

### **Management Discussion and Analysis of Financial Position and Results of Operations**

*The following discussion should be read in conjunction with TNI's consolidated financial statements and the related notes included in the notes to the financial statements for the twelve month year ended 31 December 2017.*

#### **1) Legal status and main activities**

*The National Investor Pr.J.S.C. (the "Company") is registered in Abu Dhabi, United Arab Emirates ("UAE") and is listed on the Abu Dhabi Securities Exchange as a Private Joint Stock Company. In 2001, the Company received approval from the Central Bank of the UAE to conduct financial investment business as an investment company in accordance with the Central Bank's Board of Directors' Resolution No. 164/8/94 dated 18 April 1995 regarding the regulations for investment companies and banking and investment consultation companies.*

*The Company and its subsidiaries (together referred as the "Group") are managed as an integrated investment and financial services company.*

*The main activities of the Group are investment banking, asset management, private equity, funds and securities investment, hospitality, third party real estate and provision of consultancy. The registered head office of the Company is at P.O. Box 47435, Abu Dhabi, United Arab Emirates.*

#### **2) Basis of consolidation**

*The accompanying consolidated financial statements comprise of the financial statements of the Company and its subsidiaries (together referred to as the "Group"). The details of the Company's subsidiaries and their main activities are as follows:*

	<b>Country of incorporation</b>	<b>% of ownership</b>	<b>Principal activity</b>
<b>Operating entities</b>			
<b>Mainland Management LLC</b>	<b>U.A.E.</b>	<b>67</b>	<b>Real estate investments</b>
<b>Falcon Investments LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Property management, advisory and investment brokerage services</b>
<b>National Investor Property Management LLC - a subsidiary of Falcon Investments LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Advisory and consultancy services</b>
<b>Robert Flanagan Arabian Management Consultancy LLC - a subsidiary of Falcon Investments LLC</b>	<b>U.A.E.</b>	<b>51</b>	<b>Management consultancy services</b>
<b>Professional Realtors Company Ltd- a subsidiary of Falcon Investments LLC</b>	<b>K.S.A</b>	<b>80</b>	<b>Real estate and consultancy</b>
<b>Uptown Management LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Real estate investments</b>
<b>Uptown Investment LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Real estate investments</b>
<b>Mainland Investment LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Real estate investments</b>
<b>Mafraq Hotel – a subsidiary of Mainland Investment LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Hospitality services</b>
<b>MENA Real Estate Solutions LLC- – a subsidiary of Falcon Investments LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Real estate and consultancy</b>
<b>Colliers International Property Services LLC – a subsidiary of Falcon Investments LLC</b>	<b>Qatar</b>	<b>100</b>	<b>Real estate and consultancy service</b>
<b>Colliers International Property Consultancy - a subsidiary of Falcon Investments LLC</b>	<b>Egypt</b>	<b>100</b>	<b>Real estate and consultancy service</b>
<b>Special purpose entities</b>			
<b>United Capital LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Asset Management</b>
<b>Fidelity Invest LLC (owned by The National Investor Pr.J.S.C. One Man Company LLC)</b>	<b>U.A.E.</b>	<b>100</b>	<b>Asset Management</b>
<b>Fidelity Trust LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Asset Management</b>
<b>Al Dhafra Capital LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Asset Management</b>
<b>TNI Capital Partners Limited</b>	<b>Cayman Islands</b>	<b>100</b>	<b>Private Equity Funds</b>
<b>TNI General Partners Limited</b>	<b>Cayman Islands</b>	<b>100</b>	<b>Private Equity Funds</b>
<b>Blue Chip Capital LLC</b>	<b>U.A.E.</b>	<b>100</b>	<b>Asset Management</b>

### 3) Financial Statements overview for FY 2017

#### a) Consolidated Income Statement

The National Investor Pr.J.S.C.  
Consolidated statement of profit or loss  
for the

	Year ended 31 December 2017 AED'000	Nine month Year ended 31 December 2016 AED'000	Year ended 31 December 2016 AED'000
<b>Continuing operations</b>			
Fees and service income	108,919	83,699	119,897
Net income from investments carries at fair value through profit or loss	8,468	2,103	3,828
Dividend income from investments carried at fair value through other comprehensive income	929	218	1,355
Share of profit of associates	6,957	12,454	14,057
Share of (loss)/profit of joint venture	(814)	-	98
Reversal of impairment of property, fixtures and equipment	-	6,521	6,521
Loss on disposal of subsidiary	-	-	(10,527)
Interest income	5,230	4,391	5,487
Other income	1,286	1,863	2,288
<b>Total operating income</b>	<b>130,975</b>	<b>111,249</b>	<b>143,004</b>
Operating expenses	(19,464)	(16,565)	(20,752)
General and administrative expense	(25,217)	(20,281)	(27,643)
Employee related expense	(65,583)	(51,384)	(70,617)
Provision against legal case	-	(9,127)	(9,127)
Depreciation	(9,200)	(7,331)	(9,748)
Interest expense	(2,305)	(2,671)	(3,265)
Impairment losses on trade receivables	(267)	(406)	(767)
<b>Total operating expenses</b>	<b>(122,036)</b>	<b>(107,765)</b>	<b>(141,919)</b>
<b>Profit for the year/period</b>	<b>8,939</b>	<b>3,484</b>	<b>1,085</b>
Attributable to:			
Owners of the Company	7,588	884	(1,695)
Non-controlling interests	1,351	2,600	2,780
	<b>8,939</b>	<b>3,484</b>	<b>1,085</b>
<b>Basic earnings per share (AED)</b>	<b>0.013</b>	<b>0.002</b>	<b>(0.003)</b>

#### Consolidated Income Statement Analysis:

Consolidated top line revenues reported by the group for the fiscal year amounted to AED 130.9 million, a decrease of 9% from the corresponding period in 2016, mainly due to the following:

- Fees and service income decreased by AED 11 million when compared to the corresponding period in 2016, mainly due to the drop in Mafraq Hotel's occupancy and average daily room rates.
- Overall reduction in both fee levels and volumes for Colliers group as result of fewer consultancy projects during H2 2017.

- *Income from equity-accounted, associates decreased by AED 7.1 million when compared to the corresponding period in 2016.*
- *In previous years, the Group wrote down the property, fixtures and equipment of Mafraq Hotel LLC to their recoverable amounts. As a result, an impairment loss of AED 75.8 million was recorded in the consolidated income statement. The recoverable amounts were determined based on a value in use calculation. During 2016, the Group reassessed the recoverable amount of its previously impaired property, fixtures and equipment at Mafraq hotel which resulted in a reversal of impairment amounting to AED 6.5 million (FY 2017: Nil). The recoverable amounts were based on a value in use calculation. The remaining balance of impairment is AED 9.1 million.*

*Overall, despite a challenging and transitional year for our industry, we managed to significantly turn around our bottom line to a net profit of AED 7.6 million compared to a net loss of AED 1.7 million in the previous year. This improvement is primarily driven by stronger than expected trading gains that translated into 12% net returns on TNI's direct public equities investments, and rationalization of our overall general and administrative expenses.*

*The positive performance was driven also by improved fee generating activities from the Asset Management business, which saw the UAE Blue Chip Fund outperform its benchmark, the S&P UAE Domestic Capped Index, by 4.1%. These results were achieved despite extremely challenging market conditions at a time when the Dubai Financial Market General Index (DFMGI) and the Abu Dhabi Securities Market General Index (ADSMI) fell by 4.6% and 3.3% respectively. The outperformance of our fund means that we are well-positioned to raise new assets under management going forward if market conditions remain favorable.*

*Loss from discontinued operations (disposal of subsidiary) amounting to AED 10.5 million for the twelve month period ended December 2016 was due to the winding down of Mena Hedge, Mena UCITS funds and the closure of our Dubai operations. Further, the Group didn't report any discontinued operations during 2017. The full year impact of discontinued operations are further disclosed under note 25 of the consolidated audited financial statements for the year ended 31 March 2016.*

## b) Consolidated Balance Sheet:

The National Investor Pr.J.S.C.

Consolidated statement of financial position  
as at

	31 December 2017 AED'000	31 December 2016 AED'000
<b>Assets</b>		
Cash and bank balances	143,808	146,145
Investments carried at fair value through profit or loss	55,567	48,196
Investments carried at fair value through other comprehensive income	88,945	123,854
Due from related parties	7,310	259
Investments in associates	98,615	101,766
Investment in joint venture	29,186	-
Investment properties	110,514	112,272
Intangible assets	1,117	1,177
Property, fixture and equipment	214,150	217,159
Other assets	33,182	82,535
<b>Total Assets</b>	<b>782,394</b>	<b>833,363</b>
<b>Liabilities</b>		
Term loans	36,425	73,179
Other liabilities	25,981	42,565
<b>Total Liabilities</b>	<b>62,406</b>	<b>115,744</b>
<b>Equity</b>		
Share capital	577,500	577,500
Legal reserve	58,949	58,186
Statutory reserve	50,526	49,763
Fair value reserve	(31,627)	(26,637)
Retained Earnings	7,686	1,824
<b>Equity attributable to Owners of the Company</b>	<b>663,034</b>	<b>660,636</b>
Non-controlling interest	56,954	56,983
<b>Total Equity</b>	<b>719,988</b>	<b>717,619</b>
<b>Total Liabilities and equity</b>	<b>782,394</b>	<b>833,363</b>

### Consolidated Balance Sheet Analysis:

Consolidated assets stood at AED 782.3 million (December 2016: AED million 833 million), a decline of AED 50.7 million and is mainly comprised of the net movement in the following transactions:

- Settlement of the legal case provision amounting to AED 9.1 million that was recorded in the year-end results, which impacted the carrying value of our wholly owned subsidiary (Colliers group).
- Disposal of certain leveraged Sukok positions amounting to AED 30 million.
- Receipt of dividends from associates amounting to AED 4.5 million.
- Total repayments against the FAB loan amounting to AED 6.4 million.

*Investment in Joint Venture represents the following: In 2016, the Group has engaged in a new project with Lead Capital LLC at Masdar City. The Group made an advance payment of AED 37 million representing 10% of total land value into an escrow account. During the period, the amount has been allocated to Investment in Joint Venture and Amounts due from Joint Venture for an amount of AED 30.0 and AED 7.2 million respectively.*

*Consolidated assets stood at AED 783 million compared to AED million 833 million in the previous year, a decline of AED 50 million, mainly resulting from the disposal of certain leveraged fixed income investments. Our current asset base includes a healthy consolidated cash position of AED 144 million. Leverage ratio at a consolidated level decreased to 5% at year-end compared to 11% as at 31 December 2016 and total equity attributable to the company stood at AED 663 million compared to AED 661 million in the previous year.*

*Total equity attributable to the company stood at AED 663 million (December 2016: AED 661 million), an increase of AED 2.4 million and is mainly comprised of the net movement in the following transactions:*

- *Year to date net income attributable to the company of AED 7.6 million.*
- *Negative mark to market revaluation losses on OCI investments amounting to AED 5.2 million.*

#### *4) Segmental “business” review*

*The following is a discussion of net revenue and operating income for the Company’s segments: Merchant Banking, Asset Management and Principal Investments. Each segment’s operating expenses include (i) compensation and benefits expenses that are incurred directly in support of the segment and (ii) other operating expenses which include directly incurred expenses for occupancy, business development, technology, professional services, fund administration and outsourcing, and indirect support costs for administrative services. Such administrative services include, but are not limited to, accounting, human resources, legal, information technology, compliance, internal audit and senior management activities. Such support costs are allocated to the relevant business unit segments based on various statistical drivers such as revenue, headcount, square footage and other factors.*

- a) Asset Management- manages investment portfolios and funds in regional equities and offers regional and foreign investors’ gateways for investment in the GCC and Arab stock markets. This division also manages discretionary portfolio mandates.*

*The fees that we receive for providing investment and asset management services are primarily driven by the level of AUM and the nature of the AUM product mix. Accordingly, market movements, foreign currency exchange rate volatility and changes in our AUM product mix will impact the level of revenues we receive from our Asset Management business when comparing periodic results. A substantial portion of our AUM is invested in equities. Movements in AUM during the period generally reflect, to a certain extent, the changes in regional equity market indices.*

*Blue Chip Fund (BCF) is an equity trading fund managed by TNI that targets long term capital appreciation and dividend return.*

*Following are key financial highlights of the Asset Management division:*

- *Year to date revenues of AED 3.5 million for the twelve month period ended December 2017 (YTD December 2016: AED 2.7 million).*
- *Total AUMs stood at AED 120 million (December 2016: AED 135 million).*
- *Net AUM outflows pertain to institutional investors redeeming units from the Blue Chip Capital Fund.*

*b) Merchant Banking- provides corporate finance advisory, private placements, public offerings of equity and debt securities, mergers and acquisitions.*

*Revenue for this segment is earned in the form of retainers and similar fees that are contractually agreed upon with each client for each assignment. In addition, TNI also earns fees from providing strategic advice to clients, with such fees not being dependent on a specific transaction, and may also earn fees in connection with private placement and securities offerings. Significant fluctuations in advisory fees can occur over the course of any given year, because a significant portion of such net revenue is earned upon the successful completion of a transaction, restructuring or capital raising activity, the timing of which is uncertain and is not subject to TNI's control.*

Following are key financial and operational highlights of the Merchant Banking division:

- Year to date revenues of AED 1.7 million for the twelve month period ended 31 December 2017 (YTD December 2016: AED 2.5 million). Fee revenue from Merchant Banking and other corporate finance activities decreased by AED 800k primarily due to a decrease in client activity, which primarily reflected a lower level of deal closings.
  - The segment maintains a healthy pipeline with a balance of advisory and placement mandates. Execution of deals is expected to face delays as a result of challenging market conditions and muted client activity.
  - This segment also manages and administers the TNI Growth Capital Fund (GCF), a private equity fund that was launched in 2005. The fund invests in companies with strong management and identifies and develops businesses with predictable cash flows that support sustained operational and capital growth. As of 30 June 2017, the total invested capital amounted to AED 45 million. Further the segment earns annual management fees calculated at 0.75% p.a of the invested capital.
- c) **Principal Investments-** manages and controls all cash related to the Group, and all proprietary investments of the Group including investments in associates, joint ventures, investments at fair value through profit or loss and other comprehensive income and investment properties. This segment works closely with the Merchant Banking Division to target significant non-controlling stake investments in established private companies.

This segment also invests the Group's own capital from time to time, *generally alongside capital of qualified institutional and individual investors* in private equity investments. It also makes investments to seed Asset Management strategies. The trading gains and losses for such investments are recognized under the Principal Investments division.

This segment reported YTD operating revenues of AED 125.6 million versus AED 99.3 million during the corresponding period of 2016.

**The following is a brief discussion on the core underlying investments:**

➤ **Falcon (Colliers Group)**

Falcon investments (Colliers) is a wholly owned subsidiary of TNI. Its principal activities cover marketing, promoting and selling residential and non-residential properties and delivering property management, advisory and brokerage services. TNI acquired Falcon (Colliers group) during the year 2007 at a cost of AED 7 million.

The Group's segmental mix is made up of the following service lines: a) Research and advisory (30% of total income) b) hospitality education and healthcare (27% of total income), c) residential and commercial valuation services (17% of total income) d) retail (6% of total income) e) consultancy (15% of total income) f) commercial leasing (5% of total income). In addition to its UAE head office, the group has subsidiaries in Saudi, Qatar, and Egypt that cover the above service lines.

The key highlights of Falcon Group for the twelve month period ended 31 December 2017 were as follows:

- Year to date net income of AED 4 million for the twelve month period ended December 2017 (YTD December 2016: AED 500k).

The carrying value of Falcon Group, net of distributions was AED 30 million as at 31 December 2017.

➤ **Mainland Investments – Mafrag Hotel**

Al Mafrag Hotel was established in May 1996 under a tourism license issued by Abu Dhabi Tourism Authority, and is engaged in letting out rooms and provision of food and beverage.

TNI purchased 67% stake in Mafrag Hotel through its Mainland investment subsidiary in April 2007 at a cost of AED 121.6M.

The key highlights of Mainland Investments for the twelve month period ended 31 December 2017 were as follows:

- Occupancy for YTD December 2017: 78% (YTD December'16: 74%). The decline in occupancy is due to the challenging market conditions in the hospitality sector.
- EBITDA for YTD December 2017: AED 7.5 million (YTD December'16: AED 7.5 million).
- TNI's share of the Net operating loss for YTD December 2017: AED negative 1.5 million.

➤ **National Catering Company (NCC)**

During December 2014, TNI has led a consortium of prominent Abu Dhabi-based investors in the acquisition of a 50% equity stake in National Catering Company Limited ("NCC"), one of the largest private sector industrial catering and facility management businesses in the UAE.

NCC, which was established in 1990 and underwent a management buyout in 2000, operates in the fields of industrial catering and facilities management. The company, which is primarily based in the Emirate of Abu Dhabi and Northern Emirates, also operates supermarkets, cafes and diet management services under the brand names Souq Planet, Lavanda and Slim'n Lite, respectively.

The key highlights of NCC group for the twelve month period ended 31 December 2017 were as follows:

- Year to date net income of AED 64 million for the twelve month period ended 31 December 2017.
- NCC's clientele covers over 40 contracts in hand today coupled with a backlog pipeline in excess of AED 1.2 billion.

The carrying value of NCC, net of distributions was AED 50 million as at 31 December 2017 (June 2016: AED 43 million). The increase was attributed to the reclassification of this investment on TNI's books from other comprehensive income to an associate investment during April 2016, which has facilitated an equity pick up of NCC's net income on TNI's statement of income.

➤ **Tarfeeh**

*The National Entertainment Company (Tarfeeh) is registered under the Department of Economic Development, and is engaged in developing and providing entertainment and recreational activities, tourism and entertainment consultancy services. TNI purchased 40% stake in Tarfeeh at a cost of AED 500K, while cumulative return since inception (net of distributions) amounted to AED 9.1 million resulting to a net carrying amount as at December 2017 of AED 8 million.*

*Tarfeeh's segmental mix is made up of the following revenue streams: a) Bowling and sports activities b) Food and beverage through the Café, c) rental income. The majority of this year's revenues pertain to rental income and bowling and sports activities. Tarfeeh is located in Abu Dhabi's Marina Mall. The key highlights of Tarfeeh for the twelve month period ended 31 December 2017 were as follows:*

- *TNI's share of the year to date net loss: AED 200k for the twelve month period ended December 2017 .The decline in profits when compared to prior period may be of a twofold nature: - 1) the general slowdown in the UAE and the challenging economic conditions that has encouraged corporates to cut back on discretionary spending which has directly impacted the revenue streams at Tarfeeh; or 2) renewing lease terms with vendors (Mercedes Benz showroom at Marina Mall) at lower rates.*
- *Appointment of new GM took place in H1 2017 to improve operational efficiencies and to create new revenue streams.*

**5) Business environment and outlook**

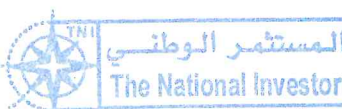
*Abu Dhabi's retail, contracting and hospitality sectors continue to be affected by the prevailing challenging market conditions. Consequently, our investments in Mafraq Hotel and Colliers witnessed continued pressure on margins and moderate declines in hospitality driven earnings. The overall hospitality market has seen a decline by more than 4% in average daily room rates. Furthermore, Colliers' retail and hospitality consultancy divisions also witnessed a sluggish performance. We continue to support the growth objectives of these strategic businesses, and may include potentially organic or inorganic growth opportunities to strengthen the financial performance of these investments.*

*As our Merchant Banking revenues are primarily dependent on the successful completion of mergers, acquisitions, restructuring and capital raising and Asset Management revenues are primarily driven by the levels of assets under management (AUM), weak economic and global financial market conditions can result in a challenging business environment but may provide opportunities for restructuring business.*

*Entering 2018, volatile market conditions continue. On an ongoing basis, regional macroeconomic and geopolitical factors, including any potential regional tax or regulatory reform, may impact the Group's business. Although market volatility may continue and may affect the business in 2018, the longer-term trends appear to remain favorable.*

*A. Mazrui*

**Mr. Abdullah Mazrui**  
Chairman



*Yasser Geissah*

**Mr. Yasser Geissah**  
CEO