Cooling the UAE's Landmarks

Sheikh Zayed Grand Mosque

Yas Marina Circuit

Dubai Metro

Ferrari World Abu Dhabi

Etihad Towers

World Trade Center Abu Dhabi




Annual Report 2012

H.H. Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates

H.H. Sheikh Mohammed Bin Zayed Al Nahyan
Abu Dhabi Crown Prince
and Deputy Supreme Commander of the UAE Armed Forces

H.H. Sheikh Mohammed Bin Rashid Al Maktoum
Vice President and Prime Minister of the UAE
and Ruler of Dubai

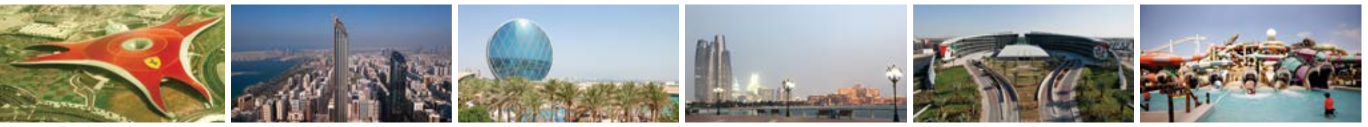


Table of Contents

Since its inception, Tabreed has been providing vital district cooling services to many of the UAE’s landmark projects






Our Story

"Tabreed has become the region's leading district cooling provider. Its portfolio now includes 65 plants in the GCC that deliver nearly 767,000 RT to projects vital to their respective nations' economic development and diversification"

Ever since Tabreed was commissioned by the UAE Government to construct a district cooling plant in Suweihan in the late 1990s, the company has continued to play a vital role in enabling the nation's economic development by providing pioneering cooling solutions to key infrastructure projects - first in the UAE, and later, across the GCC.

In the UAE, during the peak summer months, air-conditioning typically accounts for 60% - 70% of energy consumption. By utilizing approximately 50% less energy, district cooling helps reduce costs to owners and governments alike, while also protecting the environment by decreasing carbon dioxide emissions.

Today, Tabreed delivers its energy-efficient, economical, and environmentally-friendlier cooling solutions to many of the UAE's iconic landmarks and key projects, including the Sheikh Zayed Grand Mosque, Ferrari World Abu Dhabi, Dubai Metro, Etihad Towers, World Trade Center Abu Dhabi, HQ, Marina Mall and UAE University, to name a few.

Through our subsidiaries and affiliates, we also provide district cooling services to major regional projects such as The Pearl – Qatar as well as the Jebal Omar Development Project in Mecca.

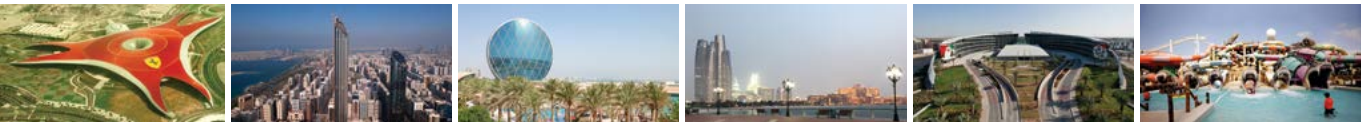
In the 15 years since its establishment, Tabreed has become the region's leading district cooling provider. Its portfolio now includes 65 plants in the GCC that deliver nearly 767,000 RT to projects vital to their respective nations' economic development and diversification.

Ferrari World Abu Dhabi

Ferrari World Abu Dhabi is one of the Emirate's leading entertainment and tourist destinations. Located on the shores of Yas Island, it is the world's only Ferrari themed amusement park. It is also home to the world's fastest roller coaster, Formula Rossa, and other attractions inspired by the well-known Ferrari brand and its Italian heritage.

Compared to conventional air conditioning, Tabreed's district cooling services have helped Ferrari World Abu Dhabi achieve the following approximate reductions in their energy consumption, cost, and carbon dioxide emissions:

- *15 million KwH - Reduction in Energy Consumption per Year*
- *AED 2 million - Cost Savings per Year*
- *6,900 Tons - Reduction in Carbon Dioxide Emissions per Year*



2012 Key Achievements

"2012 was another strong year for Tabreed, with revenue from the core chilled water segment surpassing one billion dirham for the first time in the company's history"

1,011
million dirham revenue from the core chilled water business - an increase of 7% from 2011

236.3
million dirham net profit attributable to parent - an increase of 29% from 2011

766,997 RT
Total customer connections across the group - an increase of 9% from 2011

63,800 RT
Customer connections added across the group

65
Plants across the GCC - 59 of which are in the UAE

46%
Capacity contracted to UAE government customers

1
Plant inaugurated in Ajman

1
Plant expanded in Al Ain

World Trade Center Abu Dhabi

Located in the heart of Abu Dhabi, the World Trade Center Abu Dhabi development occupies 5 hectares of prime city space, and upon completion, will comprise luxury apartments, grade "A" office space, restaurants, world class hotels, branded retail outlets and a traditional Arabian souq - the Central Market, which has played a vital role in Abu Dhabi's history.

Compared to conventional air conditioning, Tabreed's district cooling services have helped the World Trade Center Abu Dhabi achieve the following approximate reductions in their energy consumption, cost, and carbon dioxide emissions:

- *28 million KwH - Reduction in Energy Consumption per Year*
- *AED 4 million - Cost Savings per Year*
- *12,000 Tons - Reduction in Carbon Dioxide Emissions per Year*

Chairman's Message

In 2012, Tabreed continued to build on the momentum it gathered over the preceding year to deliver its best financial and operational performance since its establishment in 1998, with now three consecutive years of steadily improving operational and financial performances. With a clear strategy in place, focused on growing the core business of chilled water across the region, Tabreed has made tremendous progress.

The core chilled water business now contributes approximately 90% of the overall group revenue of AED 1,128.7 million, and has passed the one billion dirham revenue mark for the first time in the company's history, driving an increase in net profit by 29% over the previous year. With a connected capacity of approximately 767,000 Refrigeration Tons across the region, Tabreed is now one of the world's leading district cooling providers.

Today, the company's energy-efficient, economical, and environmentally-friendlier cooling solutions benefit millions of people across the GCC, and have become central to supporting the development and growth of our regional communities, including landmark projects such as the Sheikh Zayed Grand Mosque, the Dubai Metro, Ferrari World Abu Dhabi, the Jebal Omar Development Project in Mecca, the Pearl in Qatar, and the Financial Harbor in Bahrain, to name just a few.

In Abu Dhabi in particular, the benefits that district cooling has brought to the Emirate, and will continue to bring in the foreseeable future, are substantial. Due to its higher efficiencies compared to conventional air conditioning, in the next 20 years district cooling has the potential to decrease power consumption in Abu Dhabi by approximately 30 terawatt hours, and lead to a 1 gigawatt reduction in peak capacity, the equivalent of a sizeable power generation plant. This translates into a reduction in energy cost by approximately AED 10 billion, and more importantly, the elimination of nearly 13 million tons of carbon dioxide emissions over this same 20 year period.

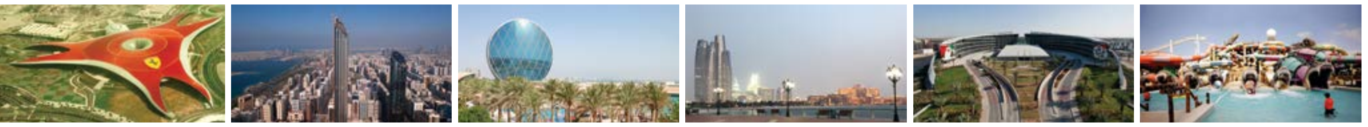
It is for these reasons that Tabreed has become a critical regional infrastructure partner, and, as an organization, we take great pride in providing a service that facilitates economic development and the creation of thriving communities.

While the service provided by Tabreed implicitly touches the lives of countless people in the region, we continuously strive to engage directly with our local community, in particular, national students, to create opportunities for them to learn about and pursue careers in related fields such as engineering.

Over the years, what has differentiated Tabreed and enabled it to overcome the obstacles it faced has been an unwavering commitment to delivery, efficiency and collaboration with all of our stakeholders, and I would like to personally thank them for their trust and confidence in the company.

I would also like to especially thank our employees for their hard work throughout 2012, and for helping the company deliver its best year to-date.

Waleed Al Mokarrab Al Muhairi
Chairman



CEO's Message

2012 was another great year for Tabreed. Aided by the completion of the contracted build-out program, and with a strategy singularly dedicated to strengthening the core chilled water business, Tabreed made substantial financial and operational improvements during the year and reached a number of key milestones.

Propelled by a robust performance in the core chilled water segment, net profit increased by 29% to reach AED 236.3 million, its highest-level to-date, and chilled water revenue likewise increased by 7% to 1,011 million.

These results are a further confirmation of the company's successful strategy of growing the core business while phasing out the non-core value chain businesses. We have made great strides in this respect over the years, and the numbers bear witness to this: in 2009, profit from operations in the core chilled water segment stood at AED 63 million; by the end of 2012, that figure has increased over five times to reach AED 347 million.

Operationally, we continue to surpass our previous achievements. In 2012, we delivered an additional 63,800 RT to clients across the region. In total, we now supply nearly 767,000 RT (an increase of 9% from the previous year) to some of the region's most prestigious projects such as Yas Marina Circuit and The Pearl – Qatar.

In the UAE, we remain the leading district cooling provider, with a portfolio that includes 59 plants that deliver just under 603,000 RT to projects vital to the nation's economic growth and diversification.

What is especially significant about our performance in 2012 is what it augurs for the future. Over the past couple of years, Tabreed's management have worked tirelessly to transform the company into a classic utility business, one that is characterized by a stable, recurring revenue stream, and consistent yet gradual growth. With the strong performance in 2012, I believe we are well on our way to achieving this goal.

I would like to thank Tabreed's Board of Directors, customers, shareholders, management and employees for their continued support and dedication. They have been instrumental in helping the company achieve its best year on record.

Jasim Thabet
Chief Executive Officer

Board of Directors

Waleed Al Mokarrab Al Muhairi
Chairman

Waleed Al Mokarrab Al Muhairi is Mubadala Development Company's Chief Operating Officer, and is a member of Mubadala's Investment Committee. He also currently serves as Chairman of the Board of Directors of Yahsat, Mubadala Infrastructure Partners, the Advanced Technology Investment Company, and Cleveland Clinic Abu Dhabi. He is Vice Chairman of Piaggio Aero Industries and is a Director of AMD, Al Maabar, du, GLOBALFOUNDRIES and the Abu Dhabi Future Energy Company (Masdar). Waleed holds a Bachelor of Science in Foreign Service from Georgetown University and a Masters from Harvard University, USA.

Khaled Abdulla Al Qubaisi
Managing Director

Khaled Abdulla Al Qubaisi is the Executive Director of Human Capital in Mubadala Development Company and is a member of Mubadala's Investment Committee. He is also Chairman of the National Health Insurance Company (DAMAN) and Mubadala Pramerica Real Estate Investors, and sits on the board of numerous organizations including Finance House, Abu Dhabi Motorsports Management, and Health Authority - Abu Dhabi. Khaled has a Bachelor of Arts in Finance and Operations Management from Boston University, and a Master of Science from George Washington University, USA, in addition to achieving membership of the Chartered Financial Analyst Institute (CFA) in 2003.

Ahmed Yahia Al Idrissi
Member

Ahmed Yahia Al Idrissi is the Executive Director of the Industry business unit in Mubadala Development Company and is a member of Mubadala's Investment Committee. Before joining Mubadala, Ahmed was a partner at McKinsey & Co., where he led the Abu Dhabi and Principal Investor practices. He sits on the board of a number of companies including: Emirates Aluminium (EMAL), AMD, Guinea Alumina Corporation Ltd, SMN Barka Power Company SAOC, Al Rusail Power Company and Jaingso Suyadi Tancai Company Ltd. Ahmed holds a Bachelor of Science in Industrial Engineering from Ecole Centrale Paris, France, and a Master of Science in Mechanical Engineering from the Massachusetts Institute of Technology, USA.

Ali Saeed Al Badi
Member

Ali Saeed Al Badi is the Managing Director and Board Member of Abu Dhabi Ports Company (ADPC), the master developer and regulator of ports and industrial zones in Abu Dhabi. He is also a Board Member of the UAE Red Crescent. Ali has spent over 20 years with the Abu Dhabi National Oil Company (ADNOC) Group, and served as Chairman as well as Board Member of several ADNOC companies. From 1987 - 1998, Ali was the UAE National Representative in OPEC. He has a Bachelor Degree in Decision Science (Business) from Indiana University, USA.

Ibrahim Ahmed Al Ansaari
Member

Ibrahim Ahmed Al Ansaari was appointed General Manager of Dolphin Energy Limited (UAE) in October 2007. Prior to joining Dolphin Energy in October 2003 as Vice President – Projects, Ibrahim was General Manager of Union Water & Electricity Company, now incorporated within ADWEA. He also worked for Abu Dhabi National Oil Company (ADNOC) for 18 years, and is a Board Member of Emirates Aluminium (EMAL). Ibrahim holds a Bachelor of Science in Electrical Engineering from Louisiana Technical University, USA.

Abdul Raouf Al Bitar
Member

Abdul Raouf Al Bitar is the CEO of Al Manhal & Nestlé Waters Group of Factories in Saudi Arabia, and sits on the board of a number of companies throughout the Middle East including Middle East Specialized Cables Factory (MESC), ACWA Power Development Company, Springs Beverage Factory, Middle East Mold and Plastic Factory, Gulf Insulation Group, Shaker Group, and LG - Shaker Factory. Abdul Raouf holds a Bachelor of Science in Civil Engineering from Syracuse University, USA.

Khaled Saleh Al Rashedi
Member

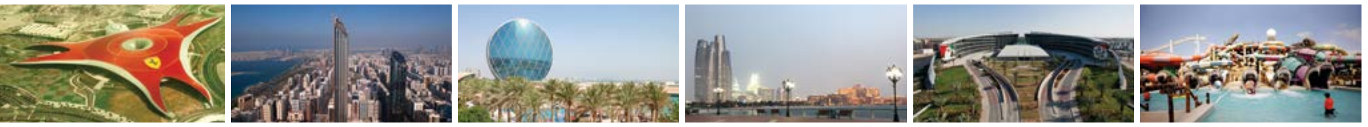
Khaled Saleh Al Rashedi is a Senior Advisor in the Industry business unit in Mubadala Development Company. He has held several senior positions in key government projects in Abu Dhabi and is currently the Chairman of the Yas Yacht Club. Khaled is also a board member of Turbine Services & Solutions, Abu Dhabi Ship Building and Jaingso Suyadi Tancai Company Ltd. He holds a Bachelor of Business Administration with a concentration in Finance and Marketing from the University of Colorado, USA.

HQ

Situated on Al Raha Beach in Abu Dhabi, HQ is one of the capital's most distinctive and iconic commercial buildings. Standing at 121 meters in height, and with its distinctive circular shape and ideal location along the Abu Dhabi – Dubai highway, HQ has become one of the most sought after destinations for local and international companies.

Compared to conventional air conditioning, Tabreed's district cooling services have helped HQ achieve the following approximate reductions in their energy consumption, cost, and carbon dioxide emissions:

- *4 million KwH - Reduction in Energy Consumption per Year*
- *AED 600,000 - Cost Savings per Year*
- *1,800 Tons - Reduction in Carbon Dioxide Emissions per Year*



Regional Presence

"Through our subsidiaries and affiliates, we provide district cooling services to major regional projects such as The Pearl – Qatar, as well as the Jebal Omar Development Project in Mecca"

Select Overview: Affiliates and Subsidiaries

Qatar District Cooling Company QCSC

Qatar District Cooling Company (Qatar Cool) is a private sector joint venture company owned by United Development Company, Tabreed and other private Qatari investors. In 2010, Qatar Cool inaugurated the Integrated District Cooling Plant on The Pearl – Qatar, the largest district cooling plant in the world, with a capacity of up to 130,000 RT.

Bahrain District Cooling Company BSC

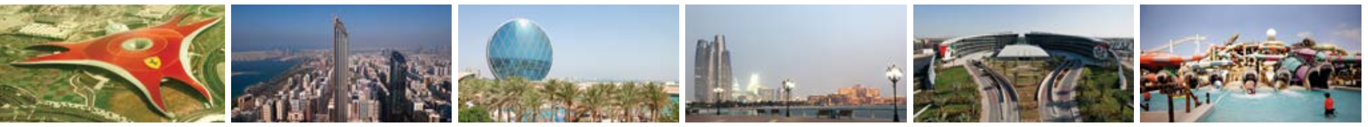
Bahrain District Cooling Company BSC (Tabreed Bahrain) is a closed joint stock company majority owned by Tabreed and with Esterad and A.A. Bin Hindi as the other shareholders. The company currently operates a district cooling plant that runs using sea water and provides cooling services to some of the most prestigious developments in Bahrain.

Saudi District Cooling Company

Saudi District Cooling Company (Saudi Tabreed) is a closed joint stock company established in Saudi Arabia. The major partners are ACWA Power, RUSD International and Tabreed.

Tabreed Oman SAOC

Established in 2008, Tabreed Oman SAOC, an Omani closed joint stock company, is a joint venture between Tabreed and a group of Omani shareholders comprising the Ministry of Defense Pension Fund, the Diwan of Royal Court Pension Fund, the ISS Pension Fund, PMA International Ltd and Private Projects Development Co. LLC.



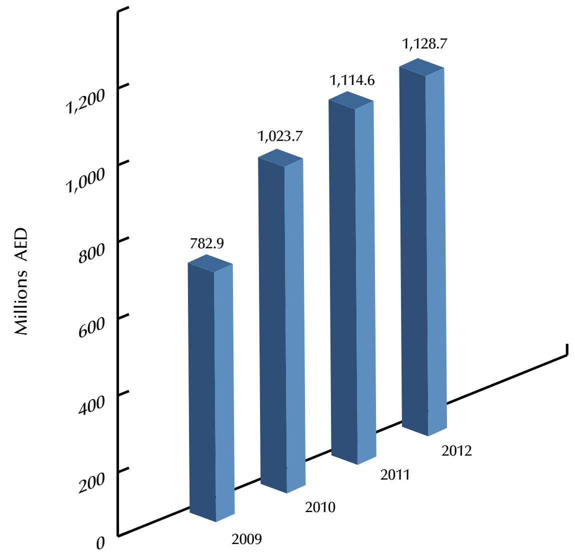
Historical Highlights: 2009-2012

Today, Tabreed is a stable and healthy organization, underpinned by strong fundamentals and a robust core business

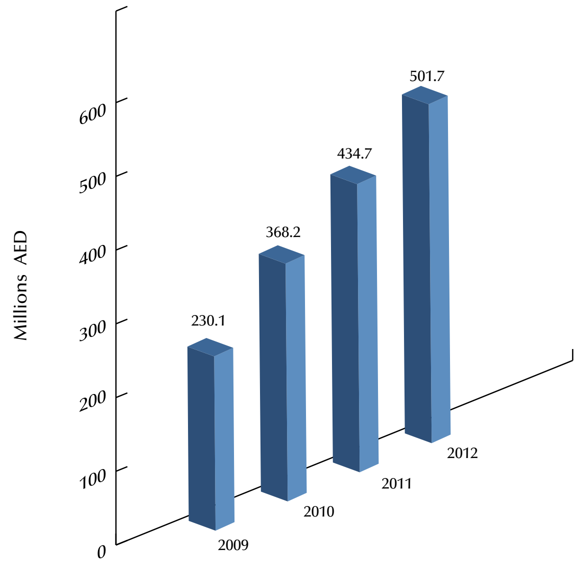
2012 saw us continue to build on our strong performance over the preceding years to deliver our best year to-date.

In line with expectations, group revenue remained relatively unchanged from the previous year as the phase-out of the non-core value chain businesses continued. With the completion of the build-out program, Tabreed remained focused on strengthening its core chilled water business – which is currently the main driver of our growth and will continue to be so in the years ahead.

Today, Tabreed is a stable and healthy organization, underpinned by strong fundamentals and a robust core business. Our key metrics, which have improved year-on-year, underscore the company's positive outlook.



Group Revenue

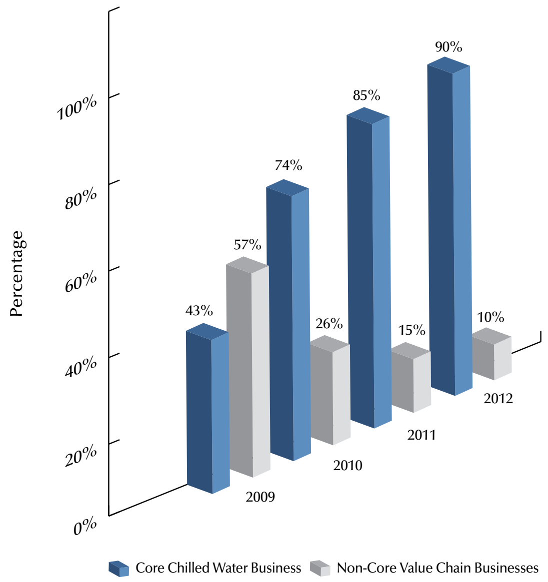


Group EBITDA

Financially, Tabreed's strength stems from its core chilled water business. Over the years, the company has continued to focus on growing this segment while reducing the contributions from the non-core value chain businesses. In 2012, revenue from the core chilled water segment surpassed AED 1 billion for the first time in the company's 15 year history.

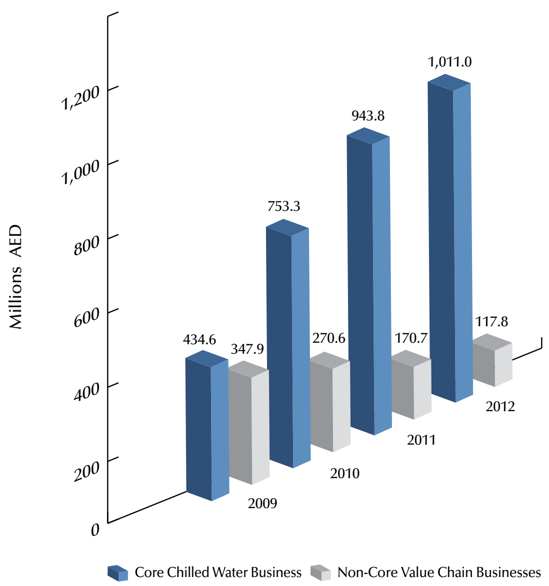
In 2009, the contribution from the core chilled water business stood at only 43%. By 2012, chilled water contributed 90% to our revenue – a 5% increase from the previous year. Conversely, with the build-out program complete, the non-core value chain businesses now contribute only 10% to revenue.

Operating profit in chilled water in 2009 stood at AED 62.5 million, while for the non-core businesses that figure was AED 80.4 million. By 2012, operating profit from chilled water had grown to AED 347.1 million, more than five times the 2009 level.



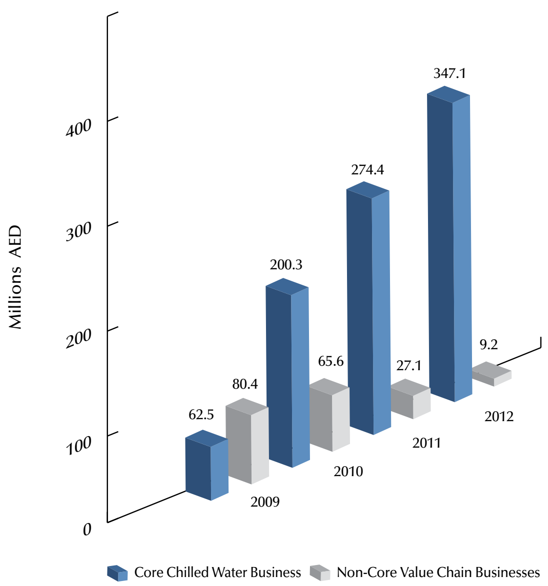
Contribution to Revenue:

Core Chilled Water Business Vs. Non-Core Value Chain Businesses



Revenue:

Core Chilled Water Business Vs. Non-Core Value Chain Businesses



Operating Profit:

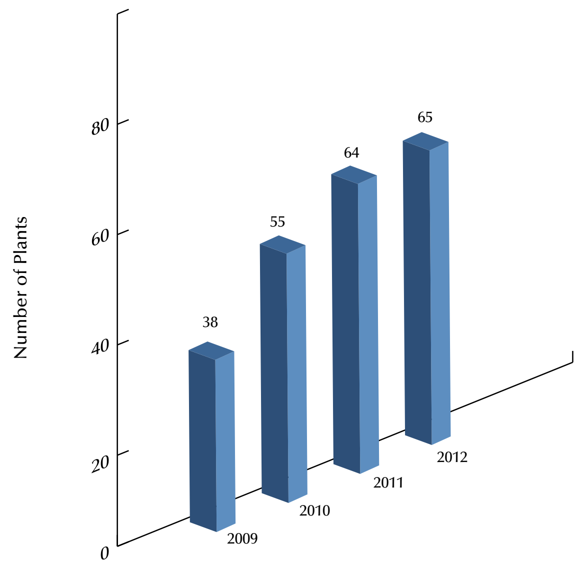
Core Chilled Water Business Vs. Non-Core Value Chain Businesses

Operationally, the company has completed its contracted build-out program and now has a total of 65 plants in its portfolio – 59 of those are located in the UAE and the remaining throughout the GCC. From 2009 to 2012, we added a total of 27 plants across the group.

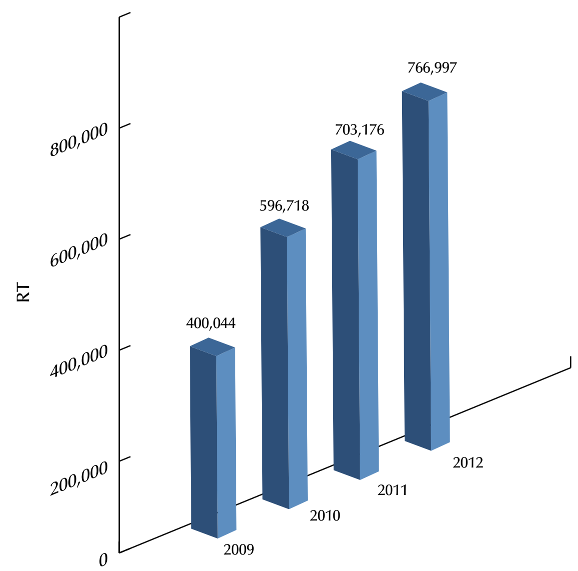
We also continued to connect customers to our plants and thereby maximize the return on our assets. In total, 63,800 RT of connected capacity was added across the group in 2012.

During the year, group connected capacity increased by 9% to reach 766,997 RT; while in the UAE, connected capacity also increased by 9% to 602,444 RT.

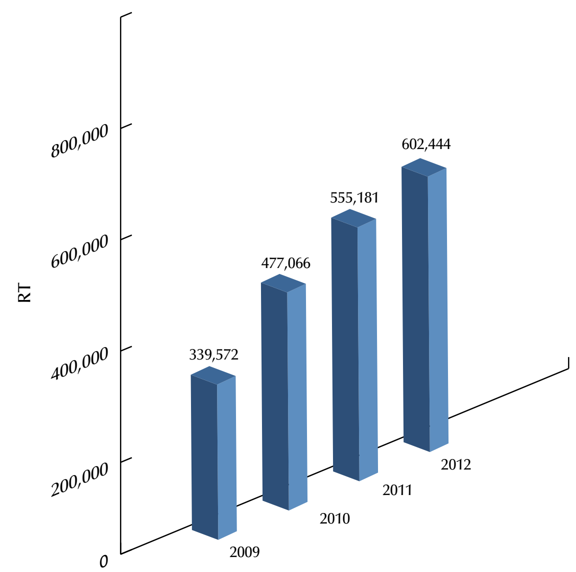
Finally, 2012 saw us complete the construction of a new district cooling plant in Ajman which has a capacity of 10,000 RT, and complete the expansion of the Al Ain plant that serves UAE University.



Number of Plants (Group)



Group Connected Capacity



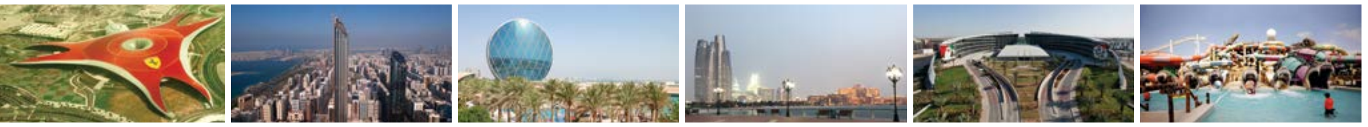
UAE Connected Capacity

Etihad Towers

Covering a built-up area of over half a million square meters, Etihad Towers is a world-class, mixed-use development situated in the Ras Al Akhdar neighborhood of Abu Dhabi. Overlooking the city's corniche, Etihad Towers is comprised of one office and three residential towers, a high-end luxury shopping precinct, Avenue at Etihad Towers, and a world-class hotel and serviced apartments - Jumeirah at Etihad Towers. With its tallest tower realising a height of over 300 meters, Etihad Towers has redefined Abu Dhabi's skyline.

Compared to conventional air conditioning, Tabreed's district cooling services have helped Etihad Towers achieve the following approximate reductions in their energy consumption, cost, and carbon dioxide emissions:

- *19 million KwH - Reduction in Energy Consumption per Year*
- *AED 2.8 million - Cost Savings per Year*
- *8,500 Tons - Reduction in Carbon Dioxide Emissions per Year*



Report of the Board of Directors

"From a financial and operational perspective, 2012 saw Tabreed reach a number of key milestones"

2012 Year in Review

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 2012.

From a financial and operational perspective, 2012 saw Tabreed reach a number of key milestones:

- Net income totaled AED 236.3 million – the highest level since the company's formation
- Tabreed continued to deliver on its stated strategy of focusing on the core chilled water business, with revenues from this segment surpassing 1 billion dirham for the first time in the company's history
- The company completed its build-out programme and now has over 767,000 RT of installed capacity across the group

The increase in net income is driven by the operations in the core chilled water business. Since 2009, profit from operations in this segment has increased from AED 63 million to AED 274 million in 2011. For the full year 2012, that figure has increased by 27% to AED 347 million. This significant improvement underscores the success of the company's strategy of focusing on its core chilled water business while phasing out its non-core value chain businesses.

The company's strength is bolstered by the long-term, stable contracts we have with our customers. By the end of 2012, 46% of Tabreed's capacity was contracted to government clients. Many of these contracts are for 25 year duration and with well-established UAE entities.

On 31 December 2012, Tabreed issued additional Mandatory Convertible Bonds with the value of AED 1,131,602,200.50 to Mubadala Development Company as the final part of the 2011 recapitalization program. The new bonds were issued to settle the old Subordinated Bridge Loan and carry essentially the same terms and conditions as the existing AED 1.7 billion mandatory convertible bonds that were issued by Tabreed in April 2011.

2012 Financial Highlights:

- Net profit attributable to the parent increased by 29% to AED 236.3 million (2011: AED 182.7 million)
- Group revenue remained relatively unchanged at AED 1,128.7 million (2011: AED 1,114.6 million) in line with expectations as the phase-out of the non-core value chain businesses continued
- Chilled water revenue increased by 7% to AED 1,011.0 million (2011: AED 943.8 million)
- Profit from chilled water operations increased by 27% to AED 347.1 million (2011: AED 274.4 million) driven by economies of scale and enhanced efficiencies
- EBITDA increased by 15% to AED 501.7 million (2011: AED 434.7 million)
- Net finance costs decreased by 18% to AED 176.7 million (2011: AED 216.1 million)

2012 Operational Highlights:

- 65 plants in total across the GCC – 59 of those are located in the UAE
- 63,800 RT of connected capacity added across the group
- Group installed capacity increased by 2% to 767,125 RT
- Group connected capacity increased by 9% to 766,997 RT
- UAE installed capacity increased by 3% to 605,325 RT
- UAE connected capacity increased by 9% to 602,444 RT
- In Q1 2012, a new district cooling plant in Ajman was opened with a capacity of 10,000 RT
- In Q2 2012, we expanded the capacity of the Al-Ain plant serving the UAE University to over 18,000 RT

The Year Ahead

As we move forward, we are confident that Tabreed can maintain its position as the leading district cooling provider in the region. The company's management is focused on continuing to operate the business as efficiently as possible and derive maximum return from existing assets. We are also well positioned to capitalize on new market opportunities as they arise, not only in the UAE but across the GCC.

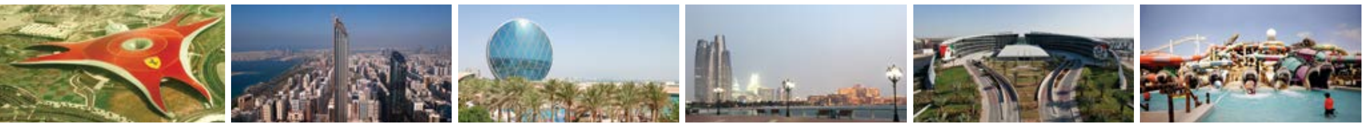
In the GCC, cooling is an essential service, and with increased urbanization and continued economic diversification, Tabreed's expertise in providing energy-efficient, cost-effective and environmentally-friendlier cooling solutions make it an indispensable partner to this economic growth.

UAE University

Founded in 1976 by the late President of the United Arab Emirates, HH Sheikh Zayed bin Sultan Al Nahyan, the United Arab Emirates University (UAEU) was the first university in the UAE. Located in the Garden City of Al Ain, the university was ranked as the third best business school in Africa and the Middle East region in the 2010 Quacquarelli Symonds Global 200 Business Schools Report. Nearly 13,000 students are studying now at the research-based university, which in 2009 became the first public institution in the UAE to offer PhD programs.

Compared to conventional air conditioning, Tabreed's district cooling services have helped UAEU achieve the following approximate reductions in their energy consumption, cost, and carbon dioxide emissions:

- *26 million KwH - Reduction in Energy Consumption per Year*
- *AED 3.9 million - Cost Savings per Year*
- *11,800 Tons - Reduction in Carbon Dioxide Emissions per Year*



Corporate Governance Report

"The report outlines Tabreed's compliance with Ministerial Resolution 518, and details the overall governance structure incorporated by Tabreed"

Corporate Governance Practices

Tabreed recognises that sound governance is important to safeguard and deliver shareholder value. Good corporate governance fosters high standards of professionalism and performance. Good corporate governance facilitates accountability. The Board and Management team are committed to the high standards of corporate governance required under Ministerial Resolution No. 518 of the Emirates Securities and Commodities Authority.
This report covers the period 1 January 2012 to 31 December 2012. The following sections outline how the company has applied the principles of Ministerial Resolution 518 and its compliance with these principles.

Board of Directors

The appointment, roles and responsibilities of the Board are outlined in Tabreed's Articles of Association (AOA).
An appropriate balance between the membership skills and capabilities was maintained during 2012. In 2012 the Board has consisted of 7 members, as approved at the Annual General Assembly meeting (AGA). Throughout the year, the membership criteria set by the Ministerial resolution 518 were met in regards to non-executive and independent members.

Chairman of the Board

In 2012 the Chairman of the Board was Waleed Ahmed Al Mokarrab Al Muhairi. The Chairman is a non-executive director and independent, with extensive experience in corporations throughout the UAE.
Throughout the year the Chairman has ensured that the Board participates effectively at the Board meetings and acts in the best interests of Tabreed. The Chairman does this by developing the agenda for Board meetings, overseeing communication between Board members and shareholders, and encouraging constructive relations between the Board members.

Members of the Board

The Members of the Board have a diversified set of skills and experience. Their duty is to act in the best interests of Tabreed and its shareholders. They ensure that the management has established systems and processes to adhere to laws, regulations and Tabreed policies and procedures.

The Board ensures that the management provide them with sufficient information, in a timely manner, to make informed decisions that affect the direction of the company. They participate in Board meetings, giving independent opinions on strategic issues, policy, accounting, resources and principles of required behavior. The Board tracks the company performance against strategic objectives.

A procedure for inducting new Board members is written into the Corporate Governance Procedures Manual. That procedure ensures that new members understand the business and their roles as Board members.
Each year, all Board members disclose to Tabreed an assessment of their independence and details of their significant positions in other companies or public institutions.

Board Committees

The Tabreed Board has created four Board Committees:

1. The Audit Committee
2. Nomination and Remuneration Committee
3. The Finance Committee, and
4. The Projects Committee.

The Audit Committee and Nomination & Remuneration Committee are mandated by Ministerial Resolution 518.
The Finance Committee endorses all matters that have a significant impact on the Company's finances before Board approval. This includes borrowings, hedging arrangements, business cases for major initiatives, financial reporting and budgeting.
The Projects Committee investigates the viability of projects and ensures that they are subjected to the highest levels of governance before their presentation to the Board for approval.

Remuneration of Board Members

The Board members are remunerated by an attendance fee for each meeting as allowed under article 34 of the AOA. Section 58 of the AOA also allows the General Assembly to approve a share of profits, but that provision was not utilised in 2012.

Internal Control

Pursuant to article 8 of the Ministerial Resolution 518, Tabreed's Internal Control function has been established by the Board to provide independent, objective and authoritative advice as well as assurance over the internal control environment to the Board, Audit Committee and Management in order to assist them in discharging their functions and duties conferred and imposed on them.
The Board ensures that the internal controls are effective by reviewing the work of the Audit Committee, effectively dealing with risk and control issues at Board meetings and requiring that risk and internal control issues are discussed at each Board meeting. The Board also ensures that an internal control review is conducted by the Internal Control function each year.

Audit Committee

The Board has set up an effective Audit Committee. The role of that committee is outlined in a Board approved charter and includes:

1. Providing advice to the Board on the independence of the External Auditor;
2. Endorsing the quarterly and annual accounts after consideration of accounting policies and standards, assumptions and judgements, compliance with laws and any significant or unusual matter;
3. Continually assessing the systems for internal control and risk management;
4. Developing procedures which allow employees to raise matters of concern regarding internal control or financial reporting; and
5. Considering issues referred by the Board.

External Auditor

On the recommendation of the Audit Committee, the Board appointed Ernst & Young as Tabreed's external auditor at the 2012 AGA. The Board ensures that the external auditor remains independent from the Company. The external auditor has broad powers to provide reports to the general assembly and to regulatory bodies.

Delegation to Management

The Board of Tabreed provides guidance and direction towards achieving the strategic objectives of Tabreed. The day to day activities of Tabreed are delegated to the Management.
The Board provides guidance through the following Board approved mandates, which together comprise the delegation of authority to the Management:

1. The five year strategic plan;
2. Tabreed Board approved policies;
3. The annual budget;
4. Key Performance Indicators;
5. The delegation of authority documents;
6. Regular reporting against performance targets; and
7. A written articulation of the tasks required of the Management detailed in the Corporate Governance Procedures Manual.

Shareholders Rights

The Board is committed to maintaining the highest standards in regard to the recognition of shareholder rights. This commitment is outlined in the Corporate Governance Procedures Manual. To that end, Tabreed has established a shareholder communications function and has also engaged the National Bank of Abu Dhabi (NBAD) to assist with shareholder engagement.

The purpose of both the shareholder communications function and NBAD's role is to ensure that shareholders receive all required financial reports and relevant information, that shareholders are notified of and attend AGA and EGA meetings, and that dividend payments, when approved, reach each shareholder.
The Tabreed Articles of Association detail the shareholders rights to information, voting, participation at meetings and information on candidates for Board positions.

Code of Conduct

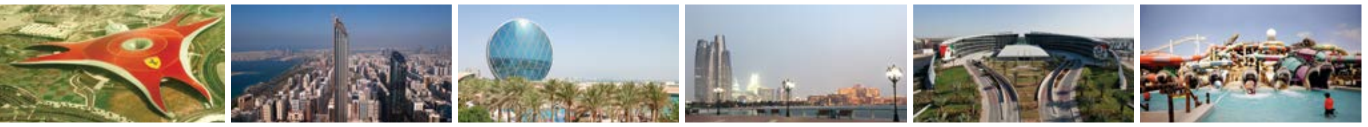
The manner in which the Board expects employees of Tabreed to behave with respect to each other, the law, customers, suppliers, stakeholders and the community is articulated in the Tabreed - Code of Conduct.

Yas
Waterworld

Launched in January 2013, Yas Waterworld Abu Dhabi is the UAE's first mega waterpark, set across 15 hectares of the exciting entertainment complex that is Yas Island. The park features a range of 43 rides, slides and attractions, with five unique rides never before seen in the world. Yas Waterworld was recently awarded the World Waterpark Association's inaugural Leading Edge Award at a special ceremony held at the World Waterpark Association's Annual Show, in Las Vegas, USA.

Compared to conventional air conditioning, Tabreed's district cooling services have helped Yas Waterworld achieve the following approximate reductions in their energy consumption, cost, and carbon dioxide emissions:

- *4 million KwH - Reduction in Energy Consumption per Year*
- *AED 600,000 - Cost Savings per Year*
- *2,000 Tons - Reduction in Carbon Dioxide Emissions per Year*



Independent Auditor's Report

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

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 2012 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2012 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.

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

Date: 31 January 2013
Abu Dhabi

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2012

	Notes	***2012 AED '000***	*2011 AED '000*
Revenues	3 & 4	**1,128,738**	1,114,571
Operating costs	6.1 & 4	**(628,137)**	(654,788)
GROSS PROFIT		**500,601**	459,783
Administrative and other expenses	6.2	**(144,339)**	(158,390)
PROFIT FROM OPERATIONS		**356,262**	301,393
Finance costs	5	**(186,849)**	(219,861)
Finance income		**10,183**	3,768
Changes in fair value of derivative liability and other income		**641**	44,138
Share of results of associates	12	**57,587**	50,700
Share of results of joint ventures	13	**(3,579)**	1,448
PROFIT FOR THE YEAR		**234,245**	181,586
Attributable to:			
Ordinary equity holders of the parent		**236,351**	182,705
Non-controlling interests		**(2,106)**	(1,119)
		234,245	181,586
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (AED)	7	**0.08**	0.09

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Note	***2012*** ***AED '000***	2011 *AED '000*
PROFIT FOR THE YEAR		**234,245**	181,586
Other comprehensive income			
Net movement in fair value of derivatives in cash flow hedges		**(7,807)**	35,754
Share of changes in fair value of derivatives of associate in cash flow hedges	12	**464**	(5,635)
Exchange differences arising on translation of overseas operations		**(121)**	7
Other comprehensive (expense) income for the year		**(7,464)**	30,126
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**226,781**	211,712
Attributable to:			
Ordinary equity holders of the parent		**228,887**	212,831
Non-controlling interests		**(2,106)**	(1,119)
		226,781	211,712

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

ASSETS	Notes	***2012 AED '000***	*2011 AED '000*
Non-current assets			
Capital work in progress	10	**110,829**	466,135
Property, plant and equipment	11	**4,939,095**	4,626,461
Intangible assets	14	**37,596**	37,596
Investments in associates	12	**401,487**	336,926
Investments in joint ventures	13	**1,427**	4,334
Loan to a joint venture	16&31	**56,544**	56,544
Finance lease receivables	17	**1,619,409**	1,619,815
		7,166,387	7,147,811
Current assets			
Inventories		**33,876**	33,909
Accounts receivable and prepayments	18	**558,266**	788,472
Loan to an associate	16&31	**-**	3,662
Finance lease receivables	17	**120,959**	106,300
Contract work in progress	19	**52,276**	48,305
Cash and short term deposits	20	**560,417**	511,997
		1,325,794	1,492,645
Assets classified as held for sale	8	**-**	103,297
TOTAL ASSETS		**8,492,181**	8,743,753
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	**103,021**	79,386
Retained earnings		**130,209**	38,278
Foreign currency translation reserve		**(2,424)**	(2,303)
Cumulative changes in fair value of derivatives		**(48,500)**	(41,157)
Mandatory convertible bond and subordinated loan facility – equity component	27	**2,353,138**	1,945,245
Other reserve	23	**1,153,867**	1,145,196
		4,346,358	3,821,692
Non – controlling interests		**80,233**	92,391
Total equity		**4,426,591**	3,914,083
Non-current liabilities			
Accounts payable and accruals	30	**29,658**	41,462
Interest bearing loans and borrowings	25	**1,980,526**	2,110,921
Islamic financing arrangements	26	**505,790**	527,096
Obligations under finance lease	28	**26,112**	30,453
Mandatory convertible bond and subordinated loan facility– liability component	27	**545,130**	909,860
Employees' end of service benefits	29	**17,549**	17,090
		3,104,765	3,636,882
Current liabilities			
Accounts payable and accruals	30	**608,518**	701,503
Advances from a related party	24	**73,869**	400,000
Interest bearing loans and borrowings	25	**135,381**	72,811
Islamic financing arrangements	26	**22,894**	11,110
Mandatory convertible bond and subordinated loan facility – liability component	27	**112,799**	-
Obligations under finance lease	28	**7,364**	7,364
		960,825	1,192,788
Total liabilities		**4,065,590**	4,829,670
TOTAL EQUITY AND LIABILITIES		**8,492,181**	8,743,753

Waleed Al Mokarrab Al Muhairi
CHAIRMAN

Jasim H. Thabet
CHIEF EXECUTIVE OFFICER

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Attributable to equity holders of the parent											
	Issued capital	*Treasury shares*	*Statutory reserve*	*Retained earnings*	*Foreign currency translation reserve*	*Cumulative changes in fair value of derivatives*	*Mandatory convertible bond and subordinated loan facility - equity component*	*Capital reduction reserve*	*Other reserve*	*Total*	*Non-controlling interests*	*Total equity*
	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 2011	243,380	(2,016)	61,115	(1,004,808)	(2,310)	(71,276)	1,301,679	961,966	-	1,487,730	94,505	1,582,235
Profit (loss) for the year	-	-	-	182,705	-	-	-	-	-	182,705	(1,119)	181,586
Other comprehensive income for the year	-	-	-	-	7	30,119	-	-	-	30,126	-	30,126
Total comprehensive income (expense) for the year	-	-	-	182,705	7	30,119	-	-	-	212,831	(1,119)	211,712
Conversion of mandatory convertible bonds into shares	415,683	-	-	-	-	-	(1,301,679)	-	1,145,196	259,200	-	259,200
Transfer to statutory reserve	-	-	18,271	(18,271)	-	-	-	-	-	-	-	-
Mandatory convertible bonds – equity component	-	-	-	-	-	-	1,864,519	-	-	1,864,519	-	1,864,519
Excess of consideration paid over share of net assets on acquisition of non-controlling interests in a subsidiary	-	-	-	(2,588)	-	-	-	-	-	(2,588)	2,588	-
Mandatory Convertible bond and subordinated loan facility Tranche A – coupon settled in kind(Note 27)	-	-	-	(80,726)	-	-	80,726	-	-	-	-	-
Transfer of capital reduction reserve into retained earnings	-	-	-	961,966	-	-	-	(961,966)	-	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(3,583)	(3,583)
Balance as at 31 December 2011	659,063	(2,016)	79,386	38,278	(2,303)	(41,157)	1,945,245	-	1,145,196	3,821,692	92,391	3,914,083
Balance at 1 January 2012	**659,063**	**(2,016)**	**79,386**	**38,278**	**(2,303)**	**(41,157)**	**1,945,245**	**-**	**1,145,196**	**3,821,692**	**92,391**	**3,914,083**
Profit (loss) for the year	**-**	**-**	**-**	**236,351**			**-**	**-**	**-**	**236,351**	**(2,106)**	**234,245**
Other comprehensive expense for the year					**(121)**	**(7,343)**				**(7,464)**	**-**	**(7,464)**
Total comprehensive income (expense) for the year	**-**	**-**	**-**	**236,351**	**(121)**	**(7,343)**	**-**		**-**	**228,887**	**(2,106)**	**226,781**
Transfer to statutory reserve			**23,635**	**(23,635)**			**-**		**-**	**-**	**-**	**-**
Mandatory Convertible Bonds issued – equity component (MDC) (Note 27)	**-**	**-**					**287,108**	**-**	**8,671**	**295,779**	**-**	**295,779**
Mandatory Convertible bond and subordinated loan facility Tranche A – coupon settled in kind(Note 27)				**(120,785)**			**120,785**			**-**		**-**
Dividend paid to non-controlling interests										**-**	**(11,959)**	**(11,959)**
Capital contribution by non-controlling interests										**-**	**1,907**	**1,907**
Balance at 31 December 2012	**659,063**	**(2,016)**	**103,021**	**130,209**	**(2,424)**	**(48,500)**	**2,353,138**	**-**	**1,153,867**	**4,346,358**	**80,233**	**4,426,591**

The attached notes 1 to 35 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Notes	2012 AED '000	2011 AED '000
OPERATING ACTIVITIES			
Profit for the year		**234,245**	181,586
Non-cash adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property, plant and equipment	11	**145,400**	133,282
Amortisation of trademarks	14	**-**	2
Finance income relating to finance lease receivable	17	**(124,929)**	(99,625)
Share of results of associates	12	**(57,012)**	(44,520)
Share of results of joint ventures	13	**3,579**	(1,448)
Net movement in employees' end of service benefits	29	**459**	2,119
Interest income		**(10,183)**	(3,768)
Finance costs	5	**186,849**	219,861
Other income and changes in fair value of derivative liability		**-**	(40,176)
Working capital adjustments:			
Inventories		**33**	1,887
Accounts receivable and prepayments		**230,030**	(126,505)
Contract work in progress		**(3,971)**	(7,601)
Accounts payable and accruals		**(318,927)**	(7,535)
Lease rentals received		**110,676**	85,005
Net cash flows from operating activities		**396,249**	292,564
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	**(2,441)**	(2,920)
Proceeds from sale of property, plant and equipment		**-**	1,033
Investment in associates	12	**(18,639)**	-
Payments for capital work in progress		**(119,269)**	(607,037)
Dividends received from associates		**11,554**	-
Repayment of loan by an associate		**3,662**	21,782
Interest received		**10,360**	3,768
Net cash flows used in investing activities		**(114,773)**	(583,374)
FINANCING ACTIVITIES			
Interest bearing loans and borrowings received	25	**1,431**	446,710
Interest bearing loans and borrowings repaid		**(77,188)**	(9,716)
Subordinated loan received	27	**-**	1,102,000
Islamic financing arrangement received	26	**-**	52,801
Islamic financing arrangement repaid	26	**(11,796)**	(734,600)
Recapitalization program costs paid		**-**	(92,795)
Payment for obligations under finance lease		**(4,341)**	(3,950)
Interest paid		**(131,110)**	(262,158)
Capital contribution by non-controlling interests		**1,907**	-
Dividends paid to non-controlling interests		**(11,959)**	(3,583)
Net cash flows (used in) from financing activities		**(233,056)**	494,709
NET INCREASE IN CASH AND CASH EQUIVALENTS		**48,420**	203,899
Cash and cash equivalents at 1 January		**511,997**	308,098
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20	**560,417**	511,997

The attached notes 1 to 35 form part of these consolidated financial statements.

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 31 January 2013.

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. 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 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.

The financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

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

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 2011, except for the following amendments to IFRS effective as of 1 January 2012 which do not have any significant impact on the consolidated financial statements:

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment had no impact on the Group.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgments, 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.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgments, 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 date of statement of financial position 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 judgments and estimates applied by the management.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

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 judgment is required in establishing fair values. The judgments 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 judgment 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 3rd 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.

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.

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.

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:

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.

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.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

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

	2012	*2011*
	AED '000	*AED '000*
Capital work in progress	**110,829**	466,135
Property, plant and equipment	**4,939,095**	4,626,461
Intangible assets	**37,596**	37,596

Impairment of accounts receivable, amounts due from related parties, finance lease receivable and loan to an associate

An estimate of the collectible amount of accounts receivable, amounts due from related parties and finance lease receivable 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 an associate and a joint venture were AED 440.9 million (2011: AED 442.1million), AED 58.1 million (2011: AED 282.1 million), AED 1,740 million (2011: AED 1,726 million) and AED 56.5 million (2011: AED 60.2 million) respectively and impairment loss recognised in the consolidated income statement for the year ended 31 December 2012 was AED 3.3 million (2011: AED 2.5 million), AED nil (2011: AED nil), AED nil (2011: AED nil) and AED nil (2011: 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 33.9 million (2011: AED 33.9 million). No provision has been made for obsolete inventories during the year ended 31 December 2012 (2011: 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.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

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.

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 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.

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.

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
The Group's investments in associates are accounted for under the equity method of accounting. These are entities over which the Company exercises significant influence and which is neither a subsidiary nor a joint venture.

Investments in associates are carried in the consolidated statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The consolidated income statement reflects the Company's share of the results of its associates. Where there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. Losses on transaction are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investments in associates continued
After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Company determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Company calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost (and post acquisition changes in the net assets of the associate) and recognises the amount in the consolidated income statement.

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

Investments in joint ventures
The Company has investments in joint ventures which are jointly controlled entities, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entities. The Company carries interests in joint ventures in the consolidated statement of financial position at cost, plus post-acquisition changes in the Company's share of net assets of the joint ventures, less any impairment in value. The consolidated income statement reflects the Company's share of the results of its joint ventures.

Where there has been a change recognised directly in the equity of the joint venture, the Company recognises its share of any changes and discloses this, when applicable, in the statement of comprehensive income. Profits and losses resulting from transactions between the Company and the joint ventures are eliminated to the extent of the interest in the joint ventures. Losses on transaction are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

The financial statements of the joint ventures are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its joint ventures. The Company determines at each balance sheet reporting date whether there is any objective evidence that the investment in joint ventures is impaired. If this is the case the Company calculates the amount of impairment as being the difference between the fair value of the joint ventures and the acquisition cost (and post acquisition changes in the net assets of the joint ventures) and recognises the amount in the consolidated income statement.
The joint venture is consolidated until the date on which the Company ceases to have joint control over the joint ventures. Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Company measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised immediately in the consolidated income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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 to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. 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 marke 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets continued
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.

Investment and other financial assets
Financial assets within the scope of IAS 39 are classified as financial assets at fair value through income statement, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through income statement, directly attributable transaction costs.

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.

Offsetting
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.

Loans and receivables
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 method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment and other financial assets continued

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.

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.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment and non-collectability of financial assets continued
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.

The interest income is recorded as part of finance income in the consolidated income statement. 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 future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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.

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.

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.

Mandatory convertible bond and subordinated loan facility
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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Mandatory convertible bond and subordinated loan facility continued
For the subordinated loan facility, to the extent the facility represents a contractual arrangement to deliver cash or another financial asset, it is classified as a liability, with the balance of proceeds being allocated to equity and recognised under separate heading in 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. Subordinated loan facility carrying interest rate below market rate is measured at fair value with the balance of proceeds recognised under separate heading in shareholders' equity.

Transaction costs are allocated between liability and equity components of the subordinated loan facility based on allocation of initial proceeds from the facility 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 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 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Leases continued
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 receivable) 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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedging continued
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.

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.

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 firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

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.

Fair value of financial instruments
Financial instruments comprise financial assets and financial liabilities.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value of financial instruments continued
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 35.

Asset classified as held for sale
Management classifies a non-current as held for sale when the carrying amount of the asset is expected to be recovered through a sale transaction rather than continuing use. When the proposed sale transaction is no longer expected to occur, the assets are transferred back to property, plant and equipment and measured at the lower of:

- its carrying amount before classification as held for sale, adjusted for any depreciation that would have been recognised had the asset not been classified as held for sale, and
- its recoverable amount at the date of the subsequent change in sale plan.

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

The following IASB Standard and amendments have been issued but are not yet mandatory, and have not yet been adopted by the Group:

- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IAS 19 Employee Benefits (Revised)
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
- IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
- IFRS 1 Government Loans – Amendments to IFRS 1
- IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

Improvements to IFRSs (issued in May 2012)

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 2013. The amendments listed below, are considered to have a reasonable possible impact on the Company:

- IAS 1 Presentation of Financial Statements
- IAS 16 Property Plant and Equipment
- IAS 32 Financial Instruments, Presentation
- IAS 34 Interim Financial Reporting

The Group is currently assessing the impact from the adoption of the above new and amended standards on its financial position or performance.

3 REVENUE

	2012 AED '000	2011 AED '000
Supply of chilled water and operating revenue	**690,727**	663,988
Finance lease income (note 17)	**121,710**	99,625
Operating lease income	**198,543**	180,218
Contracting revenue	**59,227**	83,720
Manufacturing revenue	**23,545**	40,057
Services	**34,986**	46,963
	1,128,738	1,114,571

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.

	2012				2011			
	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	**1,010,980**	**117,758**	**-**	**1,128,738**	943,831	170,740	-	1,114,571
Inter–segment revenue	**-**	**12,682**	**(12,682)**	**-**	-	96,236	(96,236)	-
Total revenue	**1,010,980**	**130,440**	**(12,682)**	**1,128,738**	943,831	266,976	(96,236)	1,114,571
Operating costs	**(536,483)**	**(106,531)**	**14,877**	**(628,137)**	(537,761)	(214,960)	97,933	(654,788)
Gross profit	**474,497**	**23,909**	**2,195**	**500,601**	406,070	52,016	1,697	459,783
Segment results	**347,106**	**6,440**	**2,716**	**356,262**	274,355	23,214	3,824	301,393
Finance costs				**(186,849)**	-	-	-	(219,861)
Changes in fair value of derivative liability and other income	**641**			**641**	44,138	-	-	44,138
Finance income				**10,183**	-	-	-	3,768
Share of results of associates	**57,587**			**57,587**	50,700	-	-	50,700
Share of results of joint ventures	**(3,579)**			**(3,579)**	1,448	-	-	1,448
Profit for the year				**234,245**				181,586

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:

	2012			2011		
	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 and amortisation	**135,588**	**5,962**	**141,550**	127,073	6,211	133,284

Segment assets and liabilities are as follows:

	2012				2011			
	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	**7,457,894**	**258,038**	**-**	**7,715,932**	7,723,670	262,657	-	7,986,327
Investments in Associates	**401,487**	**-**	**-**	**401,487**	336,926	-	-	336,926
Investments in joint ventures	**1,427**	**-**	**-**	**1,427**	4,334	-	-	4,334
Unallocated assets	**-**	**-**	**373,335**	**373,335**	-	-	416,166	416,166
Total assets	**7,860,808**	**258,038**	**373,335**	**8,492,181**	8,064,930	262,657	416,166	8,743,753
Segment liabilities	**641,325**	**88,269**	**-**	**729,594**	1,066,146	93,909	-	1,160,055
Unallocated liabilities	**-**	**-**	**3,335,996**	**3,335,996**	-	-	3,669,615	3,669,615
Total Liabilities	**641,325**	**88,269**	**3,335,996**	**4,065,590**	1,066,146	93,909	3,669,615	4,829,670

Unallocated assets represent bank deposits of AED 373,335 thousand (2011: AED 416,166 thousand) as these assets are managed on a group basis.

Unallocated liabilities represent interest bearing loans and borrowings of AED 2,115,907 thousand (2011: AED 2,183,732 thousand), Islamic financing arrangements of AED 528,684 thousand (2011: AED 538,206 thousand), obligations under finance lease of AED 33,476 thousand (2011: AED 37,817 thousand), mandatory convertible bond – liability component of AED 657,929 thousand (2011: AED 393,447 thousand) and subordinated loan facility – liability component of AED nil (2011: AED 516,413 thousand).

	2012			2011		
	Chilled water AED'000	Value chain business AED'000	Total AED'000	Chilled water AED'000	Value chain business AED'000	Total AED'000
Capital expenditure:						
Property, plant and equipment	**2,301**	**140**	**2,441**	2,710	210	2,920
Capital work in progress	**75,705**	**-**	**75,705**	452,518	-	452,518
Investment in an associate	**18,639**	**-**	**18,639**	-	-	-

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	
	2012	2011	**2012**	2011
	AED '000	AED '000	**AED '000**	AED '000
United Arab Emirates	**1,096,565**	1,081,599	**6,256,880**	6,296,066
Others	**32,173**	32,972	**450,049**	453,941
	1,128,738	1,114,571	**6,706,929**	6,750,007

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.

	2012			2011		
	Chilled water	**Value chain business**	**Total**	Chilled water	Value chain business	Total
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Customer 1	**308,211**	**49,227**	**357,438**	262,442	49,796	312,238
Customer 2	**261,717**	**-**	**261,717**	212,991	-	212,991
Customer 3	**121,364**	**-**	**121,364**	105,287	-	105,287
	691,292	**49,227**	**740,519**	580,720	49,796	630,516

5 FINANCE COSTS

	2012	2011
	AED '000	AED '000
Gross interest charge for the year	**186,849**	225,222
Less: interest capitalised during the year (note 10)	**-**	(5,361)
Interest charged to income statement during the year	**186,849**	219,861
Interest charged to income statement comprises of:		
Interest on interest bearing loans and borrowings, overdrafts and interest rate swaps	**112,940**	124,880
Rental charges on Islamic financing arrangements	**14,617**	52,322
Interest element of finance lease	**3,408**	3,796
Other finance costs	**55,884**	38,863
	186,849	219,861

6 PROFIT FROM OPERATIONS

6.1 Operating costs

	2012	2011
	AED '000	*AED '000*
Costs of inventories recognised as an expense	**20,698**	30,322
Contract costs	**58,759**	70,777
Depreciation (note 11)	**136,600**	127,106
Utility costs	**263,609**	264,969
Purchase of chilled water from a related party (note 31)	**90,175**	89,904
Chiller rental costs	**5,554**	26,460
Others	**52,742**	45,250
	628,137	654,788

6.2 Administrative and other expenses

	2012	2011
	AED '000	*AED '000*
Staff costs	**95,869**	98,853
Depreciation and amortisation (note 11 & 14)	**8,800**	6,178
(Reversal) Provision for doubtful debts (note 18)	**(227)**	2,474
Other administrative and general expenses	**39,897**	50,885
	144,339	158,390

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).

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:

	2012	*2011*
Profit for the year attributable to ordinary equity holders of the parent for basic earnings (*AED '000*)	**236,351**	182,705
Weighted average number of ordinary shares (excluding treasury shares) outstanding during the year ('000)	**657,047**	498,746
Effect of mandatory convertible bond ('000)	**2,312,382**	1,503,952
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of mandatory convertible bond ('000)	**2,969,429**	2,002,698
Basic earnings per share *(AED)*	**0.08**	0.09

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).

	2012	*2011*
Profit for the year attributable to ordinary equity holders of the parent for basic earnings (AED '000)	**236,351**	182,705
Accretion on subordinated loan facility- Tranche B ('000)	**14,865**	5,568
Profit for the year attributable to ordinary equity holders of the parent for diluted earnings (AED '000)	**251,216**	188,273
Weighted average number of ordinary shares for basic earnings per share ('000)	**2,969,429**	2,002,698
Effect of dilution for subordinated loan facility Tranche B ('000)	**365,202**	142,492
Weighted average number of ordinary shares adjusted for the effect of dilution ('000)	**3,334,631**	2,145,190
Diluted earnings per share *(AED)*	**0.08**	0.09

At 31 December 2012, The Subordinated Bridge Loan facility Tranche A was rolled over in to Mandatory Convertible Bond and Tranche B was settled through the issue of Mandatory Convertible Bond (Note 27).

8 ASSETS HELD FOR SALE

During the year, the Company changed its plan to sell the property, plant and equipment previously classified as held for sale. Accordingly, the carrying amount of the plant and the related distribution network amounting to AED 103.3 million, has been reclassified to 'property, plant and equipment' as of 31 December 2012.

9 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* **2012**	*2011*	*Principal activities*
Chilled water segment;				
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
Sahara Cooling and Air Conditioning LLC	UAE	**51**	51	Act as the commercial representative of Sahara Cooling Limited, an associate (note 12)
Value chain business segment;				
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
Others - Unallocated				
Tabreed Captive Insurance Company B.S.C.	Bahrain	-	100	Engages in reinsurance business for the Group
Tabreed Holdings WLL	Bahrain	**100**	100	Act as a holding company

In accordance with a resolution of the Board of Directors, Tabreed Captive Insurance Company B.S.C. was dissolved during the year at book value resulting in no gain or loss.

10 CAPITAL WORK IN PROGRESS

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

	2012 ***AED '000***	*2011* *AED '000*
Balance at 1 January	**461,586**	903,700
Additions during the year	**75,705**	452,518
Transfer to finance lease receivable (note 17)	**-**	(435,000)
Transfer to property, plant and equipment, net of impairment (note 11)	**(428,781)**	(459,632)
	108,510	461,586
Advances to contractors	**2,319**	4,549
Balance at 31 December after provision for impairment	**110,829**	466,135

Included in additions to capital work in progress are capitalised financing costs amounting to AED nil (2011: AED 5 million).

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

11 PROPERTY, PLANT AND EQUIPMENT

	Land, plant and buildings AED'000	*Distribution network* AED'000	*Furniture and fixtures* AED'000	*Office Equipment and instruments* AED'000	*Motor vehicles* AED'000	*Total* AED'000
2012						
Cost:						
At 1 January 2012	**3,723,475**	**2,225,448**	**12,679**	**31,221**	**1,235**	**5,994,058**
Additions	**1,059**	**-**	**233**	**1,149**	**-**	**2,441**
Transfer from capital work in progress (note10)	**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 (note 8)	**92,951**	**19,923**	**-**	**-**	**-**	**112,874**
Disposals	**(7,073)**	**-**	**-**	**-**	**-**	**(7,073)**
At 31 December 2012	**4,141,935**	**2,264,382**	**12,912**	**34,132**	**1,235**	**6,454,596**
Depreciation:						
At 1 January 2012	**373,608**	**115,867**	**11,374**	**26,835**	**1,166**	**528,850**
Depreciation for the year	**102,939**	**39,089**	**714**	**2,607**	**51**	**145,400**
Asset classified under held for sale (note 8)	**8,151**	**1,426**	**-**	**-**	**-**	**9,577**
Disposals	**(7,073)**	**-**	**-**	**-**	**-**	**(7,073)**
At 31 December 2012	**477,625**	**156,382**	**12,088**	**29,442**	**1,217**	**676,754**
Net carrying amount before provision for impairment: At 31 December 2012	**3,664,310**	**2,108,000**	**824**	**4,690**	**18**	**5,777,842**
Provision for impairment at 1 January 2012 and 31 December 2012	**483,299**	**355,448**	**-**	**-**	**-**	**838,747**
Net carrying amount after provision for impairment: At 31 December 2012	**3,181,011**	**1,752,552**	**824**	**4,690**	**18**	**4,939,095**

	Land, plant and buildings AED'000	*Distribution network* AED'000	*Furniture and fixtures* AED'000	*Office Equipment and instruments* AED'000	*Motor vehicles* AED'000	*Total* AED'000
2011						
Cost:						
At 1 January 2011	3,625,576	1,976,326	12,637	30,475	1,673	5,646,687
Additions	1,587	-	587	746	-	2,920
Transfer from capital work in progress (note 10)	189,765	269,867	-	-	-	459,632
Asset classified under held for sale (note 8)	(92,951)	(19,923)	-	-	-	(112,874)
Disposals	(502)	(822)	(545)	-	(438)	(2,307)
At 31 December 2011	3,723,475	2,225,448	12,679	31,221	1,235	5,994,058
Depreciation:						
At 1 January 2012	289,313	81,855	10,964	22,826	1,461	406,419
Depreciation for the year	92,658	35,660	855	4,009	100	133,282
Asset classified under held for sale (note 8)	(8,151)	(1,426)	-	-	-	(9,577)
Depreciation relating to disposals	(212)	(222)	(445)	-	(395)	(1,274)
At 31 December 2011	373,608	115,867	11,374	26,835	1,166	528,850
Net carrying amount before provision for impairment: At 31 December 2011	3,349,867	2,109,581	1,305	4,386	69	5,465,208
Provision for impairment at 1 January 2011 and 31 December 2011	483,299	355,448	-	-	-	838,747
Net carrying amount after provision for impairment: At 31 December 2011	2,866,568	1,754,133	1,305	4,386	69	4,626,461

11 PROPERTY, PLANT AND EQUIPMENT continued

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

	2012	*2011*
	AED '000	*AED '000*
Included in operating costs (note 6.1)	**136,600**	127,106
Included in administrative and other expenses (note 6.2)	**8,800**	6,176
	145,400	133,282

Property, plant and equipment with a carrying amount of AED 889.9 million (2011: AED 846.1 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 45.1 million (2011: AED 47.5 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 WACC of 8.5% (2011: 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.

12 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

		Ownership	
	Country of incorporation	***2012***	*2011*
Industrial City Cooling Company	United Arab Emirates	**20%**	20%
Qatar Central Cooling Company PJSC	State of 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	State of Qatar	**49%**	49%

Movement in investment in associates is as follows:

	2012	*2011*
	AED '000	*AED '000*
At 1 January	**336,926**	298,041
Share of results for the year	**57,012**	44,520
Additions during the year	**18,639**	-
Dividends received	**(11,554)**	-
Share of changes in fair value of effective cash flow hedges	**464**	(5,635)
At 31 December	**401,487**	336,926

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 an additional investment of 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:

	2012	*2011*
	AED '000	*AED '000*
Share of the associates' statement of financial position:		
Current assets	**208,790**	167,401
Non-current assets	**949,631**	844,880
Current liabilities	**(209,319)**	(135,793)
Non-current liabilities	**(547,615)**	(535,900)
Loan from shareholders	**-**	(3,662)
Net assets	**401,487**	336,926
Share of the associates' revenues and results:		
Revenues	**163,493**	152,759
Results (as adjusted by profit resulting from transactions between the Company and the associates amounting to AED 0.6 million (2011: AED 6.2 million)	**57,587**	50,700

Net assets of associates include the Company's share of negative fair value of derivatives of associates amounting to AED 19 million (2011: AED 19.4 million).

13 INVESTMENTS IN JOINT VENTURES

The Company has the following investments in joint ventures:

		Ownership	
	Country of incorporation	***2012***	*2011*
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.

S&T Cool District Cooling Company LLC, a limited liability company, incorporated in Emirate of Abu Dhabi, is involved in the same business activity as Tabreed.

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

Movement in investments in joint ventures is as follows:

	2012	*2011*
	AED '000	*AED '000*
At 1 January	**4,334**	3,142
Share of results for the year	**(3,579)**	(95)
Adjustments for inter group transactions	**672**	1,287
At 31 December	**1,427**	4,334
Share of the joint ventures' revenues and profits:		
Revenues	**17,263**	53,435
(Loss) profit for the year	**(3,579)**	1,448

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

	2012	*2011*
	AED '000	*AED '000*
Tabreed's share of the assets and liabilities of the joint ventures are as follows:		
Current assets	**65,526**	135,096
Non-current assets	**164,095**	158,962
	229,621	294,058
Current liabilities	**(48,175)**	(151,161)
Non-current liabilities	**(123,475)**	(82,019)
Loan from shareholders	**(56,544)**	(56,544)
Total net assets	**1,427**	4,334

14 INTANGIBLE ASSETS

	Goodwill		Trademarks		Total	
	2012	2011	**2012**	2011	**2012**	2011
	AED '000	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*
Balance at 1 January	**37,596**	37,596	**-**	2	**37,596**	37,598
Amortisation for the year	**-**	-	**-**	(2)	**-**	(2)
Balance at 31 December	**37,596**	37,596	**-**	-	**37,596**	37,596

15 IMPAIRMENT TESTING OF GOODWILL

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

	2012	*2011*
	AED '000	*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 2017. The discount rate applied to the cash flow projections is 25% (2011: 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% (2011: 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 % (2011: 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.

16 LOANS TO AN ASSOCIATE AND A JOINT VENTURE

	2012	2011
	AED '000	*AED '000*
Loan to an associate (note i)	**-**	3,662
Loan to a joint venture (note ii)	**56,544**	56,544
	56,544	60,206

Analysed in the consolidated statement of financial position as follows:

	2012	2011
	AED '000	*AED '000*
Current	**-**	3,662
Non-current	**56,544**	56,544
	56,544	60,206

(i) The loan has been completely paid-off in the current year. It was granted to Sahara Cooling Limited, an associate company.

(ii) The Company has granted a loan of AED 56.5 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.

17 FINANCE LEASE RECEIVABLES

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

	2012	2011
	AED '000	*AED '000*
At 1 January	**1,726,115**	1,276,495
Transfers from capital work in progress during the year (note 10)	**-**	435,000
Revisions to finance lease receivable on extension of lease term credited to consolidated statement of income	**3,219**	-
Finance lease income (note 3)	**121,710**	99,625
Lease rentals received	**(110,676)**	(85,005)
At 31 December	**1,740,368**	1,726,115

Analysed in the consolidated statement of financial position as follows:

Current assets	**120,959**	106,300
Non-current assets	**1,619,409**	1,619,815
	1,740,368	1,726,115

17 FINANCE LEASE RECEIVABLES continued

Transfer of AED 435 million from capital work in progress to finance lease receivable during 2011 related to plant and equipment transferred on commencement of lease relating to an existing customer on the commissioning of related plants and distribution network.

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

	2012		*2011*	
	Minimum lease receivables AED '000	**Present value of minimum lease AED '000**	*Minimum lease receivables AED '000*	*Present value of minimum lease AED '000*
Within one year	**125,395**	**120,959**	110,676	106,300
After one but no more than five years	**503,549**	**408,441**	501,326	407,222
More than five years	**3,297,535**	**1,210,968**	3,405,739	1,212,593
	3,926,479	**1,740,368**	4,017,741	1,726,115
Unearned revenue (note i)	**(2,186,111)**	**-**	(2,291,626)	-
	1,740,368	**1,740,368**	1,726,115	1,726,115

(i) Movement in unearned revenue is as follows:

	2012	*2011*
	AED '000	*AED '000*
At 1 January	**2,291,626**	1,784,345
Relating to new and extended finance leases	**16,195**	606,906
Recognised during the year (note 3)	**(121,710)**	(99,625)
At 31 December	**2,186,111**	2,291,626

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

18 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2012	*2011*
	AED '000	*AED '000*
Trade receivables	**425,442**	418,215
Amounts due from related parties (note 31)	**58,123**	282,120
Advances to contractors and employees	**14,990**	25,569
Deposits and other receivables	**51,576**	53,958
Prepayments	**8,135**	8,610
	558,266	788,472

As at 31 December 2012, trade receivables with a nominal value of AED 15.5 million (2011: AED 23.9 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

18 ACCOUNTS RECEIVABLE AND PREPAYMENTS continued

	2012	*2011*
	AED '000	*AED '000*
At 1 January	**23,968**	29,102
Charge for the year (note 6.2)	**3,373**	2,474
Reversed during the year (note 6.2)	**(3,600)**	-
Amounts written off	**(8,191)**	(7,608)
At 31 December	**15,550**	23,968

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

			Past due but not impaired					
	Total	*Neither past due nor impaired*	*< 30 days*	*30 – 60 days*	*60 – 90 days*	*90 – 120 days*	*120 – 365 days*	*>365 days*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
2012	**483,565**	**168,736**	**70,566**	**46,228**	**19,207**	**11,158**	**65,999**	**101,671**
2011	700,335	163,236	61,883	46,749	53,892	58,423	151,224	164,928

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

	2012	*2011*
	AED '000	*AED '000*
Cost plus attributable profit	**59,227**	166,486
Less: progress billings	**(6,951)**	(118,181)
	52,276	48,305

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:

	2012	*2011*
	AED '000	*AED '000*
Bank balances and cash	**187,082**	95,831
Bank deposits	**373,335**	416,166
	560,417	511,997

Bank deposits attract a fixed rate of interest ranging from 0.15% to 3.01% per annum (2011: 0.5% to 3.6% per annum) and are held for tenure of less than 3 months (2011: same).

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

	2012	*2011*
	AED '000	*AED '000*
Within UAE	**539,649**	482,402
Outside UAE	**20,768**	29,595
	560,417	511,997

21 ISSUED CAPITAL

	2012	2011
	AED '000	AED '000
Authorised, issued and fully paid up share capital		
Ordinary shares of 659,063,447 (2011: 659,063,447) at 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.

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 during the year (note 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). During the year, an amount of AED 326.1 million has set been set off against amounts due from the customer in accordance with an agreement with the customer.

25 INTEREST BEARING LOANS AND BORROWINGS

	Effective interest rate %	***2012 AED '000***	*2011 AED '000*
Term loan 1- Facility A (Note 1)	EIBOR + margin	**758,594**	820,416
Term loan 1- Facility B (Note 1)	EIBOR + margin	**1,192,481**	1,187,378
Term loan 4	EIBOR + margin	**-**	3,000
Term loan 5	3%	**7,351**	8,576
Term loan 6	LIBOR + margin	**157,481**	164,362
		2,115,907	2,183,732

Analysed in the consolidated statement of financial position as follows:

	2012 AED '000	*2011 AED '000*
Current portion	**135,381**	72,811
Non-current portion	**1,980,526**	2,110,921
	2,115,907	2,183,732

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.

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 90 million (2011: AED 90 million) (cash advances of AED nil (2011: AED nil)) has been utilised by the Company as of 31 December 2012. 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 above facilities is payable in cash on a quarterly basis. The facilities are secured against plants, equipment and trade debtors.

Term loan 6 relating to a subsidiary borrowing is repayable in 22 semi annual instalments starting 2008.

26 ISLAMIC FINANCING ARRANGEMENTS

	Profit charge %	***2012*** ***AED '000***	*2011* *AED '000*
Islamic financing arrangement 1 facility A (Note 25)	EIBOR + margin	**137,385**	148,573
Islamic financing arrangement 1 facility B (Note 25)	EIBOR + margin	**391,299**	389,633
		528,684	538,206

Analysed in the consolidated statement of financial position as follows:

	2012 ***AED '000***	*2011* *AED '000*
Current portion	**22,894**	11,110
Non-current portion	**505,790**	527,096
	528,684	538,206

27 MANDATORY CONVERTIBLE BOND (MCB) AND SUBORDINATED LOAN FACILITY (SBL)

Mandatory convertible bond MCB-1

The mandatory convertible bond ("MCB-1") was issued on 1 April 2011 in the form of trust certificates for a total value of AED 1,700 million, maturing in March 2019.

MCB-1 carries interest at a fixed rate of 6% per annum, settled in kind by compounding into the principal amount on annual basis during the period from inception to 31 December 2012, and carries a cash coupon of 4% per annum from 1 January 2013 to maturity payable in arrears on a quarterly basis.

The MCB-1 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-1 on inception amounted to AED 29.1 million.

The liability component of MCB-1 amounting to AED 410.3 million (2011:393.4 million) net of transaction cost, represents present value of cash coupon payable during the period from 1 January 2013 till maturity, discounted at a market rate of 4% 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-1 amounting to AED 1,473 million (2011: AED 1,366 million) net of transaction cost, have been recognised as the equity component of MCB-1 and adjusted for the settlement in kind of the coupon amounting to AED 106.6 million during the year (2011: AED 76.5 million)

Rollover of sub-ordinated loan facility (Tranche A) and issuance of mandatory convertible bond MCB-1C

In addition to MCB-1, the Group on 1 April 2011 secured AED 702 million of new, committed long term capital from MDC in the form of a subordinated loan facility (Tranche A) and AED 400 million in the form of a subordinated loan facility (Tranche B).

Tranche A matured on 31 December 2012 and till that date, carried a fixed interest rate of 2% per annum amounting to AED 14.2 million (2011: AED 4.2 million) settled in kind by compounding into the principal amount on a semi annual basis and included under equity. The Company settled Tranche A 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 156.9 million represents present value of cash coupon payable during the period from 1 January 2013 till maturity, discounted at a market rate of 4% 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.

During the year, the remainder of the proceeds from SBL A amounting to AED 559.9 million (2011: 545.8 million) adjusted for settlement in kind of coupon amounting to AED 14.2 million (2011: AED 4.2 million) that was previously recognised as equity component has been rolled over into MCB-1C.

27 MANDATORY CONVERTIBLE BOND (MCB) AND SUBORDINATED LOAN FACILITY (SBL) continued

Settlement of sub-ordinated loan facility (Tranche B) by means of issuance of mandatory convertible bond MCB-1A and MCB-1C

On 31 December 2012, the total of the principal along with coupon in kind of Tranche B amounted to AED 411 million as of 31 December 2012 was settled by issuing mandatory convertible bond ("MCB-1A") and mandatory convertible bond ("MCB-1C") in the form of trust certificates for a total value of AED 226 million and AED 185 million respectively both maturing in March 2019.

MCB-1A and MCB-1C carry 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 the MCB-1 A and MCB-1C of AED 90.7 million represents present value of cash coupon payable during the period from 1 January 2013 till maturity, discounted at a market rate of 4% 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 and MCB-1C amounting to AED 320.5 million have been recognised as the equity component of MCB-1A and MCB-1C.

	Mandatory convertible bond (MCB-1)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Balance at 1 January 2012	393,447	1,366,135	1,759,582
Accretion expense	15,980	-	15,980
Amortisation of transaction costs	876	-	876
Coupon settled in kind	-	106,590	106,590
Balance at 31 December 2012	410,303	1,472,725	1,883,028

	Subordinated loan facility – Tranche A		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Balance at 1 January 2012	150,482	545,756	696,238
Accretion expense	6,114	-	6,114
Amortisation of transaction costs	311	-	311
Coupon settled in kind	-	14,195	14,195
Settled by issuance of MCB-1C	(156,907)	(559,951)	(716,858)
Balance at 31 December 2012	-	-	-

	Subordinated loan facility – Tranche B		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Balance at 1 January 2012	365,931	33,354	399,285
Accretion expense	14,865	-	14,865
Amortisation of transaction costs	5,702	-	5,702
Transferred to other reserves	(9,252)	581	(8,671)
Settled by issuance of MCB-1A and MCB-1C	(377,246)	(33,935)	(411,181)
Balance at 31 December 2012	-	-	-

27 MANDATORY CONVERTIBLE BOND (MCB) AND SUBORDINATED LOAN FACILITY (SBL) continued

Settlement of sub-ordinated loan facility (Tranche B) by means of issuance of mandatory convertible bond MCB-1A and MCB-1C

	Mandatory convertible bond (MCB-1A)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Issued during the year	90,719	320,462	411,181
Balance at 31 December 2012	90,719	320,462	411,181

	Mandatory convertible bond (MCB-1C)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Issued during the year	156,907	559,951	716,858
Balance at 31 December 2012	156,907	55,9951	716,858

Total balance of MCB at 31 December 2012	**657,929**	**2,353,138**	**3,011,067**
Total balance of MCB-1 and SBL at 31 December 2011	909,860	1,945,245	2,855,105
Allocated to the bonds as follows:			
MCB-1 (representing 1,672,519,762 shares at AED 1 each)	410,303	1,472,725	1,883,028
MCB-1C (representing 639,862,459 shares at AED 1 each)	156,907	559,951	716,858
MCB-1A & 1C (representing 365,202,112 shares at AED 1 each)	90,719	320,462	411,181
	657,929	**2,353,138**	**3,011,067**

Liability components of mandatory convertible bonds and subordinated loan facility at 31 December are analysed in the consolidated statement of financial position as follows:

	2012 AED '000	*2011 AED '000*
Current	**112,799**	-
Non – current	**545,130**	909,860
	657,929	909,860

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:

	2012		*2011*	
	Minimum lease payments AED '000	***Present value of payments AED '000***	*Minimum lease payments AED '000*	*Present value of payments AED '000*
Within one year	**7,749**	**7,364**	7,749	7,364
After one year but not more than five years	**30,994**	**23,384**	30,994	23,384
After five years	**4,505**	**2,728**	12,254	7,069
	43,248	**33,476**	50,997	37,817
Less: amounts representing finance charges	**(9,772)**	**-**	(13,180)	-
Present value of minimum lease payments	**33,476**	**33,476**	37,817	37,817

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

	2012 AED '000	*2011 AED '000*
Current	**7,364**	7,364
Non-current	**26,112**	30,453
	33,476	37,817

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:

	2012 AED '000	*2011 AED '000*
Balance at 1 January	**17,090**	14,971
Net movement during the year	**459**	2,119
Balance at 31 December	**17,549**	17,090

30 ACCOUNTS PAYABLE AND ACCRUALS

	2012	*2011*
	AED '000	*AED '000*
Non-current liabilities		
Retentions payable for capital expenditure	**-**	13,233
Retentions payable for non-capital expenditure	**6,280**	4,851
Other payables	**23,378**	23,378
	29,658	28,229
	29,658	41,462
Current liabilities		
Relating to capital expenditure:		
Contractor payable and retentions	**100,337**	127,976
Accrued expenses and provisions	**81,974**	162,709
	182,311	290,685
Others:		
Accounts payable	**54,460**	68,607
Due to related parties – associates (note 31)	**30,707**	33,241
Accrued expenses	**147,440**	119,680
Other payables	**193,600**	189,290
	426,207	410,818
	608,518	701,503

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.

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:

	2012				*2011*			
	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	**-**	**90,175**	**-**	**4,229**	-	89,904	-	4,262
Joint venture	**-**	**-**	**-**	**-**	610	-	-	-
Majority shareholder	**8,339**	**-**	**36,959**	**-**	32,864	-	40,333	-
Associate of a majority shareholder	**121,848**	**-**	**-**	**-**	106,299	-	-	-
Government related departments and institutions	**34,061**	**108,931**	**64,300**	**-**	33,948	95,903	91,012	-

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

	2012				
	Loan receivable AED'000	***Mandatory convertible bond and subordinated loan facility 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 (i)	**-**	**3,011,067**	**-**	**-**	**-**
Associate of a majority shareholder	**-**	**-**	**24,480**	**73,869**	**-**
Government related departments and institutions	**-**	**-**	**13,467**	**4,142**	**1,757,439**
	56,544	**3,011,067**	**71,590**	**108,718**	**1,757,439**

	2011				
	Loan receivable AED'000	*Mandatory convertible bond and subordinated loan facility AED'000*	*Accounts Receivable AED'000*	*Accounts payables and advances AED'000*	*Interest bearing loans and Islamic financing arrangements AED'000*
Associated companies	3,662	-	19,724	33,241	-
Joint venture	56,544	-	5,058	-	-
Majority shareholder (i)	-	2,855,105	-	-	-
Associate of a majority shareholder	-	-	257,338	400,000	-
Government related departments and institutions	-	-	8,724	10,165	1,811,956
	60,206	2,855,105	290,844	443,406	1,811,956

(i) Refer note 27 for details.

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:

	Terms and conditions	***2012*** ***AED '000***	*2011* *AED '000*
Loan to an associate	Interest bearing, unsecured, settlement in cash	**-**	3,662
Loan to a joint venture	Interest free, unsecured, settlement in cash	**56,544**	56,544
Mandatory convertible bond 1	Interest bearing, unsecured, coupon settled in kind	**1,883,028**	1,759,582
Mandatory convertible bond 1A	Interest bearing, unsecured, coupon settled in kind	**411,181**	-
Mandatory convertible bond 1C	Interest bearing, unsecured, coupon settled in kind	**716,858**	-
Subordinated loan facility A	Interest bearing, unsecured, coupon settled in kind	**-**	696,238
Subordinated loan facility B	Interest bearing, unsecured, settled in cash	**-**	399,285
Accounts receivable	Interest free, unsecured, settled in cash	**58,123**	282,120
Accounts payable	Interest free, unsecured, settled in cash	**30,707**	33,241
Advance from a related party	Interest free, unsecured, settled on net basis	**73,869**	400,000

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2012, no impairment was recorded (2011: 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:

	2012 ***AED '000***	*2011* *AED '000*
Short-term benefits	**21,849**	17,085
Employees' end of service benefits	**1,645**	944
	23,494	18,029
Number of key management personnel	**17**	18

32 CONTINGENCIES

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

	2012	*2011*
	AED '000	*AED '000*
Performance guarantees	**127,998**	103,686
Advance payment guarantees	**3,131**	11,351
Financial guarantees	**6,589**	8,925
	137,718	123,962

The Company's share of contingencies of associates as of 31 December 2012 amounted AED 13 million (2011: AED 7 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 future capital expenditure contracted for at 31 December 2012 but not provided for amounted to AED 75 million (2011: AED 157 million). The Company's share of authorised future capital expenditure of associates and joint ventures at 31 December 2012 amounted to AED 147 million (2011: AED 57.8 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:

	2012	*2011*
	AED '000	*AED '000*
Within one year	**228,110**	198,543
After one year but not more than five years	**1,208,703**	1,180,391
More than five years	**2,621,910**	2,874,675
	4,058,723	4,253,609

Included in operating lease commitments is an amount of AED 846 million relating to a related party. (2011: AED 887 million).

34 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 and subordinated loan facility – 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 receivable, 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 2012 and 2011 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 2012 and 2011.

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 2012 and 2011.

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 2012 and 2011 including the effect of hedge accounting.

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 2012, after taking into account the effect of interest rate swaps, approximately 59% of the Group's borrowings are at a fixed rate of interest (2011: 64%).

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Interest rate risk continued

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).

	Effect on profit AED '000
2012	
+100 increase in basis points	**(8,733)**
-100 decrease in basis points	**8,733**
2011	
+100 increase in basis points	(8,897)
-100 decrease in basis points	8,897

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.

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 54% of outstanding trade and related party receivable balances at 31 December 2012 (2011: 3 customers - 68%). Amounts due in respect of finance lease receivable are from two customers (2011: 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.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

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 and available facilities from subordinated loan facility.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012 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 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**	**461,675**	**706,297**
Accounts and retention payable, due to related parties and other financial liabilities	**-**	**199,051**	**283,845**	**6,280**	**-**	**489,176**
	-	**254,482**	**609,555**	**1,553,087**	**2,075,120**	**4,492,244**
At 31 December 2011						
Mandatory convertible bond and subordinated Loan facility – liability component	-	-	-	827,770	234,319	1,062,089
Interest bearing loans and borrowings	-	18,673	128,192	870,497	1,701,894	2,719,256
Obligations under finance leases	-	1,937	5,812	30,994	12,254	50,997
Islamic financing arrangements	-	5,633	30,596	204,996	522,829	764,054
Accounts and retention payable, due to related parties and other financial liabilities	-	273,037	397,663	18,084	-	688,784
	-	299,280	562,263	1,952,341	2,471,296	5,285,180

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 and subordinated loan facility – 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.

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Capital management continued

	2012	*2011*
	AED '000	*AED '000*
Interest bearing loans and borrowings	**2,115,907**	2,183,732
Islamic financing arrangements	**528,684**	538,206
Mandatory convertible bond and subordinated loan facility – liability component	**657,929**	909,860
Obligation under finance lease	**33,476**	37,817
	3,335,996	3,669,615
Less: cash and cash equivalents	**(560,417)**	(511,997)
Net debt	**2,775,579**	3,157,618
Equity	**4,346,358**	3,821,692
Adjustment for cumulative changes in fair values of derivatives and available for sale investments	**48,500**	41,157
Total capital	**4,394,858**	3,862,849
Capital and net debt	**7,170,437**	7,020,467
Gearing ratio	**39%**	45%

The decrease in the gearing ratio is mainly attributable to conversion of subordinated loan facility into Mandatory Convertible Bond (note 27) and increase in reserves.

35 FINANCIAL INSTRUMENTS

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying values at the reporting date except for finance lease receivable, mandatory convertible bond and subordinated loan facility 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*	
	2012	*2011*	***2012***	*2011*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Finance lease receivable	**1,740,368**	1,726,115	**2,090,014**	1,712,668
Obligations under finance lease	**33,476**	37,817	**42,034**	49,252
Mandatory convertible bond and subordinated loan facility – liability component	**657,929**	909,860	**649,470**	928,924

35 FINANCIAL INSTRUMENTS continued

Fair value hierarchy
As at 31 December 2012 and 2011, the Group held the following financial instruments measured at fair value.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	2012				2011			
	31 December 2012 AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	31 December 2011 AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Assets measured at fair value								
Interest rate swaps	-	-	-	-	13,075	-	13,075	-
Liabilities measured at fair value								
Interest rate swaps	**54,984**	-	**54,984**	-	58,008	-	58,008	-

During the reporting periods ended 31 December 2012 and 31 December 2011, 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.

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.

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 2,095 million as at 31 December 2012 (2011: AED 2,175 million).

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

	Within 1 year AED '000	*1-3 years AED '000*	*3-8 years AED '000*	*Total AED '000*
2012:				
Cash inflows (assets)	**311**	**400**	**-**	**711**
Cash outflows (liabilities)	**(21,581)**	**(21,358)**	**(5,503)**	**(48,442)**
Net cash outflow	**(21,270)**	**(20,958)**	**(5,503)**	**(47,731)**
2011:				
Cash inflows (assets)	1,364	3,043	-	4,407
Cash outflows (liabilities)	(24,183)	(35,685)	(7,753)	(67,621)
Net cash outflow	(22,819)	(32,642)	(7,753)	(63,214)

All derivative contracts are with counterparty banks in UAE.

Abu Dhabi, UAE

Abu Dhabi Mall, West Tower, 13th floor
P.O. Box: 29478
Tel: +971 (02) 645 5007
Fax: +971 (02) 645 5008
Email: info@tabreed.ae

www.tabreed.ae