

**National Central Cooling
Company PJSC**

CONSOLIDATED FINANCIAL STATEMENTS AND
REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2013

National Central Cooling Company PJSC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2013

National Central Cooling Company PJSC

REPORT OF THE BOARD OF DIRECTORS

For the year ended 31 December 2013

We are pleased to report on the financial results and operational performance of National Central Cooling Company PJSC ("Tabreed") for the year ended 31 December 2013.

In 2013, Tabreed completed its transformation into a classic utility infrastructure company, one that is underpinned by stable and recurring revenue streams, and ensuring a high resistance to market volatility. The company delivered a strong set of financial and operational results driven by the robust performance of its core chilled water business, which saw revenues increase by AED 34* million and now contributes 93% of the company's total revenue. This represents an annual growth of 11% since 2010, and our profit from operations has increased by an annual growth of 20% over the same period.

Operationally, we maintained our position as the world's largest district cooling company with 839,000 RT delivered to key projects and landmarks across the region. Today, 75% of our gross capacity is located in our home market of the United Arab Emirates (UAE). Regionally, our gross capacity has increased over 9%, driven by connections in Qatar and the Aramco plant, our first plant in the Kingdom of Saudi Arabia.

2013 Financial Highlights:

- Net profit attributable to the parent increased by 15% to AED 272.4 million
- Core chilled water revenue increased by 4% to AED 1,027.4 million
- Core chilled water profit from operations increased by 6% to AED 347.8 million
- Net finance costs decreased by 19% to AED 143.6 million

2013 Operational Highlights:

- 66 district cooling plants in the GCC
- 72,000 RT of customer connections added across the group
- Group connected capacity in the GCC increased by 9% to reach 839,000 RT
- Connected capacity in the UAE increased by 4% to reach 636,000 RT
- Major projects connected:
 - Yas Mall - 14,000 RT
 - World Trade Center Mall Abu Dhabi - 5,120 RT
 - Saudi Aramco - 27,000 RT
 - The Pearl - Qatar – 18,819 RT

Corporate Developments

With 839,000 RT delivered to clients in 2013, Tabreed's services have led to a total annual energy saving of 1.2 billion kilowatt hours (kWh). This significant reduction in energy consumption translates into the elimination of approximately 570,000 tons of carbon dioxide emissions.

*excludes AED 18 million of one-off revenue in December 2012

National Central Cooling Company PJSC

REPORT OF THE BOARD OF DIRECTORS

For the year ended 31 December 2013

Internationally, Tabreed received two Awards at the 104th annual International District Energy Association (IDEA) conference held in the USA. We received IDEA's Gold Award for the 'Total Building Area Committed' outside of North America, reflecting Tabreed's connection of a significant area of real estate to district cooling, and we also received the Silver Award for the number of buildings connected to district cooling outside of North America. This industry recognition underscores our position as a leading district cooling company.

At home in the UAE, we proudly partnered with the Masdar Institute of Science and Technology on a research and development project that aims to enhance operational performance and reduce energy consumption in district cooling plants. The outcome of this collaboration can potentially have wide ranging applications and lead to significant benefits for the industry and the region as a whole.

The Year Ahead

As we have done in the past, we look to the year ahead with cautious optimism. We are proud of the achievements we made in 2013 but remain firmly focused on continuing to grow our business and delivering sustainable and recurring results to our stakeholders.

We believe that the region's outlook is positive and as GCC governments continue to invest in their respective economies and develop their national infrastructure, there will be a simultaneous demand for Tabreed's services. More than at any other point in its history, Tabreed now has the financial strength and operational expertise to take advantage of these growth opportunities when they arise.

**National Central Cooling
Company PJSC**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2013



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF NATIONAL CENTRAL COOLING COMPANY PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Central Cooling Company PJSC (the "Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013 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 the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), 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.

Auditors' 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 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 auditors' judgement, 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 for 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.



Building a better
working world

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

We also confirm that, 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 the Company; proper books of account have been kept by the Company; 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 further report that 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 the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Ernst & Young

Signed by
Mohammad Mobin Khan
Partner
Ernst & Young
Registration No. 532

23 January 2014
Abu Dhabi

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2013

	Notes	2013 AED '000	2012 AED '000
Revenue	3 & 4	1,100,188	1,128,738
Operating costs	6.1 & 4	<u>(592,127)</u>	<u>(628,137)</u>
GROSS PROFIT		508,061	500,601
Administrative and other expenses	6.2	<u>(150,366)</u>	<u>(144,339)</u>
PROFIT FROM OPERATIONS		357,695	356,262
Finance costs	5	<u>(148,198)</u>	<u>(186,849)</u>
Finance income		4,573	10,183
Fair value adjustment on asset held for sale	34	<u>(19,080)</u>	-
Other income		3,223	641
Share of results of associates	12	66,710	57,587
Share of results of joint ventures	13	<u>(319)</u>	<u>(3,579)</u>
PROFIT FOR THE YEAR		<u>264,604</u>	<u>234,245</u>
Attributable to:			
Ordinary equity holders of the parent		272,351	236,351
Non-controlling interests		<u>(7,747)</u>	<u>(2,106)</u>
		<u>264,604</u>	<u>234,245</u>
Basic earnings per share attributable to ordinary equity holders of the parent (AED)	7	<u>0.08</u>	<u>0.08</u>
Diluted earnings per share attributable to ordinary equity holders of the parent (AED)	7	<u>0.08</u>	<u>0.08</u>

The attached notes 1 to 36 form part of these consolidated financial statements.

National Central Cooling Company PJSC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	<i>Note</i>	2013 AED '000	2012 AED '000
PROFIT FOR THE YEAR		264,604	234,245
Other comprehensive income			
Board remuneration for the year 2012	8	(7,500)	-
Net other comprehensive expense not to be reclassified to profit or loss in subsequent periods		(7,500)	-
Net movement in fair value of derivatives in cash flow hedges		(8,164)	(7,807)
Share of changes in fair value of derivatives of an associate in cash flow hedges	12	6,628	464
Exchange differences arising on translation of overseas operations		(63)	(121)
Net other comprehensive expense to be reclassified to profit or loss in subsequent periods		(1,599)	(7,464)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		255,505	226,781
Attributable to:			
Ordinary equity holders of the parent		263,252	228,887
Non-controlling interests		(7,747)	(2,106)
		255,505	226,781

The attached notes 1 to 36 form part of these consolidated financial statements.

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

		2013	2012
	Notes	AED '000	AED '000
ASSETS			
Non-current assets			
Capital work in progress	10	117,711	110,829
Property, plant and equipment	11	4,778,566	4,939,095
Intangible assets	14	37,596	37,596
Investments in associates	12	450,582	401,487
Investments in joint ventures	13	1,666	1,427
Loan to a joint venture	16&31	72,276	56,544
Finance lease receivables	17	1,618,906	1,619,409
		<u>7,077,303</u>	<u>7,166,387</u>
Current assets			
Inventories		37,026	33,876
Accounts receivable and prepayments	18	458,524	558,266
Finance lease receivables	17	117,787	120,959
Contract work in progress	19	43,208	52,276
Cash and short term deposits	20	670,382	560,417
		<u>1,326,927</u>	<u>1,325,794</u>
Asset held for sale	34	21,055	-
		<u>1,347,982</u>	<u>1,325,794</u>
TOTAL ASSETS		<u>8,425,285</u>	<u>8,492,181</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	21	659,063	659,063
Treasury shares	22	(2,016)	(2,016)
Statutory reserve	23	130,256	103,021
Retained earnings		335,030	130,209
Foreign currency translation reserve		(2,487)	(2,424)
Cumulative changes in fair value of derivatives		(50,036)	(48,500)
Mandatory convertible bond – equity component	27	2,487,017	2,353,138
Other reserve	23	1,019,988	1,153,867
		<u>4,576,815</u>	<u>4,346,358</u>
Non – controlling interests		74,258	80,233
Total equity		<u>4,651,073</u>	<u>4,426,591</u>
Non-current liabilities			
Accounts payable and accruals	30	23,378	29,658
Interest bearing loans and borrowings	25	1,857,114	1,980,526
Islamic financing arrangements	26	484,653	505,790
Obligations under finance lease	28	21,346	26,112
Mandatory convertible bond– liability component	27	453,045	545,130
Employees' end of service benefits	29	19,851	17,549
		<u>2,859,387</u>	<u>3,104,765</u>
Current liabilities			
Accounts payable and accruals	30	564,667	608,518
Advances from a related party	24	73,869	73,869
Interest bearing loans and borrowings	25	135,872	135,381
Islamic financing arrangements	26	22,894	22,894
Mandatory convertible bond– liability component	27	110,159	112,799
Obligations under finance lease	28	7,364	7,364
		<u>914,825</u>	<u>960,825</u>
Total liabilities		<u>3,774,212</u>	<u>4,065,590</u>
TOTAL EQUITY AND LIABILITIES		<u>8,425,285</u>	<u>8,492,181</u>

Waleed Al Mokarrab Al Muhairi
CHAIRMAN

Jasim H. Thabet
CHIEF EXECUTIVE OFFICER

The attached notes 1 to 36 form part of these consolidated financial statements.

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to equity holders of the parent										Total	Non-controlling interests	Total equity
	Issued capital	Treasury shares	Statutory reserve	Retained earnings	Foreign currency translation reserve	Comelofine changes in fair value of derivatives	Mandatory convertible bond - equity component	Other reserve					
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2012	659,063	-	79,386	38,278	(2,303)	141,157	1,945,245	1,245,196	3,821,692	92,391	3,914,083		
Profit (loss) for the year	-	(2,016)	-	236,351	(121)	(2,343)	-	-	236,351	(2,166)	234,245		
Other comprehensive income (expense) for the year	-	-	-	236,351	(121)	(2,343)	-	-	(7,464)	-	(7,464)		
Total comprehensive income (expense) for the year	-	-	-	236,351	(121)	(2,343)	-	-	228,887	(2,166)	226,721		
Transfer to statutory reserve	-	-	25,635	(21,635)	-	-	-	-	-	-	-		
Mandatory Convertible Bonds issued - equity component (MBC)	-	-	-	-	-	-	287,108	8,671	295,779	-	295,779		
Mandatory Convertible Bond and subordinated loan facility Tranche A - coupon settled in kind (Note 27)	-	-	-	(126,785)	-	-	126,785	-	-	(11,959)	(13,958)		
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	5,907	1,907		
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-		
Balance at 31 December 2012	659,063	(2,016)	105,021	130,209	(2,424)	(48,500)	2,353,138	1,253,867	4,346,358	80,233	4,426,591		
Balance at 1 January 2013	659,063	(2,016)	105,021	130,209	(2,424)	(48,500)	2,353,138	1,253,867	4,346,358	86,233	4,436,591		
Profit (loss) for the year	-	-	-	272,351	63	(1,536)	-	-	272,351	(7,747)	264,604		
Other comprehensive expense for the year	-	-	-	(7,300)	63	(1,536)	-	-	(9,099)	-	(9,099)		
Total comprehensive income (expense) for the year	-	-	-	265,051	63	(1,536)	-	-	263,512	(7,747)	255,765		
Dividends paid to ordinary shareholders (note 5)	-	-	-	(32,795)	-	-	-	-	(32,795)	-	(32,795)		
Transfer to statutory reserve	-	-	27,235	(27,235)	-	-	-	(133,879)	-	-	-		
Transfer from other reserve to retained earnings (note 5)	-	-	-	333,879	-	-	-	-	-	-	-		
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(4,374)	(4,374)		
Issuance of mandatory convertible bond A (note 27) in lieu of dividend payable to MCB 1A, MCB1B and MCB 1C	-	-	-	(133,879)	-	-	133,879	-	-	-	-		
Additional capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	-	-		
Balance at 31 December 2013	659,063	(2,016)	130,256	335,020	(2,487)	(50,036)	2,487,017	1,019,988	4,576,815	74,258	4,651,073		

The attached notes 1 to 36 form part of these consolidated financial statements.

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 AED '000	2012 AED '000
OPERATING ACTIVITIES			
Profit for the year		264,604	234,245
Non-cash adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property, plant and equipment	11	148,688	145,400
Finance income relating to finance lease receivable	17	(121,720)	(124,929)
Share of results of associates	12	(65,081)	(57,012)
Share of results of joint ventures	13	319	3,579
Net movement in employees' end of service benefits	29	2,302	459
Fair value adjustment	34	19,080	-
Interest income		(4,573)	(10,183)
Finance costs	5	148,198	186,849
Working capital adjustments:			
Inventories		(3,150)	33
Accounts receivable and prepayments		99,944	230,030
Contract work in progress		9,068	(3,971)
Accounts payable and accruals		(17,170)	(318,927)
Lease rentals received	17	125,395	110,676
Board of Directors' remuneration paid	8	(7,500)	-
Net cash flows from operating activities		<u>598,404</u>	<u>396,249</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(3,170)	(2,441)
Investment in associates	12	-	(18,639)
Dividends from associates	12	22,614	11,554
Payments for capital work in progress		(91,267)	(119,269)
Repayment of loan by an associate		-	3,662
Interest received		4,371	10,360
Net cash flows used in investing activities		<u>(67,452)</u>	<u>(114,773)</u>
FINANCING ACTIVITIES			
Interest bearing loans and borrowings received	25	6,963	1,431
Interest bearing loans and borrowings repaid		(139,181)	(77,188)
Islamic financing arrangement repaid	26	(23,590)	(11,796)
Cash coupon paid on mandatory convertible bonds	27	(120,588)	-
Payment for obligations under finance lease		(7,364)	(7,364)
Interest paid		(106,204)	(128,087)
Capital contribution by non-controlling interests		6,146	1,907
Dividends paid to ordinary shareholders		(32,795)	-
Dividends paid to non-controlling interests		(4,374)	(11,959)
Net cash flows used in financing activities		<u>(420,987)</u>	<u>(233,056)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		109,965	48,420
Cash and cash equivalents at 1 January		<u>560,417</u>	<u>511,997</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	<u>670,382</u>	<u>560,417</u>

The attached notes 1 to 36 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

1. ACTIVITIES

National Central Cooling Company PJSC ("Tabreed" or "the Company") is registered in the United Arab Emirates as a Public Joint Stock Company pursuant to the UAE Commercial Companies Law No. 8 of 1984 (as amended) and is listed on the Dubai Financial Market. The Company is a subsidiary of the Mubadala Development Company PJSC ("MDC" or the "Parent Company"). The principal activity of the Company is to supply chilled water. Activities of subsidiaries are described in note 9 to the consolidated financial statements.

The Company's registered office is located at P O Box 32444, Dubai, United Arab Emirates.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 23 January, 2014.

2.1 BASIS OF PREPARATION

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments and asset held for sale. The consolidated financial statements have been presented in United Arab Emirates Dirhams ("AED") which is the functional currency of the parent Company. All values are rounded to the nearest thousand (AED '000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and applicable requirements of the UAE Commercial Companies Law of 1984 (as amended).

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Tabreed and its subsidiaries (the "Group") as at 31 December each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.2 BASIS OF CONSOLIDATION continued

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group's accounting policies and the key sources of estimation uncertainty are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2012, except for the following amendments to IFRS effective as of 1 January 2013 which do not have any significant impact on the consolidated financial statements:

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 Consolidated and Separate Financial Statements that dealt with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

The application of this new standard had no impact on the Group.

IFRS 11 Joint Arrangements and IAS 28 Investment in Associates and Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The application of this new standard had no impact on the Group.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for these entities.

The application of IFRS 12 Disclosure of Interests in Other Entities has resulted in additional disclosures in the consolidated financial statements. Furthermore, the Group does not have unconsolidated structured entities which require disclosure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued**IFRS 13 Fair Value Measurement**

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS.

IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 36.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or recycled) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of overseas operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings).

The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 1 Clarification of the requirement for comparative information (Amendment)

These amendments clarify the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The amendments clarify that the opening statement of financial position (as at 1 January 2012 in the case of the Group), presented as a result of retrospective restatement or reclassification of items in financial statements does not have to be accompanied by comparative information in the related notes.

The application of this amendment had no impact on the Group.

IAS 19 Employee Benefits (Revised 2011)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

The application of this revised standard had no impact on the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

IFRIC 4 Determining whether an Arrangement contains a Lease

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

The Company enters into Cooling Agreements (the "Agreements") with its customers. To the extent such agreements are determined to contain a lease, the provisions of IAS 17 "leases" are applied to determine whether the Company has retained or transferred the significant risks and rewards of ownership of the related assets.

Impairment of non financial assets – Indicators of impairment

Management determines at each reporting date whether there are any indicators of impairment relating to the Group's cash generating units, property, plant and equipment, capital work in progress and intangible assets. A broad range of internal and external factors is considered as part of the indicator review process. Refer to note 11 for details on judgements and estimates applied by the management.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgement and estimate of the outcome of future events. The Group receives claims from its customers and suppliers as part of its ongoing business and records a provision based on assessment of reliability and probability of the outflow of economic resources.

Asset retirement obligation

The Group exercises judgement in evaluating whether an arrangement contains a legal or constructive obligation to remove the plant and equipment and restore the land at the end of the contractual arrangement or end of useful life of the Group's plant and equipment constructed and installed on land leased from the respective customer or third party. The cost estimates relating to asset retirement obligations can vary in response to many factors including changes to relevant legal requirements, the emergence of new techniques or experience at sites. The expected timing of expenditure can also change. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued*Provisions relating to contracts*

The Group reviews all its arrangements on a regular basis to identify any arrangements where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The Group estimates any such provision based on the facts and circumstances relevant to the contract.

Consolidation of investees

The Group consolidates an investee from the date the Company obtains control of the investee and ceases to consolidate when the Company loses the control.

The Group establishes control over an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The adoption of IFRS 10 has not resulted in any change from prior years.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the consolidated financial statements when they occur.

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the current usage of the asset compared to full utilisation capabilities of the asset and physical wear and tear. Management reviews the residual value and useful lives annually.

Recoverable amount for asset classified as held for sale

Management classifies a non-current asset as held for sale when the carrying amount of the asset is expected to be recovered through a sale transaction rather than continuing use. Non-current asset held for sale is measured at the lower of the asset's carrying amount and fair value less costs to sell at the reporting date. The recoverable amount has been estimated based on an evaluation performed by an accredited external, independent valuer, applying a valuation model, recommended by the International Valuation Standards Committee.

Financial instruments

The Group classifies funding received from a major shareholder as financial liability and / or equity based on the terms of the agreements. The determination of the fair value of the financial liability on inception requires management to make significant assumptions in terms of market interest rates on those dates.

Impairment of non-financial assets

Impairment testing requires an estimation of the value in use of the cash generating units. The value in use requires the Company to estimate the amount and timing of future cash flows, terminal value of the assets, cost to complete the construction of the assets and choose a suitable discount rate in order to calculate the present value of the cash flows.

The net carrying amounts of non-financial assets affected by the above estimations are as follows:

	2013	2012
	AED '000	AED '000
Capital work in progress	117,711	110,829
Property, plant and equipment	4,778,566	4,939,095
Intangible assets	37,596	37,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued*Impairment of accounts receivable, amounts due from related parties, finance lease receivable and loan to a joint venture*

An estimate of the collectible amount of accounts receivable, amounts due from related parties and finance lease 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.

At the reporting date, gross trade accounts receivable, amounts due from related parties, finance lease receivable and loan to a joint venture were AED 242.2 million (2012: AED 427.4 million), AED 176.3 million (2012: AED 71.6 million), AED 1,737 million (2012: AED 1,740 million) and AED 72.3 million (2012: AED 56.5 million) respectively and impairment loss recognised in the consolidated income statement for the year ended 31 December 2013 was AED 0.9 million (2012: reversal of AED 0.2 million), AED nil (2012: AED nil), AED nil (2012: AED nil) and AED nil (2012: AED nil) respectively.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, gross inventory was AED 37.0 million (2012: AED 33.9 million). No provision has been made for obsolete inventories during the year ended 31 December 2013 (2012: AED nil). Any difference between the amounts actually realised in future periods and the amounts expected to be realised will be recognised in the consolidated income statement.

Contracting revenue and expenses

When the outcome of a contract can be estimated reliably, contract revenue and contract costs associated with the contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. An expected loss on the contract is recognised as an expense immediately.

The outcome of the contract is considered to be reliably estimated when all the following conditions are satisfied:

- a) total contract revenue can be measured reliably;
- b) it is probable that the economic benefits associated with the contract will flow to the Group;
- c) both the contract costs to complete the contract and the stage of contract completion at the reporting date can be measured reliably; and
- d) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

When the outcome of a construction contract cannot be estimated reliably revenue is recognised only to the extent of contract costs incurred.

The Group estimates the cost to complete the projects in order to determine the cost attributable to revenue being recognised based on reports from third party independent consultant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Sales are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods, and the amount of revenue can be measured reliably. For supply of chilled water, revenue comprises of available capacity and variable output provided to customers and is recognised when services are provided.

Revenue from supervision contracts services is recognised as supervision services are rendered. Revenue in respect of study and design contracts services is recognised by reference to the stage of completion of the contract, when 1) it is probable that the economic benefits associated with the contract will flow to the Group; 2) the contract costs attributable to the contract can be reliably estimated; and 3) the Group is reasonably confident about the collection of the amount recognised.

Contract revenue represents the total sales value of work performed during the year, including the estimated sales value of contracts in progress assessed on a percentage of completion method, measured by reference to total cost incurred to date to estimated total cost of the contract. Provision is made for any known losses and probable contingencies.

Where the Group determines that an agreement with a customer contains a finance lease, capacity payments are recognised as finance income using a rate of return to give constant periodic rate of return on the investment in each year. Finance income on finance lease receivables is included in revenue due to its operating nature.

Interest income including interest on finance lease receivable is recognised as the interest accrues using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instruments to the net carrying amount of the financial asset.

Connection fees are recognised on a straight line basis over the term of the respective customer contracts unless it represents a separately identifiable service and satisfies other criteria for upfront recognition to the consolidated income statement.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Where the Group determines that the cooling service agreements to contain an operating lease, capacity payments are recognised as operating lease rentals on a systematic basis to the extent that capacity has been made available to the customers during the year.

Rental income arising from operating leases on chilled water plants is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**Foreign currency translation**

The consolidated financial statements are presented in AED, which is the parent Company's functional and presentation currency. The functional currency is the currency of the primary economic environment in which an entity operates. 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.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet reporting date.

All differences are taken to the consolidated income statement with the exception of monetary items that provide an effective hedge of a net investment in a foreign operation. These are recognised in the statement of comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated income statement.

Non monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

ii) Group companies

The assets and liabilities of foreign operations are translated into AED at the rate of exchange ruling at the balance sheet reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in the statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Capital work in progress

Capital work in progress is recorded at cost incurred by the Group for the construction of the plants and distribution network. Allocated costs directly attributable to the construction of the assets are capitalised. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Group's policies when construction of the asset is completed and it is available for use.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised (net of interest income on temporary investment of borrowings) as part of the cost of the asset until the asset is commissioned for use. Borrowing costs in respect of completed and suspended projects or not attributable to qualifying assets are expensed in the period in which they are incurred.

For partially operational plants and distribution assets, the Company ceases capitalising borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated income statement as incurred. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Plant and related integrated assets	over 30 years
Buildings	over 50 years
Distribution assets	over 50 years
Furniture and fixtures	over 3 to 4 years
Office equipment and instruments	over 3 to 4 years
Motor vehicles	over 4 to 5 years

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

The Group performs regular major overhauls of its district cooling plants. When each major overhaul is performed, its cost is recognised in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. The cost recognised is depreciated over the period till the next planned major overhaul.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in consolidated income statement in the year the asset is derecognised.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture 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 or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The statement of income reflects the Group's share of the results of operations of the associates and joint ventures. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**Investments in associates and joint ventures continued**

In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income outside operating profit. The financial statements of the associate or joint venture 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 associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss in the consolidated statement of income.

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated income statement in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**Treasury shares**

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is recognised in other capital reserves.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an 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 of disposal and its value in use. Recoverable amount 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. When 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 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, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations cover a period to the end of useful life of the plants.

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 assets' or cash-generating units' 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.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill is allocated. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Company performs its annual impairment test of goodwill as at 31 December.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment and other financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

Trade and settlement date accounting

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss; The Group did not have any financial assets at fair value through profit and loss during the years ended 31 December 2013 and 2012.
- Loans and receivables; This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation relating to finance lease receivable is included under revenue. The losses arising from impairment are recognised in the consolidated statement of income in finance costs for loans and in cost of sales or other operating expenses for receivables.
- Held-to-maturity investments; The Group did not have any held-to-maturity investments during the years ended 31 December 2013 and 2012.
- Available-for-sale (AFS) investments; The Group did not have any available-for-sale investments during the years ended 31 December 2013 and 2012.

Derecognition of financial assets

A financial asset (or, where 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; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement: and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**Investment and other financial assets** continued*Derecognition of financial assets* continued

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises a liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 and non-collectability 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 indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment and non-collectability of financial assets continued*Financial assets carried at amortised cost continued*

The interest income is recorded as part of finance income and revenue in the consolidated income statement for loan and receivables and finance lease receivables respectively. Loans 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 reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, as follows:

- Raw materials, consumables and goods for resale – purchase cost on the basis of weighted average cost.
- Work in progress – costs of direct materials and labour plus attributable overheads based on a normal level of activity.
- Finished goods – costs of direct materials and labour plus attributable overheads based on a normal level of activity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Contract work in progress

Contract work in progress represents cost plus attributable profit less provision for foreseeable losses and progress payments received and receivable.

Cash and cash equivalents

For the purpose of the consolidated 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.

Assets classified as held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through its continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Financial liabilities*Initial recognition and measurement*

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 derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of mandatory convertible bonds, term loans and Islamic financing arrangements, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, mandatory convertible bonds, term loans and Islamic financing arrangements, and derivative financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities continued*Subsequent measurement*

The measurement of financial liabilities depends on their classification and is described below:

Accounts payable and accruals

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

Interest bearing loans & borrowings and Islamic financing arrangements

After initial recognition, interest bearing loans and borrowings and Islamic financing arrangements are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of profit or loss.

Mandatory convertible bond

Mandatory convertible bond is separated into liability and equity components based on the terms of the bond.

On issuance of the mandatory convertible bond, the fair value of the liability component is determined by discounting the future cash flows pertaining to the coupon payments using an estimated market interest rate for an equivalent non-convertible bond. Fair value of derivative liability, arising from a fixed range of variability in the number of shares to be issued to the bond holders is initially recognised at its fair value and subsequently remeasured at each reporting date with the changes in fair value taken to the consolidated income statement.

The balance of the proceeds is allocated to the equity conversion portion and recognised under a separate heading under shareholders' equity. On conversion at maturity, the par value of the ordinary shares issued is recognised under issued capital and any surplus recognised under share premium or retained earnings.

Transaction costs are allocated between liability and equity components of the mandatory convertible bond based on allocation of initial proceeds from the bond between the liability and equity components.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When 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, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated income statement.

When equity instruments are issued to extinguish all or part of a financial liability (referred to as debt to equity swaps), the equity instruments are recognised initially at the fair value of the equity instruments issued, unless that fair value cannot be reliably measured. The difference between the fair value of the equity instruments issued and the carrying amount of the extinguished financial liability is recognised in the consolidated income statement. In the case of debt to equity swaps with a direct or indirect shareholders, the Company records the equity instruments issued at the carrying amount of the financial liability extinguished so that no profit or loss is recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**Offsetting of financial instruments**

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event and the cost to settle the obligation is both probable and able to be reliably measured.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of 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 lessee

Finance leases, which transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

Group as lessor – Finance leases

Leases where the Group transfers substantially all of the risks and benefits of ownership of the asset through its contractual arrangements to the customer are considered as a finance lease. The amounts due from the lessee are recorded in the statement of financial position as financial assets (finance lease receivables) and are carried at the amount of the net investment in the lease after making provision for impairment.

Group as lessor – Operating leases

Leases in which the Group does not transfer substantially all of the risks and benefits of ownership of the asset are classified as operating leases.

Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is 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 national employees, the Group makes contributions to the relevant UAE Government pension scheme calculated as a percentage of the employees' salaries. The obligations under these schemes are limited to these contributions, which are expensed when due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Share-based payment transactions

Qualifying employees of the Company receive part of their remuneration in the form of share-based payment transactions. The employees are granted notional units of Company's ordinary shares which are payable in cash ('cash-settled transactions'). The cost of the cash settled transactions is measured initially at fair value at the grant date based on the unit value determined by management of the Company or minimum guaranteed value, whichever is higher. The cost of cash settled transactions is expensed to the consolidated income statement or capital work in progress, as applicable, in the year of grant with recognition of a corresponding liability. The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value, subject to minimum guaranteed value, recognised in the consolidated income statement or capital work in progress, as applicable.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge risks associated with interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to consolidated income statement.

For the purpose of hedge accounting, hedges are classified as:

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a firm commitment; or
- fair value hedges when hedging the exposure to changes in the fair value of an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows or fair values, as applicable, attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows or fair values, as applicable, and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for, as described below:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in the statement of comprehensive income under the heading of "changes in fair value of derivatives", while any ineffective portion is recognised immediately in the consolidated income statement.

Amounts recognised in the statement of comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when the hedged interest expense is recognised or when a forecast sale occurs.

On restructuring of the hedged item and revocation of hedging relationship, for an effective cash flow hedge, fair value of the hedging instrument as of the date of restructuring is recognised to income statement over the shorter of remaining life of the original hedged item or hedging instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued**Derivative financial instruments and hedging continued***Cash flow hedges continued*

Where the hedged item is the cost of a non-financial asset or non-financial liability, the cumulative amounts recognised in the statement of changes in equity are transferred to the initial carrying amount of the non financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment is met .

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

Financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets comprise loan to a joint venture, trade and other receivables, finance lease receivables, cash and short term deposits. Financial liabilities comprise payables, loans, liability component of mandatory convertible bond and finance lease liabilities.

Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as asset held for sale, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 36.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value measurement continued

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 36.

The management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement, such as asset held for sale. External valuers are involved for valuation of significant assets, such as land. Selection criteria for valuers include market knowledge, reputation, independence and whether professional standards are maintained. The management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

The management, in conjunction with the Group's external valuers, also compares each the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Cash dividend and non-cash distribution to equity holders of the parent

The Company recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the laws and regulation applicable in UAE, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of income.

2.6 FUTURE CHANGES IN ACCOUNTING POLICIES – STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below.

- IFRS 9 Financial Instruments
- IFRIC Interpretation 21 Levies (IFRIC 21)

Improvements to IFRSs

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after 1 January 2014. The amendments listed below, are considered to have a reasonable possible impact on the Company:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2.6 FUTURE CHANGES IN ACCOUNTING POLICIES – STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

- IFRS 9 Financial Instruments - hedge accounting (Amendments to IFRS 9, IFRS 7 and IAS 39)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32
- IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS
- IAS 36 Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS

The Group intends to adopt these standards, if applicable, when they become effective. Furthermore, the Group has assessed the impact from the adoption of the above new and amended standards on its financial position or performance to be insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3 REVENUE

	2013 AED '000	2012 AED '000
Supply of chilled water and operating revenue	691,167	690,727
Finance lease income (note 17)	121,720	121,710
Operating lease income	214,502	198,543
Value chain business	72,799	117,758
	<u>1,100,188</u>	<u>1,128,738</u>

4 OPERATING SEGMENTS

For management purposes, the Group is organised into business units based on their products and services. The two reportable operating segments are as follows:

- The 'Chilled water' segment constructs, owns, assembles, installs, operates and maintains cooling and conditioning systems. In addition, the segment distributes and sells chilled water for use in district cooling technologies.
- The 'Value chain business' segment is involved in ancillary activities relating to the expansion of the Group's chilled water business (note 9).

Segment performance is evaluated based on operating profit or loss and is measured consistently with the Group's operating profit or loss in the consolidated financial statements. However, Group financing (finance costs and interest income) are managed on a group basis and are not allocated to operating segments.

	2013				2012			
	Chilled water AED'000	Value chain business AED'000	Eliminations AED'000	Total AED'000	Chilled water AED'000	Value chain business AED'000	Eliminations AED'000	Total AED'000
Revenue								
External revenue	1,027,389	72,799	-	1,100,188	1,010,980	117,758	-	1,128,738
Inter-segment revenue		13,754	(13,754)	-	-	12,682	(12,682)	-
Total revenue	<u>1,027,389</u>	<u>86,553</u>	<u>(13,754)</u>	<u>1,100,188</u>	<u>1,010,980</u>	<u>130,440</u>	<u>(12,682)</u>	<u>1,128,738</u>
Operating costs	(549,170)	(59,066)	16,109	(592,127)	(536,483)	(106,531)	14,877	(628,137)
Gross profit	<u>478,219</u>	<u>27,487</u>	<u>2,355</u>	<u>508,061</u>	<u>474,497</u>	<u>23,909</u>	<u>2,195</u>	<u>500,601</u>
Profit from operations	<u>347,809</u>	<u>11,423</u>	<u>(1,537)</u>	<u>357,695</u>	<u>347,106</u>	<u>6,440</u>	<u>2,716</u>	<u>356,262</u>
Finance costs				(148,198)				(186,849)
Finance income				4,573				10,183
Fair value adjustment on asset held for sale				(19,080)				-
Other income				3,223				641
Share of results of associates	66,710			66,710	57,587			57,587
Share of results of joint ventures	(319)			(319)	(3,579)			(3,579)
				<u>264,604</u>				<u>234,245</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

4 OPERATING SEGMENTS continued

Inter-segment revenues are eliminated on consolidation.

Segment results include an amount of depreciation and amortisation allocated to the operating segments as follows:

	2013			2012		
	Chilled water AED'000	Value chain business AED'000	Total AED'000	Chilled water AED'000	Value chain business AED'000	Total AED'000
Depreciation	142,896	5,792	148,688	139,438	5,962	145,400

Segment assets and liabilities are as follows:

	2013				2012			
	Chilled water AED'000	Value chain business AED'000	Unallocated AED'000	Total AED'000	Chilled water AED'000	Value chain business AED'000	Unallocated AED'000	Total AED'000
Segment Assets	7,519,687	206,895	-	7,726,582	7,457,894	258,038	-	7,715,932
Asset held for sale	21,055	-	-	21,055	-	-	-	-
Investments in Associates	450,582	-	-	450,582	401,487	-	-	401,487
Investments in joint ventures	1,666	-	-	1,666	1,427	-	-	1,427
Unallocated assets	-	-	225,400	225,400	-	-	373,335	373,335
Total assets	7,992,990	206,895	225,400	8,425,285	7,860,808	258,038	373,335	8,492,181
Segment liabilities	619,440	62,325	-	681,765	641,325	88,269	-	729,594
Unallocated liabilities	-	-	3,092,447	3,092,447	-	-	3,335,996	3,335,996
Total Liabilities	619,440	62,325	3,092,447	3,774,212	641,325	88,269	3,335,996	4,065,590

Unallocated assets represent bank deposits of AED 225,400 thousand (2012: AED 373,335 thousand) as these assets are managed on a group basis.

Unallocated liabilities represent interest bearing loans and borrowings of AED 1,992,986 thousand (2012: AED 2,115,907 thousand), Islamic financing arrangements of AED 507,547 thousand (2012: AED 528,684 thousand), obligations under finance lease of AED 28,710 thousand (2012: AED 33,476 thousand) and mandatory convertible bond – liability component of AED 563,204 thousand (2012: AED 657,929 thousand).

	2013			2012		
	Chilled water AED'000	Value chain business AED'000	Total AED'000	Chilled water AED'000	Value chain business AED'000	Total AED'000
<i>Capital expenditure:</i>						
Property, plant and equipment	2,660	510	3,170	2,301	140	2,441
Capital work in progress	49,053	-	49,053	75,705	-	75,705
Investment in an associate	-	-	-	18,639	-	18,639

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

4 OPERATING SEGMENTS continued

Geographic information

The following tables present certain non-current assets and revenue information relating to the Group based on geographical location of the operating units:

	Revenue		Non-current assets	
	2013 AED '000	2012 AED '000	2013 AED '000	2012 AED '000
United Arab Emirates	1,064,192	1,096,565	6,105,076	6,256,880
Others	35,996	32,173	447,703	450,049
	<u>1,100,188</u>	<u>1,128,738</u>	<u>6,552,779</u>	<u>6,706,929</u>

For this purpose, non-current assets comprise of capital work in progress, property, plant and equipment, finance lease receivables and intangible assets.

Revenue from external customers

The following table provides information relating to the Group's major customers which contribute more than 10% towards the Group's revenue.

	2013			2012		
	Chilled water AED'000	Value chain business AED'000	Total AED'000	Chilled water AED'000	Value chain business AED'000	Total AED'000
Customer 1	289,928	-	289,928	295,103	49,227	344,330
Customer 2	261,569	-	261,569	261,717	-	261,717
Customer 3	133,609	-	133,609	121,364	-	121,364
	<u>685,106</u>	<u>-</u>	<u>685,106</u>	<u>678,184</u>	<u>49,227</u>	<u>727,411</u>

5 FINANCE COSTS

	2013 AED '000	2012 AED '000
Gross interest charge for the year	148,198	186,849
Less: interest capitalised during the year	-	-
Interest charged to consolidated income statement during the year	<u>148,198</u>	<u>186,849</u>
Interest charged to consolidated income statement comprises of:		
Interest on interest bearing loans and borrowings	65,505	77,832
Rental charges on Islamic financing arrangements	16,309	19,235
Accretion expense on mandatory convertible bonds (note 27)	24,812	36,959
Interest element of obligations under finance lease	2,978	3,408
Amortisation of transaction costs	13,786	19,186
Other finance costs	24,810	30,229
	<u>148,198</u>	<u>186,849</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

6 PROFIT FROM OPERATIONS**6.1 Operating costs**

	2013	2012
	AED '000	AED '000
Costs of inventories recognised as an expense	33,405	20,698
Contract costs	77	58,759
Depreciation (note 11)	144,205	136,600
Utility costs	273,751	263,609
Purchase of chilled water from a related party (note 31)	90,534	90,175
Chiller rental costs	3,362	5,554
Others	46,793	52,742
	592,127	628,137

6.2 Administrative and other expenses

	2013	2012
	AED '000	AED '000
Staff costs	100,876	95,869
Depreciation (note 11)	4,483	8,800
(Reversal of) provision for doubtful debts - net (note 18)	911	(227)
Other administrative and general expenses	44,096	39,897
	150,366	144,339

7 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent 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 the conversion of mandatory convertible bond (note 27).

Diluted earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent (after adjusting for accretion on subordinated loan facility – liability component) by the weighted average number of ordinary shares used to calculate basic earnings per share, plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares (note 27).

At 31 December 2012, the Subordinated Bridge Loan facility Tranche A was rolled over into Mandatory Convertible Bond 1C and Tranche B was settled through the issue of Mandatory Convertible Bond 1A.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

7 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT continued

The following reflects the profit and share data used in the basic and diluted earnings per share computations:

	2013	2012
Profit for the year attributable to ordinary equity holders of the parent for basic earnings (AED '000)	<u>272,351</u>	<u>236,351</u>
Weighted average number of ordinary shares (excluding treasury shares) outstanding during the year ('000)	657,047	657,047
Effect of mandatory convertible bond ('000)	<u>2,726,349</u>	<u>2,312,382</u>
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of mandatory convertible bond ('000)	<u>3,383,396</u>	<u>2,969,429</u>
Basic earnings per share (AED)	<u>0.08</u>	<u>0.08</u>

Basic earnings per share has been calculated on the basis of maximum number of shares that may be issued for mandatory convertible bond (note 27).

	2013	2012
Profit for the year attributable to ordinary equity holders of the parent for basic earnings (AED '000)	272,351	236,351
Accretion on subordinated loan facility- Tranche B ('000) (note 27)	-	<u>14,865</u>
Profit for the year attributable to ordinary equity holders of the parent for diluted earnings (AED '000)	<u>272,351</u>	<u>251,216</u>
Weighted average number of ordinary shares for basic earnings per share ('000)	3,383,396	2,969,429
Effect of dilution for subordinated loan facility Tranche B ('000)	-	<u>365,202</u>
Weighted average number of ordinary shares adjusted for the effect of dilution ('000)	<u>3,383,396</u>	<u>3,334,631</u>
Diluted earnings per share (AED)	<u>0.08</u>	<u>0.08</u>

8 DIVIDENDS AND BOARD REMUNERATION

At the Annual General Meeting of the Company held in April 2013, the Shareholders approved a cash dividend of AED 32.8 million (5 fils per share) (2012: nil) to the ordinary equity holders of the Company. The cash dividend was paid on 14 May 2013.

In addition to the cash dividend, the Shareholders also approved issuance of new Mandatory Convertible Bond (MCB-4) of AED 133.9 million in settlement of dividend of 5 fils per share (79,426,201 shares to be issued (note 27)) accruing to the existing MCB holders 1A, 1B and 1C.

The Shareholders also approved the Board of Directors' remuneration of AED 7.5 million (2012: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

9 SUBSIDIARIES AND MATERIAL PARTLY-OWNED SUBSIDIARIES

The consolidated financial statements include the financial statements of the Company and the subsidiaries listed in the following table:

	Country of incorporation	Percentage of holding		Principal activities
		2013	2012	
<i>Chilled water segment</i>				
National Central Cooling Company Ras Al Khaimah LLC	UAE	100	100	Selling of chilled water
Summit District Cooling Company	UAE	100	100	Selling of chilled water
Bahrain District Cooling Company	Bahrain	90	90	Selling of chilled water
Tabreed Oman SAOC	Oman	60	60	Selling of chilled water
Tabreed LLC Oman	Oman	100	100	Selling of chilled water
Tabreed Operation & Maintenance Zones Cooling Stations Company LLC	UAE	100	100	Operation and maintenance of plants
<i>Value chain business segment</i>				
Gulf Energy Systems LLC	UAE	100	100	Construction of secondary networks
Emirates Preinsulated Pipes Industries LLC	UAE	60	60	Manufacturing of pre-insulated pipes
Installation Integrity 2000 LLC	UAE	100	100	Commissioning and engineering services
CoolTech Energy Water Treatment LLC	UAE	100	100	Water treatment services and selling chilled water related products
Ian Banham and Associates	UAE	70	70	Design and supervision consultancy
Installation Integrity 2006 WLL	Qatar	71	71	Commissioning and engineering services
Sahara Cooling and Air Conditioning LLC	UAE	51	51	Act as the commercial representative of Sahara Cooling Limited, an associate (note 12)
<i>Others - Unallocated</i>				
Tabreed Holdings WLL	Bahrain	100	100	Act as a holding company

None of the subsidiaries have material non-controlling interests.

10 CAPITAL WORK IN PROGRESS

The movement in capital work in progress during the year is as follows:

	2013 AED '000	2012 AED '000
Balance at 1 January	108,510	461,586
Additions during the year	49,053	75,705
Transfer to property, plant and equipment (note 11)	(31,639)	(428,781)
Transfer of capital work in progress to a joint venture (note 16)	(15,732)	-
	110,192	108,510
Advances to contractors	7,519	2,319
Balance at 31 December	117,711	110,829

Refer note 11 for indicators of impairment and testing of cash generating units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

11 PROPERTY, PLANT AND EQUIPMENT

	<i>Land, plant and buildings</i> AED'000	<i>Distribution network</i> AED'000	<i>Furniture and fixtures</i> AED'000	<i>Office Equipment and instruments</i> AED'000	<i>Motor vehicles</i> AED'000	<i>Total</i> AED'000
2013						
Cost:						
At 1 January 2013	4,141,935	2,264,382	12,912	34,132	1,235	6,454,596
Additions	437	-	221	2,440	72	3,170
Transfer from capital work in progress (note 10)	29,006	2,633	-	-	-	31,639
Reimbursement from customer	(6,515)	-	-	-	-	(6,515)
Asset classified under held for sale (note 34)	(40,135)	-	-	-	-	(40,135)
Disposals	-	-	-	-	(102)	(102)
At 31 December 2013	<u>4,124,728</u>	<u>2,267,015</u>	<u>13,133</u>	<u>36,572</u>	<u>1,205</u>	<u>6,442,653</u>
Depreciation:						
At 1 January 2013	477,625	156,382	12,088	29,442	1,217	676,754
Depreciation for the year	103,313	42,591	596	2,168	20	148,688
Disposals	-	-	-	-	(102)	(102)
At 31 December 2013	<u>580,938</u>	<u>198,973</u>	<u>12,684</u>	<u>31,610</u>	<u>1,135</u>	<u>825,340</u>
Net carrying amount before provision for impairment:						
At 31 December 2013	<u>3,543,790</u>	<u>2,068,042</u>	<u>449</u>	<u>4,962</u>	<u>70</u>	<u>5,617,313</u>
Provision for impairment at 1 January 2013 and 31 December 2013	<u>483,299</u>	<u>355,448</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>838,747</u>
Net carrying amount after provision for impairment:						
At 31 December 2013	<u>3,060,491</u>	<u>1,712,594</u>	<u>449</u>	<u>4,962</u>	<u>70</u>	<u>4,778,566</u>
2012						
Cost:						
At 1 January 2012	3,729,475	2,225,448	12,679	31,221	1,235	5,984,058
Additions	1,058	-	233	1,149	-	2,441
Transfer from capital work in progress (note 10)	392,748	34,271	-	1,762	-	428,781
Reimbursement from customer and contractor	(61,225)	(15,260)	-	-	-	(76,485)
Asset classified under held for sale	92,951	19,923	-	-	-	112,874
Disposals	(7,073)	-	-	-	-	(7,073)
At 31 December 2012	<u>4,141,935</u>	<u>2,264,382</u>	<u>12,912</u>	<u>34,132</u>	<u>1,235</u>	<u>6,454,596</u>
Depreciation:						
At 1 January 2012	379,608	115,867	11,374	26,835	1,166	529,850
Depreciation for the year	102,939	39,089	714	2,607	51	145,400
Asset classified under held for sale	5,151	1,425	-	-	-	6,577
Disposals	(7,073)	-	-	-	-	(7,073)
At 31 December 2012	<u>477,625</u>	<u>156,382</u>	<u>12,088</u>	<u>29,442</u>	<u>1,217</u>	<u>676,754</u>
Net carrying amount before provision for impairment:						
At 31 December 2012	<u>3,664,310</u>	<u>2,108,000</u>	<u>824</u>	<u>4,690</u>	<u>18</u>	<u>5,777,842</u>
Provision for impairment at 1 January 2012 and 31 December 2012	<u>483,299</u>	<u>355,448</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>838,747</u>
Net carrying amount after provision for impairment:						
At 31 December 2012	<u>3,181,011</u>	<u>1,752,552</u>	<u>824</u>	<u>4,690</u>	<u>18</u>	<u>4,939,095</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11 PROPERTY, PLANT AND EQUIPMENT continued

The depreciation charge for the year has been allocated as follows:

	2013	2012
	AED '000	AED '000
Included in operating costs (note 6.1)	144,205	136,600
Included in administrative and other expenses (note 6.2)	4,483	8,800
	<u>148,688</u>	<u>145,400</u>

Property, plant and equipment with a carrying amount of AED 853.0 million (2012: AED 889.9 million), together with the customer receivables associated with these plants have been pledged as security for the interest bearing loans and borrowings and Islamic financing arrangements (notes 25 and 26).

Net book value of plant amounting to AED 39.8 million (2012: AED 45.1 million) are held under finance lease. The leased assets are pledged as security for the related finance lease liability (note 28).

The management undertakes an annual strategic review of all its projects with the view of assessing the impact of any internal or external factors on the recoverable amount of the Group's property, plant and equipment and capital work in progress.

The Company applies the value in use methodology using cash flow projections to estimate the recoverable amount of its property, plant and equipment and capital work in progress approved by the Company's management and Board of Directors.

The calculation of value in use is most sensitive in the following judgements and assumptions:

- Identification of cash generating units;
- Estimated use of the plant measured by its Equivalent Full Load Hours (EFLH) defined as annual ton-hours of cooling actually supplied divided by the supplying chiller's design capacity in tons;
- Amount and timing of revenue relating to capacity of the plant,
 - a. contracted but not connected at year end; and
 - b. not connected at year end;
- Inflation rate (3%) used to extrapolate cash flows beyond the period of the initial agreement with the respective customer;
- Cost of construction relating to plant and equipment under construction based on contracts signed to date and estimate of cost required to complete;
- Discount rate based on the Company's weighted average cost of capital (WACC) of 8.5% (2012: 8.5%); and
- Terminal value of distribution assets and buildings.

Revenue estimates are based on discussions with existing and potential customers. Cash inflows are based on the term of the existing contracts with the respective customers extended to the period of the remaining useful life of the plant.

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12 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

	<i>Country of incorporation</i>	2013	<i>Ownership</i> 2012
Industrial City Cooling Company	United Arab Emirates	20%	20%
Qatar Central Cooling Company PJSC	Qatar	44%	44%
Tabreed District Cooling Company (Saudi)	Kingdom of Saudi Arabia	25%	25%
Sahara Cooling Limited	United Arab Emirates	40%	40%
Cool Tech Qatar	Qatar	49%	49%

The Group's interest in associates is accounted for using the equity method in the consolidated financial statements. Movement in investment in associates is as follows:

	2013 <i>AED '000</i>	2012 <i>AED '000</i>
At 1 January	401,487	336,926
Share of results for the year	65,081	57,012
Additions during the year	-	18,639
Dividends received	(22,614)	(11,554)
Share of changes in fair value of effective cash flow hedges	6,628	464
At 31 December	450,582	401,487

The associates are involved in the same business activity as Tabreed, except Cool Tech Qatar which is involved in selling evaporative cooling equipment and related products. The reporting dates for the associates are identical to Tabreed.

During the year, the Company made no additional investments in any associate (2012: AED 18.6 million in Tabreed District Cooling Company (Saudi), to contribute to its share in increase in share capital required for a specific project).

The following illustrates summarised information of Tabreed's investments in associates:

	2013 <i>AED '000</i>	2012 <i>AED '000</i>
Share of the associates' statement of financial position:		
Current assets	203,999	208,790
Non-current assets	1,016,151	949,631
Current liabilities	(240,217)	(209,319)
Non-current liabilities	(529,351)	(547,615)
Net assets	450,582	401,487
Share of the associates' revenues and results:		
Revenues	209,998	163,493
Results (as adjusted by profit resulting from transactions between the Company and the associates amounting to AED 1.6 million (2012: AED 0.6 million))	66,710	57,587

Net assets of associates include the Company's share of negative fair value of derivatives of associates amounting to AED 12 million (2012: AED 19 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12 INVESTMENTS IN ASSOCIATES continued

Summarised results of a material associate, Qatar Central Cooling Company PJSC, are presented below:

	2013	2012
	AED '000	AED '000
Summarised statement of Income:		
Revenue	315,814	273,237
Cost of sales	(170,511)	(140,646)
Administrative and other expenses	(21,610)	(20,749)
Net finance cost	(14,633)	(13,381)
Profit for the year	109,060	98,461
Summarised statement of financial position:		
Inventories and cash and bank balances (current)	178,980	181,420
Property, plant and equipment and other non-current assets	1,297,774	1,230,634
Trade and other receivables (current)	86,232	185,964
Trade and other payable (current)	(142,566)	(165,837)
Interest-bearing loans and borrowing	(698,682)	(790,781)
Liabilities (non-current)	(45,775)	(41,288)
Net assets	675,963	600,112
Dividends received from associate	14,611	-

13 INVESTMENTS IN JOINT VENTURES

The Company has the following investments in joint ventures:

	<i>Country of Incorporation</i>	2013	<i>Ownership</i>	2012
SNC Lavalin Gulf Contractors LLC	United Arab Emirates	51%		51%
S&T Cool District Cooling Company LLC	United Arab Emirates	50%		50%

SNC Lavalin Gulf Contractors LLC (SLGC), a limited liability company is involved in engineering, procurement, construction and construction management in the field of District Cooling. The Group's interest in SLGC is accounted for using the equity method in the consolidated financial statements

S&T Cool District Cooling Company LLC (S&T), a limited liability company, incorporated in Emirate of Abu Dhabi, is involved in the same business activity as Tabreed. The Group's interest in S&T is accounted for using the equity method in the consolidated financial statements

The reporting date for the joint ventures is identical to Tabreed.

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13 INVESTMENTS IN JOINT VENTURES continued

Movement in investments in joint ventures is as follows:

	2013 AED '000	2012 AED '000
At 1 January	1,427	4,334
Share of results for the year	(557)	(3,579)
Adjustments for inter group transactions	796	672
At 31 December	<u>1,666</u>	<u>1,427</u>
Share of the joint ventures' revenues and profits:		
Revenues	<u>26,239</u>	<u>17,263</u>
Loss for the year	<u>(319)</u>	<u>(3,579)</u>

The following illustrates summarised information of Tabreed's investments in joint ventures.

	2013 AED '000	2012 AED '000
Tabreed's share of the assets and liabilities of the joint ventures are as follows:		
Current assets	70,019	65,526
Non-current assets	<u>173,568</u>	<u>164,095</u>
	<u>243,587</u>	<u>229,621</u>
Current liabilities	(36,410)	(48,175)
Non-current liabilities	(133,235)	(123,475)
Loan from shareholders	<u>(72,276)</u>	<u>(56,544)</u>
Total net assets	<u>1,666</u>	<u>1,427</u>

14 INTANGIBLE ASSETS

	<i>Goodwill</i>	
	2013 AED '000	2012 AED '000
Balance at 1 January and 31 December	<u>37,596</u>	<u>37,596</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15 IMPAIRMENT TESTING OF GOODWILL

Carrying amount of goodwill allocated to each of the cash generating units is as follows:

	2013 AED '000	2012 AED '000
Ian Banham & Associates	27,711	27,711
UAE Armed Forces	9,712	9,712
Other	173	173
Total	37,596	37,596

Goodwill acquired through business combinations has been allocated to the following main individual cash-generating units, for impairment testing:

- Ian Banham & Associates cash-generating unit relating to goodwill arising from acquisition of equity interest in Ian Banham & Associates; and
- UAE Armed Forces cash generating unit relating to goodwill arising from acquisition of Gulf Energy Systems.

Ian Banham & Associates

The recoverable amount of the Ian Banham & Associates unit has been determined based on a value in use calculation using revenue and cost cash flow projections approved by the board of directors covering a five-year period ending 31 December 2018. The discount rate applied to the cash flow projections is 25% (2012: 25%). Revenue is earned from project supervision and study and design contracts. The revenue in the five year cash flow model reflects management estimates of projected revenue on a conservative basis. Contract costs primarily represent salaries and related benefits of technical staff such as engineers and other administrative costs. Such costs are included in the model based on current expected market trend. The cash flow projections include an estimate of terminal value based on inflation related growth rate of 3% (2012: 3%).

UAE Armed Forces cash generating unit

The recoverable amount of the UAE Armed Forces cash generating unit is determined based on a value in use calculation using cash flow projections. Revenue comprises of available capacity and variable output based on a signed contract with customer for a period of 20 years. The management is confident that the current 20 year contract with the customer will be extended for the remaining useful life of the plant. The operating costs mainly represent cost of utilities to operate the plants in the cash generating unit and salaries and related benefits of staff and are determined based on management's approved financial forecast. The discount rate applied to the cash flow projections is 8.5% (2012: 8.5 %) representing the Company's weighted average cost of capital.

Given the headroom in the cash flow projections, management believes no reasonable change in the revenue, cost and discount rate assumptions would cause the carrying amount of goodwill to be impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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16 LOAN TO A JOINT VENTURE

	<i>2013</i>	<i>2012</i>
	<i>AED '000</i>	<i>AED '000</i>
Loan to a joint venture	<u>72,276</u>	<u>56,544</u>

The Company has granted a loan of AED 72.3 million to S&T District Cooling Company LLC, a joint venture. The loan is unsecured and interest free. The amount is not expected to be repaid within twelve months from the reporting date.

During the year, an item of capital work in progress was transferred to a joint venture (note 11), at arms' length transaction. The transfer has been recorded in the financial statements of the Group as a loan to a joint venture as per the resolution of the Board of Directors of the joint venture.

17 FINANCE LEASE RECEIVABLES

Movement in the finance lease receivables during the year is as follows:

	<i>2013</i>	<i>2012</i>
	<i>AED '000</i>	<i>AED '000</i>
At 1 January	1,740,368	1,726,115
Revisions to finance lease receivable on extension of lease term credited to consolidated statement of income	-	3,219
Finance lease income (note 3)	121,720	121,710
Lease rentals received	<u>(125,395)</u>	<u>(110,676)</u>
At 31 December	<u>1,736,693</u>	<u>1,740,368</u>

Analysed in the consolidated statement of financial position as follows:

Current assets	117,787	120,959
Non-current assets	<u>1,618,906</u>	<u>1,619,409</u>
	<u>1,736,693</u>	<u>1,740,368</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

17 FINANCE LEASE RECEIVABLES continued

Future minimum lease receivables under finance leases together with the present value of the net minimum lease receivables are as follows:

	2013		2012	
	<i>Minimum lease receivables</i>	<i>Present value of minimum lease</i>	<i>Minimum lease receivables</i>	<i>Present value of minimum lease</i>
	AED '000	AED '000	AED '000	AED '000
Within one year	122,108	117,787	125,395	120,959
After one but no more than five years	515,018	417,605	503,549	408,441
More than five years	3,163,958	1,201,301	3,297,535	1,210,968
	<u>3,801,084</u>	<u>1,736,693</u>	<u>3,926,479</u>	<u>1,740,368</u>
Unearned revenue (note i)	(2,064,391)	-	(2,186,111)	-
	<u>1,736,693</u>	<u>1,736,693</u>	<u>1,740,368</u>	<u>1,740,368</u>

(i) Movement in unearned revenue is as follows:

	2013	2012
	AED '000	AED '000
At 1 January	2,186,111	2,291,626
Relating to new and extended finance leases	-	16,195
Recognised during the year (note 3)	(121,720)	(121,710)
At 31 December	<u>2,064,391</u>	<u>2,186,111</u>

No unguaranteed residual value to the benefit of the lessor is assumed for the purpose of the above calculation.

18 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2013	2012
	AED '000	AED '000
Trade receivables	230,257	411,975
Amounts due from related parties (note 31)	176,311	71,590
Advances to contractors and employees	18,898	14,990
Deposits and other receivables	21,026	51,576
Prepayments	12,032	8,135
	<u>458,524</u>	<u>558,266</u>

As at 31 December 2013, trade receivables with a nominal value of AED 11.9 million (2012: AED 15.5 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

18 ACCOUNTS RECEIVABLE AND PREPAYMENTS continued

	2013	2012
	AED '000	AED '000
At 1 January	15,550	23,968
Charge for the year (note 6.2)	911	3,373
Reversed during the year (note 6.2)	-	(3,600)
Amounts written off	<u>(4,501)</u>	<u>(8,191)</u>
At 31 December	<u>11,960</u>	<u>15,550</u>

As at 31 December, the ageing analysis of unimpaired trade receivables and amounts due from related parties is as follows:

	Neither past due nor Total AED'000		Past due but not impaired					>365 days AED'000
			< 30 days AED'000	30 – 60 days AED'000	60 – 90 days AED'000	90 – 120 days AED'000	120 – 365 days AED'000	
2013	406,568	170,645	35,408	15,450	11,475	9,192	94,008	70,390
2012	483,565	168,736	70,566	46,228	19,207	11,158	65,999	101,671

Unimpaired receivables are expected on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are therefore, unsecured.

Trade receivables are non-interest bearing and are generally on 30 – 60 days terms. For terms and conditions relating to related party receivables, refer to note 31.

19 CONTRACT WORK IN PROGRESS

	2013	2012
	AED '000	AED '000
Balance as at 1 January	52,276	48,682
Cost plus attributable profit	79	59,227
Progress payments received and receivable	<u>(9,147)</u>	<u>(55,633)</u>
Balance as at 31 December	<u>43,208</u>	<u>52,276</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20 CASH AND SHORT TERM DEPOSITS

Cash and cash equivalents included in the consolidated statement of cash flows include the following consolidated statement of financial position amounts:

	2013	2012
	AED '000	AED '000
Bank balances and cash	444,982	187,082
Bank deposits	225,400	373,335
	670,382	560,417

Bank deposits attract a fixed rate of interest ranging from 0.25% to 2.1% per annum (2012: 0.15% to 3.01% per annum) and are held for tenure of less than 3 months (2012: same).

Geographical concentration of cash and short term deposits is as follows:

	2013	2012
	AED '000	AED '000
Within UAE	652,359	539,649
Outside UAE	18,023	20,768
	670,382	560,417

21 ISSUED CAPITAL

	2013	2012
	AED '000	AED '000
Authorised, issued and fully paid up share capital		
659,063,447 (2012: 659,063,447) Ordinary shares of AED 1 each	659,063	659,063

22 TREASURY SHARES

The Company set up an employee incentive scheme in accordance with the Board of Directors resolution dated 17 December 2000, and contributed to a shareholder for the purchase of the Company's ordinary shares and to act as a custodian for such shares. The Company retains the significant risks and rewards associated with those shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

23 RESERVES**Statutory reserve**

As required by the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company, 10% of the profit for the year is transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve equals 50% of the issued capital. The reserve is not available for distribution.

Other reserve

This represents amounts transferred on repurchase of MCB 08 on 19 May 2011 through delivery of 415,683,447 shares. AED 1,145.2 million represents difference between the total of liability and equity components extinguished and shares issued. The reserve also includes an amount of AED 8,671 thousand created on settlement of subordinated loan facility - Tranche B into mandatory convertible bonds in 2012.

During the year, the Company's Board of Directors resolved to transfer an amount of AED 133.9 million from the other reserve to retained earnings (note 8 and 27).

24 ADVANCES FROM A RELATED PARTY

These represent advances received from a customer relating to funding support for the construction of property, plant and equipment (note 31).

25 INTEREST BEARING LOANS AND BORROWINGS

	<i>Effective interest rate %</i>	2013 AED '000	2012 AED '000
Term loan 1- Facility A (note 1)	EIBOR + margin	631,879	758,594
Term loan 1- Facility B (note 1)	EIBOR + margin	1,197,989	1,192,481
Term loan 2	3%	6,060	7,351
Term loan 3	LIBOR + margin	150,095	157,481
Term loan 4	3%	5,217	-
Term loan 5	3%	1,746	-
		1,992,986	2,115,907

Analysed in the consolidated statement of financial position as follows:

	2013 AED '000	2012 AED '000
Current portion	135,872	135,381
Non-current portion	1,857,114	1,980,526
	1,992,986	2,115,907

Note 1 Syndicate loan facility

Term loan 1 represents facilities obtained as result of a refinancing of the Company's debt in 2011, in the form of term loan facilities A and B comprising of five individual conventional / Islamic tranches, with total amount of AED 1 billion and AED 1.6 billion, respectively. Both of these carry interest / rental rates of EIBOR plus a margin.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

25 INTEREST BEARING LOANS AND BORROWINGS continued**Note 1 Syndicate loan facility continued**

The facility A is repayable in 13 equal semi-annual instalments amounting to AED 76.9 million (AED 65.1 million representing interest bearing loans and borrowings and AED 11.8 million towards Islamic financing arrangements) commencing from 31 December 2012 with the last instalment due on 31 March 2019. Facility B is repayable in a bullet payment on 31 March 2019.

A revolving facility of AED 150 million extended to the Group is to be utilised in the form of issuance of documentary credits and drawing cash advances up to an amount of AED 75 million, out of which an amount of AED 62 million (2012: AED 90 million) (cash advances of AED nil (2012: AED nil)) has been utilised by the Company as of 31 December 2013. The revolving facility carries interest at 0.58% to 1.75% for issuance of documentary credits and EIBOR plus a margin on cash drawings and is repayable on 31 March 2019 with an annual clean down of no more than AED 5 million of cash advances made.

Interest on the syndicate loan facilities is payable in cash on a quarterly basis. The facilities are secured against plants, equipment and trade debtors (refer note 11).

Term loan 3 relating to a subsidiary borrowing is repayable in 22 semi annual instalments starting 2008.

26 ISLAMIC FINANCING ARRANGEMENTS

	<i>Profit charge %</i>	2013 <i>AED '000</i>	2012 <i>AED '000</i>
Islamic financing arrangement 1 facility A (Note 25)	EIBOR + margin	114,433	137,385
Islamic financing arrangement 1 facility B (Note 25)	EIBOR + margin	393,114	391,299
		507,547	528,684

Analysed in the consolidated statement of financial position as follows:

	2013 <i>AED '000</i>	2012 <i>AED '000</i>
Current portion	22,894	22,894
Non-current portion	484,653	505,790
	507,547	528,684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27 MANDATORY CONVERTIBLE BOND (MCB)

The Group has four series of MCBs in issue.

Mandatory convertible bond MCB-1A

The Group has two MCB1A bonds in issue:

- A mandatory convertible bond ("MCB-1A") was issued on 1 April 2011 in the form of trust certificates for a total value of AED 635 million, maturing in March 2019; and
- A mandatory convertible bond ("MCB-1A") was issued on 31 December 2012 in the form of trust certificates for a total value of AED 411 million, maturing in March 2019. This bond was issued as settlement of sub-ordinated loan facility Tranche B.

MCB-1A carries a cash coupon of 4% per annum from 1 January 2013 to maturity payable in arrears on a quarterly basis.

The MCB-1A shall be converted upon maturity into ordinary shares of the Company based on a fixed exchange ratio of 1.1259. The bond is subordinated in right of payment to the claims of creditors of the Company.

Transaction costs in connection with the issuance of the MCB-1A on inception amounted to AED 10.9 million.

The liability component of MCB-1A amounting to AED 209 million (2012: AED 244 million) net of transaction costs, represents present value of cash coupon payable during the period from 1 January 2013 till maturity, discounted at a market rate of 4% on inception, which is determined on the basis of a bond with similar terms and conditions, but without the condition of mandatory conversion into ordinary shares at the redemption.

The remainder of the proceeds from MCB-1A amounting to AED 871 million (2012: AED 871 million) net of transaction cost, have been recognised as the equity component of MCB-1A and adjusted for the settlement in kind of the coupon amounting to AED 68.4 million relating to the period from inception to 31 December 2012.

Mandatory convertible bond MCB-1B

A mandatory convertible bond ("MCB-1B") was issued on 1 April 2011 in the form of trust certificates for a total value of AED 1,065 million, maturing in March 2019.

MCB-1B carries a cash coupon of 4% per annum from 1 January 2013 to maturity payable in arrears on a quarterly basis.

The MCB-1B shall be converted upon maturity into ordinary shares of the Company based on a fixed exchange ratio of 1.1259. The bond is subordinated in right of payment to the claims of creditors of the Company.

Transaction costs in connection with the issuance of the MCB-1B on inception amounted to AED 18.2 million.

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27 MANDATORY CONVERTIBLE BOND (MCB) continued**Mandatory convertible bond MCB-1B continued**

The liability component of MCB-1B amounting to AED 220 million (2012: AED 257 million) net of transaction costs, represents present value of cash coupon payable during the period from 1 January 2013 till maturity, discounted at a market rate of 4% at inception, which is determined on the basis of a bond with similar terms and conditions, but without the condition of mandatory conversion into ordinary shares at the redemption.

The remainder of the proceeds from MCB-1B amounting to AED 923 million (2012: AED 923 million) net of transaction cost, have been recognised as the equity component of MCB-1B and adjusted for the settlement in kind of the coupon amounting to AED 114.7 million relating to the period from inception to 31 December 2012.

Mandatory convertible bond MCB-1C

The Group settled Tranche A of sub-ordinated loan facility on 31 December 2012 by rolling it into a mandatory convertible bond ("MCB-1C") issued in the form of trust certificates for a total value of AED 720 million, maturing in March 2019.

MCB-1C carries a cash coupon of 4% per annum from 1 January 2013 to 31 March 2019, payable in arrears on a quarterly basis and will be converted into ordinary shares of the Company based on a fixed exchange ratio of 1.1259. The bond is subordinated in right of payment to the claims of creditors of the Company.

The liability component of MCB-1C amounting to AED 134 million (2012: AED 157 million) represents present value of cash coupon payable during the period from 1 January 2013 till maturity, discounted at a market rate of 4% at inception, which is determined on the basis of a bond with similar terms and conditions, but without the condition of mandatory conversion into ordinary shares at the redemption.

The remainder of the proceeds from MCB-1C amounting to AED 559.9 million (2012: AED 559.9 million) have been recognised as the equity component of MCB-1C.

Mandatory convertible bond MCB-4

A mandatory convertible bond ("MCB-4") was issued on 22 May 2013 in the form of trust certificates for a total value of AED 133.879 million (note 8) maturing in April 2019.

MCB-4 does not carry a coupon. The instrument is convertible any time from now until maturity in 2019 into ordinary shares of the Company based on a fixed exchange ratio of 1.6856. The bond is subordinated in right of payment to the claims of creditors of the Company. MCB-4 has therefore been recognised as an equity instrument. Total number of shares upon conversion will be 79,426,201 shares at AED 1 each.

The mandatory convertible bonds MCB 1A, 1B, 1C and MCB 4 have been issued without any pledge or security. Reconciliation between the amounts presented in the consolidated statement of financial position is as follows:

	Mandatory convertible bond (MCB 1A)		
	<i>Liability component</i>	<i>Equity component</i>	<i>Total</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2013	243,981	870,575	1,114,556
Accretion expense	9,174	-	9,174
Amortisation of transaction costs	327	-	327
Cash coupons paid	(44,583)	-	(44,583)
Balance at 31 December 2013	208,899	870,575	1,079,474

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27 MANDATORY CONVERTIBLE BOND (MCB) *continued*

	Mandatory convertible bond (MCB 1B)		
	<i>Liability component</i>	<i>Equity component</i>	<i>Total</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2013	257,041	922,612	1,179,653
Accretion expense	9,709	-	9,709
Amortisation of transaction costs	549	-	549
Cash coupons paid	(47,188)	-	(47,188)
Balance at 31 December 2013	220,111	922,612	1,142,723

	Mandatory convertible bond (MCB 1C)		
	<i>Liability component</i>	<i>Equity component</i>	<i>Total</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2013	156,907	559,951	716,858
Accretion expense	5,929	-	5,929
Amortisation of transaction costs	175	-	175
Cash coupons paid	(28,817)	-	(28,817)
Balance at 31 December 2013	134,194	559,951	694,145

	Mandatory convertible bond (MCB 4)		
	<i>Liability component</i>	<i>Equity component</i>	<i>Total</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at inception and at 31 December 2013 (note 8)	-	133,879	133,879

Total balance of MCBs at 31 December 2013	563,204	2,487,017	3,050,221
Total balance of MCBs at 31 December 2012	657,929	2,353,138	3,011,067

Allocated to the bonds as follows:

MCB 1A (representing 989,944,912 shares at AED 1 each)	208,899	870,575	1,079,474
MCB 1B (representing 1,047,776,962 shares at AED 1 each)	220,111	922,612	1,142,723
MCB 1C (representing 639,862,459 shares at AED 1 each)	134,194	559,951	694,145
MCB 4 (representing 79,426,201 shares at AED 1 each)	-	133,879	133,879
Total 2,757,010,534 shares @ AED 1 each	563,204	2,487,017	3,050,221

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27 MANDATORY CONVERTIBLE BOND (MCB) *continued*

Liability component of mandatory convertible bonds is analysed in the interim consolidated statement of financial position as follows:

	<i>At 31 December 2013 AED '000</i>	<i>At 31 December 2012 AED '000</i>
Current	110,159	112,799
Non current	453,045	545,130
	<u>563,204</u>	<u>657,929</u>

28 OBLIGATIONS UNDER FINANCE LEASE

During 2006, the Company entered into a sale and lease back agreement with a third party relating to certain plants (note 11) for an amount of AED 55.8 million. The lease carries interest at an effective rate of 9.5% per annum and is repayable in monthly instalments over a period of 12 years.

Future minimum lease payments under finance leases together with the present value of the minimum lease payments are as follows:

	<i>2013</i>		<i>2012</i>	
	<i>Minimum lease payments AED '000</i>	<i>Present value of payments AED '000</i>	<i>Minimum lease payments AED '000</i>	<i>Present value of payments AED '000</i>
Within one year	7,749	7,364	7,749	7,364
After one year but not more than five years	27,755	21,346	30,994	23,384
After five years	-	-	4,505	2,728
	<u>35,504</u>	<u>28,710</u>	<u>43,248</u>	<u>33,476</u>
Less: amounts representing finance charges	(6,794)	-	(9,772)	-
Present value of minimum lease payments	<u>28,710</u>	<u>28,710</u>	<u>33,476</u>	<u>33,476</u>

The finance lease liability is classified in the consolidated statement of financial position as follows:

	<i>2013 AED '000</i>	<i>2012 AED '000</i>
Current	7,364	7,364
Non-current	21,346	26,112
	<u>28,710</u>	<u>33,476</u>

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29 EMPLOYEES' END OF SERVICE BENEFITS

The Company provides for employees' end of service benefits in respect of its expatriate employees in accordance with the employees' contracts of employment. The movements in the provision recognised in the consolidated statement of financial position are as follows:

	2013	2012
	AED '000	AED '000
Balance at 1 January	17,549	17,090
Net movement during the year	<u>2,302</u>	<u>459</u>
Balance at 31 December	<u>19,851</u>	<u>17,549</u>

30 ACCOUNTS PAYABLE AND ACCRUALS

	2013	2012
	AED '000	AED '000
Non-current liabilities		
Retentions payable for non-capital expenditure	-	6,280
Other payables	<u>23,378</u>	<u>23,378</u>
	<u>23,378</u>	<u>29,658</u>
Current liabilities		
<i>Relating to capital expenditure:</i>		
Contractor payable and retentions	64,665	100,337
Accrued expenses and provisions	<u>74,913</u>	<u>81,974</u>
	<u>139,578</u>	<u>182,311</u>
<i>Others:</i>		
Accounts payable	52,686	50,318
Due to related parties – associates (note 31)	36,310	34,849
Accrued expenses	151,083	147,440
Other payables	<u>185,010</u>	<u>193,600</u>
	<u>425,089</u>	<u>426,207</u>
	<u>564,667</u>	<u>608,518</u>

Terms and conditions of the above financial liabilities:

Accounts payable and other financial liabilities are non-interest bearing and are normally settled on 60 day terms.

Retentions payable are non interest bearing and are normally settled in accordance with the terms of the contracts.

For terms and conditions relating to related parties, refer to note 31.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 RELATED PARTY TRANSACTIONS

Related parties represent the Government of Abu Dhabi and related departments and institutions (owner of the majority shareholder), associated companies, joint ventures, majority shareholder, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the consolidated income statement are as follows:

	2013				2012			
	Revenue AED'000	Operating costs AED'000	Interest expense AED'000	Other income AED'000	Revenue AED'000	Operating costs AED'000	Interest expense AED'000	Other income AED'000
Associated companies	-	90,534	-	4,293	-	90,175	-	4,229
Majority shareholder	183	-	24,812	-	8,339	-	36,959	-
Associate of a majority shareholder	134,071	-	-	-	121,848	-	-	-
Government related departments and institutions	33,553	114,585	29,304	-	34,061	108,931	34,996	-

Balances with related parties included in the consolidated statement of financial position are as follows:

	2013				
	Loan receivable AED'000	Mandatory convertible bond AED'000	Accounts Receivable AED'000	Accounts payables and advances AED'000	Interest bearing loans and Islamic financing arrangements AED'000
Associated companies	-	-	20,323	32,868	-
Joint venture	72,276	-	7,313	-	-
Majority shareholder (note 27)	-	3,050,221	223	-	-
Associate of a majority shareholder	-	-	138,009	73,869	-
Government related departments and institutions	-	-	10,443	3,442	906,690
	72,276	3,050,221	176,311	110,179	906,690

	2012				
	Loan receivable AED'000	Mandatory convertible bond AED'000	Accounts Receivable AED'000	Accounts payables and advances AED'000	Interest bearing loans and Islamic financing arrangements AED'000
Associated companies	-	-	28,105	30,707	-
Joint venture	56,544	-	5,538	-	-
Majority shareholder (note 27)	-	3,011,067	-	-	-
Associate of a majority shareholder	-	-	24,480	73,869	-
Government related departments and institutions	-	-	13,467	4,142	961,902
	56,544	3,011,067	71,590	108,718	961,902

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 RELATED PARTY TRANSACTIONS continued**Terms and conditions of transactions with related parties**

Transactions with related parties are made at agreed terms and conditions approved by management and are analysed as follows:

	<i>Terms and conditions</i>	2013 AED '000	2012 AED '000
Loan to a joint venture	Interest free, unsecured, settlement in cash	72,276	56,544
Mandatory convertible bond 1A	Interest bearing, unsecured, cash coupon	1,079,474	1,114,556
Mandatory convertible bond 1B	Interest bearing, unsecured, cash coupon	1,142,723	1,179,653
Mandatory convertible bond 1C	Interest bearing, unsecured, cash coupon	694,145	716,858
Mandatory convertible bond 4	Unsecured	133,879	-
Accounts receivable	Interest free, unsecured, settled in cash	165,868	58,123
Accounts payable	Interest free, unsecured, settled in cash	32,868	30,707
Advance from a related party	Interest free, unsecured, settled on net basis	73,869	73,869
Interest bearing and Islamic financing arrangements with Government related departments and institutions	Interest bearing, secured, settled in cash	906,690	961,902
Accounts receivables with Government related departments and institutions	Interest free, unsecured, settled in cash	10,443	13,467
Accounts payables with Government related departments and institutions	Interest free, unsecured, settled in cash	3,442	4,142

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2013, no impairment was recorded (2012: AED nil) relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel

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

	2013 AED '000	2012 AED '000
Short-term benefits	18,902	21,849
Employees' end of service benefits	639	1,645
	19,541	23,494
Number of key management personnel	19	17

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32 CONTINGENCIES**Bank guarantees**

The bankers have issued guarantees on behalf of the Group as follows:

	2013	2012
	AED '000	AED '000
Performance guarantees	119,654	127,998
Advance payment guarantees	2,030	3,131
Financial guarantees	<u>2,586</u>	<u>6,589</u>
	<u>124,270</u>	<u>137,718</u>

The Company's share of contingencies of associates as of 31 December 2013 amounted AED 2 million (2012: AED 13 million). The Company expects no outflow of economic resources and accordingly no provision has been made in the consolidated financial statements.

33 COMMITMENTS**Capital commitments**

The authorised capital expenditure contracted for at 31 December 2013 but not provided for amounted to AED 58 million (2012: AED 75 million). The Company's share of authorised future capital expenditure of associates and joint ventures at 31 December 2013 amounted to AED 30 million (2012: AED 147 million).

Operating lease commitments - lessor

The Company enters into cooling service agreements with its customers for the provision of chilled water. Some of these agreements qualify to be classified as a lease based on IFRIC 4 and are accounted for as an operating lease based on IAS 17 as the Company does not transfer substantially all the risks and rewards of ownership of the asset to the customer.

These non-cancellable leases have remaining terms of between 15 and 25 years. All leases include a clause to enable upward revision of the rental charge on a periodic basis according to prevailing market conditions.

Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:

	2013	2012
	AED '000	AED '000
Within one year	225,339	214,502
After one year but not more than five years	1,174,774	1,076,981
More than five years	<u>2,386,086</u>	<u>2,297,601</u>
	<u>3,786,199</u>	<u>3,589,084</u>

Included in operating lease commitments is an amount of AED 1,547 million relating to a an associate of a majority shareholder, a related party. (2012: AED 846 million).

34 ASSET HELD FOR SALE

During the year, the Board of Directors resolved to sell a plot of land owned by the Group in Oman. The plot was purchased to be used as land for construction of a district cooling plant. However, the plant was constructed on an alternative site instead and hence the carrying amount of land is now expected to be recovered through sale rather than continuing use. It was classified as "asset held for sale" as of 31 December 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

34 ASSET HELD FOR SALE continued

	2013 AED '000
Carrying value prior to re-measurement	40,135
Fair value less cost to sell as of 31 December 2013	(21,055)
	<hr/>
Excess of carrying value over fair value upon re-measurement as asset held for sale	<u>19,080</u>

Fair value adjustment of AED 19.08 million was recognised in the consolidated income statement to reduce the carrying amount of the asset to its fair value.

35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest bearing loans and borrowings, Islamic financing arrangements, obligations under finance lease, mandatory convertible bond - liability component, trade payables and due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations and construction activity. The Group has various financial assets such as finance lease receivables, trade receivables, due from related parties and cash and short-term deposits, which arise directly from its operations.

The Group enters into derivative transactions to manage the interest rate risk arising from the Group's sources of finance.

It is, and has been throughout 2013 and 2012 the Group's policy that no trading in derivatives shall be undertaken.

The Group is exposed to market risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Market risk

Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise the following types of risk: interest rate risk and currency risk.

Financial instruments affected by market risk include loans and borrowings, deposits, finance lease receivable, finance lease liability and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2013 and 2012.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2013 and 2012.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives instruments.
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2013 and 2012 including the effect of hedge accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

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 debt obligations and deposits with floating interest rates.

To manage the risk relating to its variable interest borrowings, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2013, after taking into account the effect of interest rate swaps, approximately 57% of the Group's borrowings are at a fixed rate of interest (2012: 59%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit for one year (through the impact on short term deposits and un hedged portion of loans and borrowings).

	<i>Effect on profit</i> <i>AED '000</i>
2013	
+100 increase in basis points	(9,683)
-100 decrease in basis points	9,683
2012	
+100 increase in basis points	(8,733)
-100 decrease in basis points	8,733

The impact on equity relating to derivatives designated as effective cash flow hedges could not be determined in the absence of information from counter party banks.

Foreign currency risk

Foreign 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 majority of transactions and balances are in either UAE Dirhams or US Dollars or currencies that are pegged to USD. As the UAE Dirham is pegged to the US Dollar, balances in US Dollars are not considered to represent significant foreign currency risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables, amounts due from related parties and finance lease receivable) and from its financing activities, including deposits with banks and financial institutions and other financial instruments.

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The maximum exposure is the carrying amount as disclosed in notes 17 and 18. The Group's three largest customers, including a related party, account for approximately 52% of outstanding trade and related party receivable balances at 31 December 2013 (2012: 3 customers - 54%). Amounts due in respect of finance lease receivable are from two customers (2012: two customers).

With respect to credit risk arising from other financial assets of the Group, which comprise cash and short term deposits 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 instruments. The Group seeks to limit its credit risk to banks by only dealing with reputable banks.

Liquidity risk

The Group monitors its risk to a shortage of funds using a cash flow model. This tool considers the maturity of its financial assets (eg, accounts receivable, finance lease receivables and other financial assets) and projected cash outflows from operations and capital projects.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2013 based on undiscounted payments and current market interest rates.

	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 Years AED'000	>5 years AED'000	Total AED'000
At 31 December 2013						
Mandatory convertible bond	-	30,147	90,441	482,351	30,147	633,086
Interest bearing loans and borrowings	-	14,443	179,857	779,148	1,315,622	2,289,070
Obligations under finance leases	-	1,937	5,812	27,755	-	35,504
Islamic financing arrangements	-	4,066	37,633	180,944	421,982	644,625
Accounts and retention payable, due to related parties and other financial liabilities	-	134,557	290,571	-	-	425,128
	-	185,150	604,314	1,470,198	1,767,751	4,027,413
At 31 December 2012						
Mandatory convertible bond	-	30,147	90,441	482,351	150,735	753,674
Interest bearing loans and borrowings	-	17,806	187,944	835,905	1,458,194	2,499,849
Obligations under finance leases	-	1,937	5,810	30,985	4,516	43,248
Islamic financing arrangements	-	5,541	41,515	197,566	461,664	706,286
Accounts and retention payable, due to related parties and other financial liabilities	-	199,051	283,847	6,289	-	489,187
	-	254,482	609,557	1,553,096	2,075,109	4,492,244

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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35 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Capital management

The primary objective of the Group's capital management is to achieve strong credit metrics and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. There are no regulatory imposed requirements on the level of share capital which the Group has not met.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group includes within net debt, interest bearing loans and borrowings, Islamic financing arrangements, mandatory convertible bond – liability component, obligations under finance lease, less cash and short term deposits. Capital includes total equity excluding non-controlling interests less cumulative changes in fair value of derivatives.

	2013 AED '000	2012 AED '000
Interest bearing loans and borrowings	1,992,986	2,115,907
Islamic financing arrangements	507,547	528,684
Mandatory convertible bond and – liability component	563,204	657,929
Obligation under finance lease	28,710	33,476
	<u>3,092,447</u>	<u>3,335,996</u>
Less: cash and cash equivalents	<u>(670,382)</u>	<u>(560,417)</u>
Net debt	<u>2,422,065</u>	<u>2,775,579</u>
Equity	4,576,815	4,346,358
Adjustment for cumulative changes in fair values of derivatives	50,036	48,500
Total capital	<u>4,626,851</u>	<u>4,394,858</u>
Capital and net debt	<u>7,048,916</u>	<u>7,170,437</u>
Gearing ratio	<u>34%</u>	<u>39%</u>

36 FAIR VALUE MEASUREMENT

36.1 Fair values of financial instruments

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values at the reporting date except for finance lease receivables, mandatory convertible bond and obligations under finance lease with fixed interest rates. Set out below is a comparison of carrying amounts and fair values of such instruments:

	Carrying Amount		Fair Value	
	2013 AED '000	2012 AED '000	2013 AED '000	2012 AED '000
Financial assets				
Finance lease receivables	1,736,693	1,740,368	1,957,008	2,090,014
Financial liabilities				
Obligations under finance lease	28,710	33,476	27,528	42,034
Mandatory convertible bond – liability component	563,204	657,929	532,354	649,470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

36 FAIR VALUE MEASUREMENT continued

36.2 Fair value hierarchy

As at 31 December 2013 and 2012, the fair value measurement hierarchy of the Group's assets and liabilities is as follows:

Date of valuation	2013				2012			
	31 December 2013 AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	31 December 2012 AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Assets measured at fair value								
Asset held for sale	31/12/2013	21,055	-	21,055	-	-	-	-
Liabilities measured at fair value								
Interest rate swaps	31/12/2013	48,432	-	48,432	54,984	-	54,984	-
Assets for which fair values are disclosed								
Finance lease receivables	31/12/2013	1,957,008	-	1,957,008	2,090,014	-	-	2,090,014
Liabilities for which fair values are disclosed								
Obligations under finance lease	31/12/2013	27,528	-	27,528	42,034	-	-	42,034
Mandatory convertible bond – liability component	31/12/2013	532,354	-	532,354	649,470	-	-	649,470
		559,882	-	559,882	691,504	-	-	691,504

During the reporting periods ended 31 December 2013 and 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Asset held for sale (land) are valued based on an evaluation performed by an accredited external, independent valuer, applying a valuation model, recommended by the International Valuation Standards Committee.
- The Group enters into derivative financial instruments with various banks and financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, interest rate curves and forward rate curves of the underlying commodity.

Hedging activities*Cash flow hedges*

The Group is exposed to variability in future interest cash flows on interest bearing loans and borrowings and Islamic financing arrangements which bear interest at a variable rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

36 FINANCIAL INSTRUMENTS continued**Hedging activities** continued

In order to reduce its exposure to interest rate fluctuations on the interest bearing loans and borrowings and Islamic financing arrangements, the Company has entered into interest rate swaps with counter-party banks designated as effective cash flow hedges for notional amounts that mirror the drawdown and repayment schedule of the loans. The notional amount of the interest rate swaps was AED 2,605 million as at 31 December 2013 (2012: AED 2,095 million).

A schedule indicating the maturity profile of the derivative related assets and liabilities as at 31 December is as follows:

	<i>Within 1 year</i>	<i>1-3 years</i>	<i>3-8 years</i>	<i>Total</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
2013:				
Cash inflows (assets)	-	1,925	10,764	12,689
Cash outflows (liabilities)	<u>(18,429)</u>	<u>(25,522)</u>	<u>(1,404)</u>	<u>(45,355)</u>
Net cash outflow	<u>(18,429)</u>	<u>(23,597)</u>	<u>9,360</u>	<u>(32,666)</u>
2012:				
Cash inflows (assets)	311	400	-	711
Cash outflows (liabilities)	<u>(21,581)</u>	<u>(21,358)</u>	<u>(5,503)</u>	<u>(48,442)</u>
Net cash outflow	<u>(21,270)</u>	<u>(20,958)</u>	<u>(5,503)</u>	<u>(47,731)</u>

All derivative contracts are with counterparty banks in UAE.