book provisions totalling AED2.8 billion, which has subsequently been approved by the Company's board of directors and communicated to the regulator and UP shareholders. The provisions reflect the new management team's prudent approach to risk and in its treatment of unbuilt or floating Gross Floor Area (GFA) from an accounting standpoint. The provisions have resulted in a net loss of AED 2.3 billion for the three months to June 30, 2017.

Commenting on the results and provisions taken, Mr. Nasser Butti Omair Bin Yousef, Chairman of Union Properties who took over only in May 2017 after a board reshuffle, said: "Union Properties is one of the most respected companies in the UAE and has gained a reputation for the highest quality in both its developments and in every aspect of its business operations. The actions we have taken this quarter are in line with protecting the intrinsic value of the UP brand and its proud heritage and take a one-time charge for the accounting irregularity by the previous management.

“We are confident that with the developments we are planning this year, we will quickly bring back the recognised value for the long-term sustained growth of the company.”

The provisions relate to four separate issues:

Restatement of AED503 million gain from FY2015 statement

Following the appointment of UP’s new board and senior management in May 2017, an in-depth investigation of accounting practices within the company dating back to 2013 was initiated. As part of this process an external forensic investigation was commissioned in August 2017. The investigation examined the validity of the AED503 million fair value gain applied to the unbuilt gross floor area (Unbuilt GFA) on a plot of land in Motor City, where UP was the master developer. The gain was recognised in the audited financial statements for the year ended 31 December 2015.

The plot of land which included a partially built hotel was sold to another real estate developer in 2013 and derecognised in the company’s 2013 audited financial statements. In 2014, the management of UP reassessed the land bank and available GFA and concluded it still held the rights to approximately 156,000 square metres (1.68 million square feet) of Unbuilt GFA. In 2015 UP’s Board approved the recognition of a fair valuation gain of AED503 million in the audited 2015 financial statements. At the time the ownership of the full GFA for the plot was under dispute and unresolved.

The interim report of the external forensic investigation concluded that the fair value gain for the Unbuilt GFA should be reversed as it continues to be wrongly included in the assets of UP. The report also revealed that important information was not fully disclosed to UP’s external auditors who signed off the 2015 accounts. As a result of the external interim report and its

own investigations, the Board of Union Properties is restating the 2015 financial statement to reflect the correct treatment of AED503 million. The results of the full forensic investigation will be disclosed when completed.

Valuation loss on investment properties

Following the latest six-monthly assessment by Valustrat Consulting FZCO, an independent registered valuer, the average price per square foot of UP's land bank has been reduced, resulting in a fair valuation loss and leading the company to take provisions totalling AED1.2 billion.

Using industry accepted valuation techniques and adopting the IFRS basis of fair value, the independent valuer has determined AED 3,608 million as the fair value of the Company's investment properties as at 30 June 2017. Accordingly, based on the above valuation, a fair value loss of AED 2,070 million *(30 June 2016: valuation gain of AED 166 million)* has been recognized in the condensed consolidated interim statement of profit or loss.

The valuation indicated an expected significant increase in new supply of plots of land in and around the land bank of the Company together with the already existing undeveloped plots of land in existing communities. Furthermore, increased property developments in and around UP's land bank that are being completed for delivery in the end user property market resulting into more competition and reduced prices for developed properties as well as land prices. As a result, development margin risks are believed to be increasing when purchasing land as compared to 2016. These factors have resulted in a lower fair value of UP's land bank.

The Company's Board of Directors have reviewed the assumption and methodology used by the independent registered valuer and in their opinion these assumptions and valuation methodology is appropriate and prudent as at the reporting date.

Valuation loss on gross floor area

As at 1 January 2017, the Company had ownership of approximately 14 million square feet of gross floor area for development within the Motor City project. With the expected significant increase in new supply of plots of land in and around the land bank of the Company, during the six-month period ended 30 June 2017, the Company had appointed an independent third party consultant to review and prepare an updated master community development plan for the Motor City project. The advice given to UP was that it would be only able to utilize 12 million square feet of the available gross floor area (GFA) and that the utilization of the other two million square feet would require separate regulatory approval.

In consideration of this advice, UP's Board of Directors applied a Nil valuation on the two million square feet of extra GFA as at 30 June 2017. The Company has recorded the corresponding fair valuation loss amounting to AED 690 million in the condensed consolidated interim statement for the period.

Downsizing at Thermo

UP has taken provisions totalling AED196 million in relation to the managed wind down of Thermo LLC, a subsidiary of the Company that undertakes contracting work. The provisions were taken by UP's Board of Directors with the assistance from independent lawyers and will cover the work in progress and on certain contract and retention receivables in addition to potential future claims from performance bonds and guarantees on projects.

A full overview of provisioning has been commissioned by auditors KPMG and has been disclosed to the regulator and company shareholders.

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