

National Central Cooling Company PJSC

**Consolidated financial statements
for the year ended 31 December 2019**

National Central Cooling Company PJSC

**Consolidated financial statements
for the year ended 31 December 2019**

	Pages
Independent auditor's report	1 - 8
Consolidated statement of profit or loss	9
Consolidated statement of comprehensive income	10
Consolidated statement of financial position	11
Consolidated statement of changes in equity	12
Consolidated statement of cash flows	13
Notes to the consolidated financial statements	14 - 79



Independent auditor's report to the shareholders of National Central Cooling Company PJSC

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of National Central Cooling Company PJSC ("the Company") and its subsidiaries (together, "the Group") as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss for the year ended 31 December 2019;
- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated statement of cash flows for the year ended 31 December 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

PricewaterhouseCoopers, (Abu Dhabi Branch), License no. 1001301
Al Khateem Tower, Abu Dhabi Global Market, 25th Floor, PO Box 45263, Abu Dhabi - United Arab Emirates
T: +971 (0)2 694 6800, F: +971 (0)2 645 6610, www.pwc.com/me

Douglas O'Mahony, Rami Sarlsen, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy



Independent auditor's report to the shareholders of National Central Cooling Company PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Our audit approach

Overview

Key Audit Matters	<ul style="list-style-type: none">• Impairment assessment of property, plant and equipment; and• Adoption of IFRS 16 (Leases) - Lessor Accounting.
-------------------	---

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.



Independent auditor's report to the shareholders of National Central Cooling Company PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Impairment assessment of property, plant and equipment</i></p> <p>The Group has AED 3.94 billion of property, plant and equipment carried in the consolidated statement of financial position representing 44% of the total assets.</p> <p>The Group's policy is to carry these assets at cost less accumulated depreciation and impairment. The Group performs a detailed impairment assessment of its significant assets whenever there is an indication that the assets may be impaired. At the reporting date, a detailed impairment assessment for a cooling plant and associated assets (cooling plant) in the Kingdom of Bahrain (Bahrain), carried at AED 332 million, has been performed.</p> <p>The evaluation of the recoverable amount of this cooling plant is inherently subjective and requires significant estimates and assumptions in determining the future cash flows, asset utilization and discount rate etc.</p> <p><i>Refer to Note 2.3.11 which explains the accounting policy and Notes 2.6.2 and 11 which explain the critical estimates used by the Group in the impairment assessment.</i></p>	<p>In respect to the impairment assessment of this cooling plant, we have performed the following audit procedures:</p> <ul style="list-style-type: none"> • Evaluated compliance with the requirements of IAS 36 – Impairment of Assets in relation to the impairment methodology and accounting policy; • Obtained and tested the impairment assessment prepared by management for this cooling plant. Verified the supporting information to determine the relevance and reasonableness of the key assumptions used. • Engaged our internal specialists to assess the valuation methodology, principles and discount rate used in the impairment assessment; • Performed a sensitivity analysis around the key assumptions used by the management to ascertain the extent of change in those assumptions that either individually or collectively would necessitate an additional impairment charge; and • Assessed the appropriateness and adequacy of the related disclosures in Note 11 to the consolidated financial statements.



**Independent auditor's report to the shareholders of
National Central Cooling Company PJSC (continued)**

Report on the audit of the consolidated financial statements (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Adoption of IFRS 16 (Leases) – Lessor Accounting	
<p>In the consolidated statement of financial position, the finance lease receivables are carried at AED 3.1 billion which represents 35% of the total assets.</p> <p>The Group has adopted and applied the new principles and accounting policies as provided by IFRS 16 – ‘Leases’ with effect from 1 January 2019, using modified retrospective approach without restating comparatives for the year 2018.</p> <p>In light of the new lease standard, the Group changed its accounting policy to calculate finance lease receivables, by including index related lease payments.</p> <p>Specific transitional provisions are provided in the new lease standard for a lessee, however no specific guidance is provided on transitional provision for a lessor. The Group applied significant judgement in determining the transitional provisions for this change in the accounting of its finance lease receivables.</p> <p><i>Refer to Note 2.3.8 for the new accounting policy and Note 2.6.1 which explains the significant judgement used by the Group.</i></p>	<p>In respect to the adoption of IFRS 16 – lessor accounting, we have performed the following audit procedures:</p> <ul style="list-style-type: none">• We obtained and verified the accuracy of the underlying lease data by agreeing a representative sample of leases to original contracts and other supporting information, and checked the reliability and mechanical accuracy of the calculation of finance lease receivables, for each lease sampled, prepared based on the new accounting policy.• We obtained the assessment on transitional provision for lessor prepared by an independent management expert. We evaluated management expert's qualifications and expertise. We also evaluated the reasonableness and appropriateness of the bases of judgement applied by the management's expert in the application of the new accounting policy through our interpretation of the provisions of the new lease standard.• We also engaged our internal specialists to assess the transitional guidance provided under relevant accounting standards and the judgement applied by management and its expert.• We considered the retrospective application of the new accounting policy and its impacts on the consolidated financial statements; and• We assessed the appropriateness and adequacy of the related disclosures in Note 15 to the consolidated financial statements.



Independent auditor's report to the shareholders of National Central Cooling Company P.JSC (continued)

Report on the audit of the consolidated financial statements (continued)

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 were audited by another auditor, whose report dated 30 January 2019, expressed an unqualified audit opinion.

Other information

The Directors are responsible for the other information. The other information comprises the Group's Annual Report, but does not include the consolidated financial statements and our auditor's report thereon. The Group's Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Group's Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, 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.



Independent auditor's report to the shareholders of National Central Cooling Company PJSC (continued)

Report on the audit of the consolidated financial statements (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



**Independent auditor's report to the shareholders of
National Central Cooling Company PJSC (continued)**

Report on the audit of the consolidated financial statements (continued)

**Auditor's responsibilities for the audit of the consolidated financial statements
(continued)**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**Independent auditor's report to the shareholders of
National Central Cooling Company PJSC (continued)**

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- (iii) the Group has maintained proper books of account;
- (iv) as disclosed in Note 9 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2019;
- (v) Note 28 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- (vi) based on the information that has been made available to us, except for the fact that the Directors' report was not available to us at the date of this auditor's report, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company, its Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2019; and
- (vii) as disclosed in Note 1 to the consolidated financial statements, the Group has not made social contributions during the year ended 31 December 2019.

PricewaterhouseCoopers

28 January 2020

Rami Sarhan
Registered Auditor Number 1152
Abu Dhabi, United Arab Emirates

National Central Cooling Company PJSC

Consolidated statement of profit or loss


	Notes	Year ended 31 December	
		2019 AED '000	2018 AED '000
Revenues	3	1,520,103	1,446,885
Direct costs	6.1	(767,549)	(783,957)
Gross profit		752,554	662,928
Impairment provision for trade receivables	18	(13,576)	(13,112)
Administrative and other expenses	6.2	(206,671)	(190,593)
Operating profit		532,307	459,223
Finance costs	5	(180,793)	(162,503)
Finance income		3,112	1,060
Other gains and losses		27,051	43,246
Share of results of associates and joint ventures	12, 13	99,127	90,290
Profit for the year		480,804	431,316
Attributable to:			
Equity holders of the parent		472,479	427,628
Non-controlling interests		8,325	3,688
		480,804	431,316
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (AED)	7	0.17	0.16

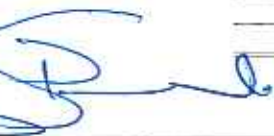
National Central Cooling Company PJSC
Consolidated statement of comprehensive income

	Notes	Year ended 31 December	
		2019 AED '000	2018 AED '000
Profit for the year		480,804	431,316
Other comprehensive (loss)/income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net movement in fair value of derivatives in cash flow hedges related to IRS		(8,249)	2,694
Settlement of cash flow hedges reclassified to profit and loss during the year		-	8,872
Share of changes in fair value of derivatives of an associate and a joint venture in cash flow hedges related to IRS	12, 13	(19,418)	5,322
Exchange differences arising on translation of overseas operations		682	412
Total other comprehensive (loss)/income		(26,985)	17,300
Total comprehensive income for the year		453,819	448,616
Attributable to:			
Equity holders of the parent		445,494	444,928
Non-controlling interests		8,325	3,688
		453,819	448,616

National Central Cooling Company PJSC
Consolidated statement of financial position

		As at 31 December	
		2019	2018
ASSETS	Notes	AED '000	AED '000
Non-current assets			
Capital work in progress	10	66,956	104,270
Property, plant and equipment	11	3,940,360	4,051,993
Right-of-use asset	16	136,267	-
Goodwill	14	28,527	28,527
Investments in associates and joint ventures	12, 13	605,708	579,280
Advance towards investment in an associate	33	126,274	-
Finance lease receivables	15	2,836,547	2,625,050
		<u>7,740,639</u>	<u>7,389,120</u>
Current assets			
Inventories		34,673	32,806
Trade and other receivables	18	593,424	568,482
Finance lease receivables	15	307,984	244,916
Cash and bank balances	19	226,902	248,946
		<u>1,162,983</u>	<u>1,095,150</u>
Total assets		<u>8,903,622</u>	<u>8,484,270</u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	20	2,715,529	2,715,529
Treasury shares		(2,016)	(2,016)
Statutory reserve	21	358,466	316,867
Retained earnings		1,923,249	955,960
Foreign currency translation reserve		(1,686)	(2,368)
Cumulative changes in fair value of derivatives in cash flow hedges		(48,553)	(20,886)
Other reserve	21	-	706,920
Equity attributable to the equity holders of the parent		<u>4,944,989</u>	<u>4,670,006</u>
Non-controlling interests		70,666	67,462
Total equity		<u>5,015,655</u>	<u>4,737,468</u>
Liabilities			
Non-current liabilities			
Trade and other payables	26	95,261	102,917
Interest bearing loans and borrowings	22	870,477	1,016,526
Non-convertible Sukuk	24	1,828,843	1,828,794
Lease liabilities	17	247,495	-
Employees' end of service benefits	25	31,390	29,255
		<u>3,073,466</u>	<u>2,977,492</u>
Current liabilities			
Trade and other payables	26	620,013	625,645
Interest bearing loans and borrowings	22	147,234	143,665
Lease liabilities	17	47,254	-
		<u>814,501</u>	<u>769,310</u>
Total liabilities		<u>3,887,967</u>	<u>3,746,802</u>
Total equity and liabilities		<u>8,903,622</u>	<u>8,484,270</u>


Khaled Abdulla Al Qubaisi
Chairman


Bader Al Lamki
Chief Executive Officer


Richard Rose
Chief Financial Officer

National Central Cooling Company PJSC

Consolidated statement of changes in equity

	Attributable to equity holders of the parent									
	Issued capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	Retained earnings AED'000	Foreign currency translation reserve AED'000	Cumulative changes in fair value of derivatives AED'000	Other reserve AED'000	Total AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2018	2,715,529	(2,016)	274,104	1,071,952	(2,780)	(37,774)	706,920	4,725,935	71,085	4,797,020
Effect of changes in accounting policy for IFRS 15	-	-	-	(194,030)	-	-	-	(194,030)	-	(194,030)
Effect of changes in accounting policy for IFRS 9	-	-	-	(81,499)	-	-	-	(81,499)	-	(81,499)
Balance at 1 January 2018 (restated)	2,715,529	(2,016)	274,104	796,423	(2,780)	(37,774)	706,920	4,450,406	71,085	4,521,491
Profit for the year	-	-	-	427,628	-	-	-	427,628	3,688	431,316
Other comprehensive income for the year	-	-	-	-	4.2	16,888	-	17,300	-	17,300
Total comprehensive income for the year	-	-	-	427,628	4.2	16,888	-	444,928	3,688	448,616
Transfer to statutory reserve	-	-	42,763	(42,763)	-	-	-	(217,242)	-	(217,242)
Dividends paid to shareholders (note 8)	-	-	-	(217,242)	-	-	-	(8,086)	(1,051)	(9,147)
Effect of additional ownership in a subsidiary	-	-	-	(8,086)	-	-	-	-	(6,250)	(6,250)
Dividends paid to non-controlling interests holders	-	-	-	-	-	-	-	-	-	-
Balance at 31 December 2018	2,715,529	(2,016)	316,867	955,360	(2,368)	(20,886)	706,920	4,670,006	67,462	4,737,468
Balance at 1 January 2019	2,715,529	(2,016)	316,867	955,360	(2,368)	(20,886)	706,920	4,670,006	67,462	4,737,468
Effect of implementation of IFRS-16 (note 2.3.8)	-	-	-	87,290	-	-	-	87,290	-	87,290
Balance at 1 January 2019 (restated)	2,715,529	(2,016)	316,867	1,043,250	(2,368)	(20,886)	706,920	4,757,296	67,462	4,824,758
Profit for the year	-	-	-	472,479	-	-	-	472,479	8,325	480,804
Other comprehensive income/(loss) for the year	-	-	-	-	682	(27,667)	-	(26,985)	-	(26,985)
Total comprehensive income/(loss) for the year	-	-	-	472,479	682	(27,667)	-	445,494	8,325	453,819
Transfer to statutory reserve	-	-	41,599	(41,599)	-	-	-	(257,975)	-	(257,975)
Dividends paid to shareholders (note 8)	-	-	-	(257,975)	-	-	-	174	(1,656)	(1,482)
Effect of additional ownership in a subsidiary	-	-	-	174	-	-	-	-	-	-
Other reserve transferred to retained earnings (note 21)	-	-	-	706,920	-	-	(706,920)	-	-	-
Dividends paid to non-controlling interests holders	-	-	-	-	-	-	-	-	(3,465)	(3,465)
Balance at 31 December 2019	2,715,529	(2,016)	358,466	1,923,249	(1,686)	(48,553)	-	4,944,989	70,666	5,015,655

National Central Cooling Company PJSC

Consolidated statement of cash flows

	Notes	Year ended 31 December	
		2019 AED '000	2018 AED '000
Operating activities			
Profit for the year		480,804	431,316
Non-cash adjustments:			
Depreciation of property, plant and equipment and intangible assets	11, 16	170,010	149,562
Impairment of property, plant and equipment	11	-	25,422
Finance lease income	3	(262,169)	(196,359)
Share of results of associates and joint ventures	12, 13	(99,127)	(90,290)
Net movement in employees' end of service benefits	25	2,135	3,279
Other gains and losses		(27,051)	(107,606)
Allowance for provision for trade receivables	18	13,576	13,112
Allowance for provision for slow moving inventories		-	25,826
Interest income		(3,112)	(1,060)
Finance costs	5	180,793	162,503
Operating cash flows before changes in working capital		455,859	415,705
Working capital adjustments:			
Inventories		(1,867)	(158)
Trade and other receivables		(38,536)	(43,371)
Trade and other payables		43,425	8,146
Lease rentals received	15	323,029	281,800
Net cash flows generated from operating activities		781,910	662,122
Investing activities			
Purchase of property, plant and equipment		(13,005)	(12,344)
Payments for capital work in progress		(90,571)	(87,324)
Proceed from partial disposal of an associate		-	40,289
Dividends from a joint venture	13	23,500	18,000
Advance towards additional investment in an associate		(126,274)	-
Dividends from associates	12	20,725	55,802
Payment for acquisition of additional share in a subsidiary		(1,482)	(4,946)
Net cash outflow on acquisition of a subsidiary		-	(88,671)
Repayment of loan on acquisition of a subsidiary		-	(163,103)
Interest received		3,129	1,067
Net cash flows generated from/(used in) investing activities		183,978	(241,230)
Financing activities			
Interest bearing loans and borrowings received		95,000	1,194,337
Interest bearing loans and borrowings repaid		(240,588)	(2,074,602)
Proceeds upon issuance of non-convertible Sukuk (net of transaction cost)		-	1,828,643
Principal elements of lease payments		(51,257)	-
Islamic financing arrangement repaid		-	(1,181,215)
Payment for obligations under finance lease		-	(4,374)
Interest paid		(161,691)	(129,523)
Dividends paid to shareholders	8	(257,975)	(217,242)
Dividends paid to non-controlling interests holders		(3,465)	(6,250)
Net cash flows used in financing activities		(619,976)	(590,226)
Net decrease in cash and cash equivalents		(22,044)	(169,334)
Cash and cash equivalents at 1 January		248,946	418,280
Cash and cash equivalents at 31 December	19	226,902	248,946

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019

1 General information

National Central Cooling Company PJSC ("Tabreed" or the "Company" or the "parent") is registered in the United Arab Emirates as a Public Joint Stock Company pursuant to the UAE Federal Law No. (2) of 2015 and is listed on the Dubai Financial Market. The principal activities of the Company and its subsidiaries (the "Group") are supply of chilled water, operation and maintenance of plants, construction of secondary networks, manufacturing of pre-insulated pipes and design and supervision consultancy. 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 Group has not made any social contributions during the year.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 27 January 2020.

The Group does not have any exposure to Abraaj Group and/or any of the funds managed by Abraaj Group.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"), IFRSIC Interpretations and applicable requirements of the laws in the UAE.

The consolidated financial statements are prepared under the historical cost basis, except for derivative financial instruments which are measured at fair value. The consolidated financial statements have been presented in United Arab Emirates Dirham ("AED") which is the reporting currency of the Company. All values are rounded to the nearest thousand (AED '000) except when otherwise indicated.

The accounting policies have been consistently applied to all the periods presented.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of Tabreed and its subsidiaries (together the "Group") as at 31 December 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.2 Basis of consolidation (continued)

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

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

For changes in ownership interests the Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in retained earnings within equity attributable to owners.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss.

This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.3 Summary of significant accounting policies

2.3.1 Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.1 Business combinations and goodwill (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests) and any previous interest held over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2.3.2 Revenue recognition

The Group recognises revenue from the following major sources:

- Supply of chilled water
- Rendering of services
- Interest income

For contracts determined to be within the scope of revenue recognition, the Group is required to apply a five-step model to determine when to recognise revenue, and at what amount.

The Group recognises revenue from contracts with customers based on the five step model set out in IFRS 15:

Step 1: Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2: Identify the performance obligations in the contract: A performance obligation is a unit of account and a promise in a contract with a customer to transfer a good or service to the customer.

Step 3: Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.2 Revenue recognition (continued)

Step 4: Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation: The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

(a) Supply of chilled water

Revenue from supply of chilled water comprises the following principle services:

Capacity revenue: represents availability of the service and performance obligation is satisfied over time as the customers make use of the service and network. The billing is done monthly in arrears.

Consumption revenue: represents revenue from consumption of the output of assets used by the customers. Revenue is recognised over time. The billing is done monthly in arrears.

(b) Rendering of services (Value chain business)

This mainly represents supervision and design services provided to customers. Revenue from services is recognised as services are rendered. Revenue is recognised over time using the output method.

(c) Interest income

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.

2.3.3 Foreign currencies

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.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.3 Foreign currencies (continued)

(a) 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 statement of profit or loss with the exception of monetary items that provide an effective hedge of a net investment in a foreign operation. These are recognised in the consolidated statement of comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated statement of profit or loss.

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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

(b) Group companies

The assets and liabilities of foreign operations are translated into AED at the rate of exchange ruling at the reporting date and their statement of profit or loss 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 statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

2.3.4 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.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.5 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds and the redemption value is recognised in the consolidated statement of profit or loss over the term of the borrowings using the effective interest method. Borrowings are classified as non-current liabilities when the Group has an unconditional right to defer settlement of the liabilities for more than twelve months after the reporting date. Borrowing costs (including finance costs on lease liabilities) 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. During the year ended 31 December 2019, no borrowing cost is capitalised (2018: AED nil).

2.3.6 Trade and other payables

Trade payables are obligations to pay for goods or service that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.3.7 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 property, 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 statement of profit or loss 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 assets	30 years
Buildings	50 years
Distribution networks	50 years
Furniture and fixtures	3 to 4 years
Office equipment and instruments	3 to 4 years
Motor vehicles	4 to 5 years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

The Group performs regular major overhauls of equipment 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.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.7 Property, plant and equipment (continued)

An item of property, plant and equipment and any significant part initially recognised 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 statement of profit or loss in the year the asset is derecognised.

2.3.8 Application of IFRS 16 – Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option and lease contracts for which the underlying asset is of low value.

The Group as a lessee

The Group has lease contracts for various items of land, building, plant and vehicles. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as expense in profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

The Group applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The effect of adoption of IFRS 16 as at 1 January 2019 resulted in an increase is as follows:

	AED '000
Increase in right-of-use asset	155,295
Increase in lease liabilities	327,906
Increase in finance lease receivables	171,642
Increase in retained earnings	87,290
	(20)

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8 Application of IFRS 16 – Leases (continued)

Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The weighted average incremental borrowing rate applied to the leased liabilities on 1 January 2019 was 5.5%.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an arrangement contains a Lease.

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

The recognised right-of-use assets relate to the following types of assets:

	AED '000
Plant	206,450
Land	22,816
Building	8,852
Motor vehicles	5,432
Less: onerous contract provision net-off due to application of IFRS16	(88,253)
Total	155,297

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8 Application of IFRS 16 – Leases (continued)

Lease liabilities (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates are included in the lease payments and are remeasured using the prevailing index or rate at the measurement date.

For leases previously classified as operating leases the Group recognised the lease liabilities on the date of initial application of the standard as follows:

	AED '000
Operating lease commitments at the initial application date	423,796
Discounted using the Group's incremental borrowing rate of 5.5% at the date of initial application	(95,890)
Lease liability recognised as at 1 January 2019	327,906
Of which are:	
Current lease liabilities	45,007
Non-current lease liabilities	282,899
	327,906

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

The Group as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8 Application of IFRS 16 – Leases (continued)

Operating lease

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset to the customers 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.

Finance lease

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Lease payments are payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the fixed payments (including in-substance fixed payments), less any lease incentives (for e.g. reimbursement of maintenance fee); variable lease payments that depend on an index or a rate; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate or payments that vary to reflect changes in market rental rates. The payments are included in the lease payments and are measured/remeasured using the prevailing index or rate at the measurement date (e.g. lease commencement date for initial measurement or at the time when new CPI rate is available).

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

As an accounting policy choice, management has opted to remeasure the lease payments, being a lessor, to effect the subsequent changes resulting from variable lease payments that depend on an index or a rate, in accordance with the guidance provided by IFRS 16 for a lessee. Management has applied the effect of the catch-up adjustment of this remeasurement in the opening retained earnings as at 1 January 2019.

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.8 Application of IFRS 16 – Leases (continued)

Leases – applied till 31 December 2018

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 statement of profit or loss.

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 statement of profit or loss on a straight line basis over the lease term.

Group as lessor – Finance leases

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

Group as lessor – Operating leases

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

2.3.9 Investments in associates and joint ventures

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.9 Investments in associates and joint ventures (continued)

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

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

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of profit or loss outside operating profit. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss in the consolidated statement of profit or loss.

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

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2.3.10 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 statement of profit or loss 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.

2.3.11 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.11 Impairment of non-financial assets (continued)

Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets' or cash-generating units' recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group'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 Group performs its annual impairment test of goodwill as at 31 December.

2.3.12 Financial instruments

The Group initially recognises financial assets or financial liabilities designated at fair value through profit or loss, investments measured at fair value through other comprehensive income (FVTOCI) and investments measured at amortised cost on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Trade receivables, finance lease receivables, cash and bank balances, trade payables, interest bearing loans and borrowings, Islamic financing arrangements and non-convertible Sukuk, etc. are recognised on the day they are originated.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.12 Financial instruments (continued)

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognises the difference between the transaction price and fair value (a Day 1 profit or loss) in the consolidated statement of profit or loss. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognised in the consolidated statement of profit or loss when the inputs become observable, or when the instrument is derecognised.

Financial assets

Recognition and derecognition:

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Branch commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Branch has transferred substantially all the risks and rewards of ownership.

Classification:

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

The Group classifies financial assets as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss on the basis of both:

- (i) the entity's business model for managing the financial assets; and
- (ii) the contractual cash flow characteristics of the financial asset.

a) *Financial assets at amortised cost*

A financial asset measured at amortised cost are categorised under such category if both of the following conditions are met:

- (i) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

b) *Financial assets at fair value through other comprehensive income (FVTOCI)*

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.12 Financial instruments (continued)

Financial assets (continued)

b) *Financial assets at fair value through other comprehensive income (FVTOCI)* (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

c) *Financial assets at fair value through profit or loss (FVTPL)*

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Group may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

Debt instruments that do not meet the amortised cost criteria are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different basis.

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed. Irrevocable designation of financial assets at FVTPL at initial recognition is made by the Group only if by doing so it eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated statement of profit or loss. The net gain or loss is recognised in the consolidated statement of profit or loss.

Dividend income on investments in equity instruments at FVTPL is recognised in the consolidated statement of profit or loss when the Group's right to receive the dividends is established in accordance with IFRS.

d) *Reclassifications*

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.12 Financial instruments (continued)

Financial assets (continued)

e) Write-off

Receivables are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains.

Fair value measurement principles

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities. The fair values of investments in mutual funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments including treasury bills, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving such investments, current market value of instruments which are substantially the same, or is based on the expected discounted cash flows.

The fair value of unquoted investments, forward exchange contracts, interest rate swaps and options (if any) is determined by reference to discounted cash flows, pricing models or over-the-counter quotes.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amounts reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Impairment

The Group recognizes loss allowances for Expected Credit Losses (ECL) on the trade receivables, contract assets and lease receivables that are not measured at FVTPL.

The Group always recognises ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

(a) Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.12 Financial instruments (continued)

Impairment (continued)

(b) Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

2.3.13 Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

2.3.14 Significant increase in credit risk

The Group monitors all financial assets and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

2.3.15 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.16 Cash and short term deposits

Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

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 as they are considered an integral part of the Group's cash management.

2.3.17 Provisions

(a) General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

An onerous contract is a contract in which 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. Management reviews its contracts annually.

(b) Decommissioning liability

The Group records a provision for decommissioning costs of removing an item of property, plant and equipment and restoring the site on which the item was located to its original condition. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

(c) Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.18 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.

2.3.19 Derivative financial instruments

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate risks, including interest rate swaps.

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are offset only if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss under 'Net gain from dealing in foreign currencies and derivatives'.

Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 Financial Instruments (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.3.20 Hedge accounting

Derivatives designated as hedges are classified as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; or (iii) a hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.20 Hedge accounting (continued)

At the inception of a hedging relationship, to qualify for hedge accounting, the Group documents the relationship between the hedging instruments and the hedged items as well as its risk management objective and its strategy for undertaking the hedge. The Group also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

(a) Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in OCI. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVTOCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVTOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. If the Group no longer expects the transaction to occur that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.20 Hedge accounting (continued)

(c) *Hedge effectiveness testing*

To qualify for hedge accounting, the Group requires that at the inception of the hedge and on an ongoing basis:

- the hedging relationship consists only of eligible hedging instruments and eligible hedged items;
- at inception of the hedging relationship there is formal designation and documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge;
- the hedging relationship meets all of the hedge effectiveness requirements, i.e.:
 - there is an economic relationship between the hedged item and the hedging instrument;
 - the effect of credit risk does not dominate the value changes that result from that economic relationship; and
 - the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

(d) *Derivatives that do not qualify for hedge accounting*

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in consolidated statement of profit or loss.

2.3.21 Fair value measurement

The Group measures financial instruments, such as, derivatives, and non-financial assets such as asset held for sale, at fair value at each balance sheet date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 32.

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

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

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

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

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

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

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.21 Fair value measurement (continued)

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

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

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

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

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

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above. An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 32.

2.3.22 Current versus non-current classification

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

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

All other assets are classified as non-current.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.3 Summary of significant accounting policies (continued)

2.3.22 Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Group classifies all other liabilities as non-current.

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

The Group recognises a liability to make cash or non-cash distributions to equity holders of the parent when the distribution is authorised. As per the laws and regulation applicable in UAE, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

Gain or loss on re-measurement is recognised in P/L and then the revalued amount of the asset is recognised as debit in equity. Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the consolidated statement of profit or loss.

2.4 Application of new and revised international financial reporting standards (IFRS)

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2019, have been adopted in this consolidated financial statements.

The Group applies, for the first time, IFRS 16 "Leases" that is required to be applied retrospectively with adjustment to made in the opening balance of equity of the year of initial application. As required by IFRS 16, the nature and effect of these changes are disclosed in notes 15, 16 and 17 of the consolidated financial statements.

In the current year, the Group has also applied the following amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2019. The application of these amendments to IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for the Group's future transactions or arrangements.

- Amendments to IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.4 Application of new and revised international financial reporting standards (IFRS) (continued)

- Amendments to IAS 19 Employee Benefits: The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period. Further, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).
- Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Annual Improvements to IFRS 2014–2017 Cycle to address uncertainty over Income Tax Treatment.
- Annual Improvements to IFRS 2015–2017 to clarify the treatment of specific borrowing after the related qualifying asset is ready for its intended use or sale.

Other than the above, there are no other significant IFRS and amendments that were effective for the first time for the financial year beginning on or after January 1, 2019.

2.5 Standards and Interpretations in issue but not yet effective

The Group has not early adopted new and revised IFRS that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:	Effective for periods beginning on or after
--	---

Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.

January 1, 2020

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.5 Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable to the Group:	Effective for periods beginning on or after
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.
The United Kingdom Financial Conduct Authority ('FCA'), which regulates the London Interbank Offered Rate ('LIBOR'), announced that the interest benchmark would cease after 2021. LIBOR is one of the most common series of benchmark interest rates. LIBOR reforms and expectation of cessation of LIBOR will impact the Group's current risk management strategy and possibly accounting for certain financial instruments. The Group has the following instruments which are exposed to the impact of LIBOR: Interest rate swaps of AED 7.4 million	January 1, 2020
As part of the Group's risk management strategy, the Group uses financial instruments to manage exposures arising from variation of interest rates that could affect profit or loss or other comprehensive income and applies hedge accounting to these instruments. Majority of those financial instruments are referenced to Libor. Refer Note 32 to the consolidated financial statements for details of disclosure of derivative contracts under hedging arrangements. The Group has early adopted the Interest Rate Benchmark Reform amendment to IFRS 9 and IFRS 7 issued in September 2019. hedging relationships and instruments. The Group is assessing the impact and next steps to ensure a smooth transition from LIBOR to the new benchmark rates.	
Management anticipates that these IFRS and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.	

2.6 Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures, and the disclosure of contingent liabilities. 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 periods.

Disclosures relating to the Group's exposure to risks and uncertainties include:

- | | |
|--|---------|
| • Capital management | Note 31 |
| • Financial instruments risk management and policies | Note 31 |
| • Sensitivity analysis disclosures | Note 31 |

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.6 Significant accounting judgements, estimates and assumptions (continued)

2.6.1 Judgments

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

(a) 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.

(b) Determining lease terms

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

(c) Lessor accounting policy

Under the new guidance provided by IFRS 16, the definition of lease payments has been changed to include the variable lease payments that are based on an index or a rate as part of the net lease investment.

Although IFRS 16 (Leases) does not explicitly require a lessor to reassess the net lease investment at the date of adoption, the Group has updated its accounting policy to include CPI index related payments within the minimum lease payments. In the absence of explicit guidance on the transitional provisions for lessor, the Group has made a judgement to apply the updated accounting policy with effect from 1 January 2019 and adjusted AED 14,636 million in the retained earnings, please refer to note 2.3.8 for accounting policy details.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

2.6 Significant accounting judgements, estimates and assumptions (continued)

2.6.2 Estimates and assumptions

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

(a) Impairment of financial assets

The Group recognises a loss allowance for expected credit losses (ECL) on financial assets measured at amortised cost. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises expected credit loss for trade receivables, finance lease receivable, due from related parties and cash and bank balances, using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

For all other financial assets, the Group recognises expected credit loss when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Branch measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the end of the reporting period or an actual default occurring.

At the reporting date, gross trade receivables were AED 575.8 (2018: AED 486.2 million) and impairment loss recognised in the consolidated statement of profit or loss for the year ended 31 December 2019 was AED 13.6 (2018: AED 13.0 million). Provision for impairment at 31 December 2019 is AED 61.4 million (2018: AED 48.4 million).

(b) Impairment of non-financial assets

Management determines at each reporting date whether there are any indicators of impairment relating to the Group's cash generating units. A broad range of internal and external factors is considered as part of the indicator review process, where necessary, an impairment assessment is performed. Impairment testing requires an estimation of the fair values less cost to sell and value in use of the cash generating units. The recoverable amounts require the Group to estimate the amount and timing of future cash flows, terminal value of the assets and choose a suitable discount rate in order to calculate the present value of the cash flows. The net carrying amounts of non-financial assets affected by the above estimations are property, plant and equipment (Note 11).

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Revenues

	2019 AED '000	2018 AED '000
Supply of chilled water	1,123,298	1,094,973
Value chain business	63,712	85,574
Revenue from contracts with customers	1,187,010	1,180,547
Operating lease income	70,924	69,979
Finance lease income (note 15)	262,169	196,359
Lease income	333,093	266,338
	1,520,103	1,446,885

Revenue expected to be recognized in future related to performance obligation that are unsatisfied (or partially unsatisfied):

	2019 AED '000	2018 AED '000
Within one year	369,158	359,931
After one but no more than five years	1,418,316	1,417,533
More than five years	3,689,995	4,197,109
	5,477,469	5,974,573

The unsatisfied performance obligation that is part of value chain business revenue is expected to have a duration of one year or less hence revenue expected to be recognized in future related to performance obligations is not disclosed.

	2019 AED '000	2018 AED '000
Timing of transfer of goods and services:		
At a point in time	38,197	45,579
Over time	1,148,813	1,134,968
	1,187,010	1,180,547

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 (note 9).
- The 'Value chain business' segment is involved in ancillary activities relating to the expansion of the Group's chilled water business (note 9).

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

4 Operating segments (continued)

	2019				2018			
	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
Revenues								
External revenue	1,456,391	63,712	-	1,520,103	1,361,311	85,574	-	1,446,885
Inter-segment revenue	-	24,286	(24,286)	-	-	22,572	(22,572)	-
Total revenues	1,456,391	87,998	(24,286)	1,520,103	1,361,311	108,146	(22,572)	1,446,885
Direct costs	(720,941)	(64,349)	17,741	(767,549)	(730,743)	(66,946)	13,732	(783,957)
Gross profit	735,450	23,649	(6,545)	752,554	630,568	41,200	(8,840)	662,928
Impairment provision for trade receivables	(13,576)	-	-	(13,576)	(12,880)	(232)	-	(13,112)
Administrative and other expenses	(193,857)	(25,811)	12,997	(206,671)	(169,179)	(25,562)	4,148	(190,593)
Operating profit	528,018	(2,162)	6,452	532,308	448,509	15,406	(4,692)	459,223
Finance costs	(180,243)	(550)	-	(180,793)	(162,233)	(270)	-	(162,503)
Finance income	3,010	102	-	3,112	878	182	-	1,060
Other gains and losses	27,051	-	-	27,051	43,246	-	-	43,246
Share of results of associates and joint ventures	99,126	-	-	99,126	90,290	-	-	90,290
				480,804				431,316

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

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:

	2019			2018		
	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 on property, plant and equipment (note 11)	146,204	3,910	150,114	143,814	5,748	149,562
Depreciation on Right-of-use asset (note 16)	19,523	373	19,896	-	-	-
	<u>165,727</u>	<u>4,283</u>	<u>170,010</u>	<u>143,814</u>	<u>5,748</u>	<u>149,562</u>

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

4 Operating segments (continued)

Segment assets and liabilities are as follows:

	2019			2018		
	Chilled water AED'000	Value chain business AED'000	Total AED'000	Chilled water AED'000	Value chain business AED'000	Total AED'000
Segment assets						
Investments in associates	8,160,587	137,327	8,297,914	7,761,571	143,419	7,904,990
Investment in joint ventures	566,454	-	566,454	528,053	-	528,053
	39,254	-	39,254	51,227	-	51,227
Total assets	8,766,295	137,327	8,903,622	8,340,851	143,419	8,484,270
Segment liabilities						
	3,820,888	67,079	3,887,967	3,681,785	65,017	3,746,802
Total liabilities	3,820,888	67,079	3,887,967	3,681,785	65,017	3,746,802

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

4 Operating segments (continued)

The table below illustrates the capital expenditures added during the year:

	2019			2018		
	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	10,828	2,177	13,005	4,305	694	4,999
Capital work in progress	126,587	-	126,587	90,478	-	90,478

Geographic information

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

	Revenue		Non-current assets	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
United Arab Emirates	1,445,889	1,376,818	3,750,937	3,726,488
Others	74,214	70,067	421,173	458,302
	1,520,103	1,446,885	4,172,110	4,184,790

For this purpose, non-current assets comprise of capital work in progress, property, plant and equipment, right-of-use asset and goodwill.

Revenue from external customers

The following table provides information relating to the Group's major customers, which individually contribute more than 10% towards the Group's revenue for the year ended 31 December 2019 and 31 December 2018.

	2019 AED'000	2018 AED'000
Chilled water segment:		
Customer 1	359,784	366,332
Customer 2	277,347	256,433
Customer 3	181,374	135,077
	818,505	757,842

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

5 Finance costs

	2019 AED '000	2018 AED '000
Gross interest charge for the year	180,793	162,503
Less: interest capitalised during the year	-	-
Interest charged to consolidated statement of profit or loss during the year	<u>180,793</u>	<u>162,503</u>
<i>Interest charged to consolidated statement of profit or loss comprises of:</i>		
Interest on interest bearing loans and borrowings	56,111	90,637
Margin on Sukuk including Islamic financing arrangements	100,997	49,383
Amortisation of transaction costs	4,622	14,897
Finance cost related to lease liabilities	17,234	-
Other finance costs	1,829	7,586
	<u>180,793</u>	<u>162,503</u>

6 Profit from operations

6.1 Direct costs

	2019 AED '000	2018 AED '000
Cost of inventories recognised as an expense	36,430	39,518
Depreciation on property, plant and equipment (note 11)	142,487	141,377
Depreciation on right of use assets (note 16)	11,620	-
Utility costs	449,085	438,845
Purchase of chilled water from a related party (note 28)	60,839	99,167
Staff cost	64,793	58,380
Others	2,295	6,670
	<u>767,549</u>	<u>783,957</u>

6.2 Administrative and other expenses

	2019 AED '000	2018 AED '000
Staff costs (note 6.3)	142,303	138,191
Depreciation on property, plant and equipment (note 11)	7,627	8,185
Depreciation on right of use assets (note 16)	8,276	-
Other expenses	48,465	44,217
	<u>206,671</u>	<u>190,593</u>

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

6 Profit from operations (continued)

6.3 Staff costs

	2019 AED '000	2018 AED '000
Salaries, benefits and allowances (net)	200,219	189,857
Employees' end of service benefits (note 25)	6,877	6,715
	<u>207,096</u>	<u>196,572</u>

Staff costs are allocated as follows:

Direct costs	64,793	58,380
Administrative and other expenses	142,303	138,192
	<u>207,096</u>	<u>196,572</u>

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.

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

	2019 AED '000	2018 AED '000
Profit for the year attributable to ordinary equity holders of the parent for basic earnings (AED '000)	<u>472,479</u>	<u>427,628</u>
Weighted average number of shares (excluding treasury shares) outstanding during the year ('000)	<u>2,713,513</u>	<u>2,713,513</u>
Basic earnings per share (AED)	<u>0.17</u>	<u>0.16</u>

The Company does not have any instruments which would have a dilutive impact on earnings per share. Therefore basic and diluted earnings per share are same for the year ended 31 December 2019 and 2018.

8 Dividends and board remuneration

On 27 January 2020, the Board of Directors resolved to recommend to the shareholders at the upcoming Annual General Assembly meeting, the distribution of cash dividends of 10.5 fils per share to the shareholders in respect of the fiscal year ended 31 December 2019.

The Board of Directors proposed a cash dividend of 9.5 fils per share to the shareholders in respect of the fiscal year ended 31 December 2018. The shareholders at the Annual General Assembly Meeting held on 6 March 2019 approved the dividend. The dividend amounted to AED 257.9 million and was paid in April 2019.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

8 Dividends and board remuneration (continued)

In 2018, the Board of Directors proposed a cash dividend of 8.0 fils per share to the shareholders in respect of the fiscal year ended 31 December 2017. The dividend was approved by the shareholders at the Annual General Assembly Meeting held on 7 March 2018. The dividend amounted to AED 217.2 million and was paid in April 2018.

Furthermore, Board of Directors' remuneration of AED 7.1 million for the year ended 31 December 2018 (2017: AED 7.1 million) was also approved at the Annual General Assembly Meeting held on 6 March 2019.

9 Subsidiaries

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

Chilled water segment	Country of incorporation	Percentage of holding		Principal activities
		2019	2018	
National Central Cooling Company Ras Al Khaimah LLC	UAE	100	100	Sale of chilled water
Summit District Cooling Company	UAE	100	100	Sale of chilled water
Bahrain District Cooling Company	Bahrain	99.8	99.8	Sale of chilled water
Tabreed Oman SAOC	Oman	61	61	Sale of chilled water
Tabreed LLC Oman	Oman	100	100	Sale of chilled water
Tabreed Operation & Maintenance Zones Cooling Stations Company LLC	UAE	100	100	Operation and maintenance of plants
Tabreed Parks Investment LLC	UAE	100	100	Sale of chilled water
Prime District Cooling Company LLC	UAE	75	75	Sale of chilled water
S&T Cool District Cooling Company LLC (note 13 & 27)	UAE	100	100	Sale of chilled water
Tabreed Amaravati District Cooling Private Limited (TADCPL)	India	100	-	Sale of chilled water

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

9 Subsidiaries (continued)

	Country of incorporation	Percentage of holding		Principal activities
		2019	2018	
Value chain business segment:				
Gulf Energy Systems LLC	UAE	100	100	Construction of secondary networks
Emirates Preinsulated Pipes Industries LLC	UAE	65	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 sale chilled water related products
Ian Banham and Associates	UAE	70	70	Design and supervision consultancy
Sahara Cooling and Air Conditioning, LLC	UAE	51	51	Supervision services
Tasleem Metering and Payment LLC	UAE	100	100	Billing and collection of chilled water charges
Cooltech Water Treatment LLC (Abu Dhabi)	UAE	100	100	Water treatment services and sale chilled water related
Cooltech Water Service L.L.C.	UAE	100	-	Water treatment services and sale chilled water related
Tahreed Energy Service L.L.C.	UAE	100	-	Building energy efficiency service

Others – Unallocated:				
Tabreed Holdings WLL	Bahrain	100	100	Act as a holding company
Tabreed Al Maryah District Cooling Investment LLC	UAE	100	100	Act as a holding company
District Utilities Energy Investments L.L.C.	UAE	100	100	Act as a holding company
Tabreed India Private Limited	India	100	-	Act as a holding company
Tabreed Energy Investments One Person Company LLC	UAE	100	100	Act as a holding company
Tabreed Utilities & Metering Energy Investment LLC	UAE	100	100	Act as a holding company
Central Utilities & Metering Energy Investment LLC	UAE	100	100	Act as a holding company

None of the subsidiaries have material non-controlling interests.

During the year, the Group purchased additional 5% equity shares in Emirates Preinsulated Pipes Industries LLC.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

10 Capital work in progress

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

	2019 AED '000	2018 AED '000
Balance at 1 January	93,859	165,063
Additions during the year	126,587	90,478
Provision for capital inventories	-	(25,826)
Transfer to property, plant and equipment (note 11)	(54,234)	(103,945)
Transfer to finance lease (note 15)	(103,300)	(31,911)
	<u>62,912</u>	<u>93,859</u>
Advances to contractors	4,044	10,411
Balance at 31 December	<u>66,956</u>	<u>104,270</u>

In 2018, the Group made a provision of AED 25.8 million for slow moving capital inventories which is recorded in the consolidated statement of profit or loss.

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

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

11 Property, plant and equipment

2019	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
Cost:						
At 1 January 2019	3,855,847	2,354,554	20,666	47,836	1,327	6,280,230
Additions	3,370	6,659	96	2,880	-	13,005
Transfer from capital work in progress (note 10)	9,582	43,581	1,071	-	-	54,234
Transfer to finance lease (note 15)	(28,758)	-	-	-	-	(28,758)
At 31 December 2019	3,840,041	2,404,794	21,833	50,716	1,327	6,318,711
Accumulated depreciation:						
At 1 January 2019	820,694	359,488	7,711	37,552	1,119	1,226,564
Depreciation for the year	96,526	49,445	695	3,349	99	150,114
At 31 December 2019	917,220	408,933	8,406	40,901	1,218	1,376,678
Net carrying amount before accumulated impairment:						
At 31 December 2019	2,922,821	1,995,861	13,427	9,815	109	4,942,033
Accumulated impairment:						
At 1 January 2019 and at 31 December 2019	527,691	473,982	-	-	-	1,001,673
Net carrying amount after accumulated impairment:						
At 31 December 2019	2,395,130	1,521,879	13,427	9,815	109	3,940,360

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

11 Property, plant and equipment (continued)

2018	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
Cost:						
At 1 January 2018	3,526,229	2,218,994	8,108	46,216	1,178	5,800,725
Additions	2,412	730	88	1,620	149	4,999
Acquisition through business combination	250,327	132,554	-	-	-	382,881
Transfer from capital work in progress (note 10)	89,199	2,276	12,470	-	-	103,945
Transfer to finance lease (note 15)	(12,320)	-	-	-	-	(12,320)
At 31 December 2018	3,855,847	2,354,554	20,666	47,836	1,327	6,280,230
Accumulated depreciation:						
At 1 January 2018	727,861	309,672	6,979	33,567	1,009	1,079,088
Depreciation for the year	94,919	49,816	732	3,985	110	149,562
Transfer to finance lease (note 15)	(2,086)	-	-	-	-	(2,086)
At 31 December 2018	820,694	359,488	7,711	37,552	1,119	1,226,564
Net carrying amount before accumulated impairment:						
At 31 December 2018	3,035,153	1,995,066	12,955	10,284	208	5,053,666
Accumulated impairment:						
At 1 January 2018 and at 31 December 2018	514,931	461,320	-	-	-	976,251
Impairment during the year	12,760	12,662	-	-	-	25,422
As at 31 December 2018	527,691	473,982	-	-	-	1,001,673
Net carrying amount after accumulated impairment:						
At 31 December 2018	2,507,462	1,521,084	12,955	10,284	208	4,051,993

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

11 Property, plant and equipment (continued)

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

	2019 AED '000	2018 AED '000
Included in direct costs (note 6.1)	142,487	141,377
Included in administrative and other expenses (note 6.2)	7,627	8,185
	150,114	149,562

Property, plant and equipment of AED 318.7 million (2018: AED 326.9 million) have been pledged as security against interest-bearing loans.

In the year 2018, due to the general economic slowdown, the Group made a provision of AED 25.4 million for impairment of its plant in the Kingdom of Bahrain, which is recorded in the consolidated statement of profit or loss.

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.

Where required, the Group 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 Group'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:
- contracted but 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 Group's weighted average cost of capital (WACC) of 6.5% - 10% ; and
- Terminal value of distribution assets and buildings.

Revenue estimates are based on discussions with existing and potential customers and expected future loads. Cash inflows are based on the term of the existing contracts with the respective customers extended to the period of expected usage of the plant. During the year ended 31 December 2019 no borrowing cost is capitalised (2018: AED nil).

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

12 Investments in associates

The Group has the following investments in associates:

	Country of incorporation	Principal activities	Ownership		Carrying value	
			2019	2018	2019	2018
Industrial City Cooling Company	United Arab Emirates	Sale of chilled water	20%	20%	4,703	4,201
Qatar Central Cooling Company PJSC	Qatar	Sale of chilled water	44%	44%	296,057	261,731
Tabreed District Cooling Company (Saudi)	Kingdom of Saudi Arabia	Sale of chilled water	20%	20%	172,434	175,577
Sahara Cooling Limited	United Arab Emirates	Sale of chilled water	40%	40%	93,260	86,544
					566,454	528,053

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

	2019 AED '000	2018 AED '000
At 1 January	528,053	702,318
Impact of implementation of IFRS 15 (i)	-	(194,030)
At 1 January (restated)	528,053	508,288
Share of results for the year	70,704	72,850
Dividends received	(20,725)	(55,802)
Carrying value of partial disposal of an associate(ii)	-	(20,958)
Gain on deemed disposal in an associate(ii)	-	19,275
Share of changes in fair value of effective cash flow hedges	(6,334)	3,072
Adjustments for inter group transactions	(5,244)	1,328
At 31 December	566,454	528,053

The associates are involved in the same business activity as Tabreed. The reporting dates for the associates are same as for the Tabreed. The investments are considered strategic to the Group.

- (i) The Group has adopted IFRS 15 from 1 January 2018 and it has resulted in adjustment in value of investment in an associate due to change in revenue recognition of the associate in accordance with the requirements of IFRS 15. The adjustments were accounted for using modified retrospectively approach (note 2.4) as permitted under the transitional provisions of IFRS 15.
- (ii) In 2018, an associate of the Group, Tabreed District Cooling Company (Saudi), introduced a new shareholder, in part by the issuance of new shares and in part through purchase of existing shares from all the current shareholders of Tabreed District Cooling Company (Saudi). As a result, the Group's holding in Saudi Tabreed was reduced from 25% to 20%. The transaction resulted in a gain of AED 13.3 million (net of tax and transaction costs) on disposal of existing shares to the new shareholder and AED 19.3 million on the issuance of new shares to the new shareholder at a premium. The gain is recorded under 'other gains and losses' in the consolidated statement of profit or loss.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

12 Investments in associates (continued)

The following illustrates summarised financial information of the Group's investments in associates:

	Qatar Central Cooling Company PJSC AED '000	Tabreed District Cooling Company (Saudi) AED '000	Others AED '000	Total AED '000
2019				
Total current assets	464,919	511,105	75,920	1,051,944
Non-current assets	1,796,870	1,948,675	348,128	4,093,673
Total current liabilities	(297,161)	(408,893)	(29,585)	(735,639)
Total non-current liabilities	(1,291,771)	(1,188,718)	(137,798)	(2,618,287)
Net assets	672,857	862,169	256,665	1,791,691
Tabreed's share of net assets	296,057	172,434	97,963	566,454

2018				
Total current assets	453,234	409,796	94,042	957,072
Non-current assets	1,654,262	1,815,482	367,776	3,837,520
Total current liabilities	(324,735)	(241,531)	(53,409)	(619,675)
Total non-current liabilities	(1,187,913)	(1,105,864)	(171,043)	(2,464,820)
Net assets	594,844	877,883	237,366	1,710,097
Tabreed's share of net assets	261,731	175,577	90,745	528,053

Reconciliation of carrying amounts

	Qatar Central Cooling Company PJSC AED '000	Tabreed District Cooling Company (Saudi) AED '000	Others AED '000	Total AED '000
2019				
Opening net assets	594,843	877,886	237,368	1,710,097
Profit for the year	81,029	72,606	55,390	209,025
Other comprehensive (loss)/income	-	(31,265)	295	(30,970)
Dividends paid	-	(50,000)	(28,813)	(78,813)
Others adjustments	(3,015)	(7,058)	(7,575)	(17,648)
Closing net assets	672,857	862,169	256,665	1,791,691
Tabreed's share of net assets	296,057	172,434	97,963	566,454

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

12 Investments in associates (continued)

	Qatar Central Cooling Company PJSC AED 000'	Tabreed District Cooling Company (Saudi) AED 000'	Others AED 000'	Total AED 000'
2018				
Opening net assets	951,832	776,984	243,918	1,972,734
Profit for the year	77,163	109,857	47,565	234,585
Other comprehensive income	-	3,950	5,708	9,658
Dividends paid	-	(171,380)	(52,373)	(223,753)
Other adjustments	(434,152)	158,475	(7,450)	(283,127)
Closing net assets	594,843	877,886	237,368	1,710,097
Tabreed's share of net assets	261,731	175,577	90,745	528,053
	Qatar Central Cooling Company PJSC AED 000'	Tabreed District Cooling Company (Saudi) AED 000'	Others AED 000'	Total AED 000'
2019				
Revenue	393,624	246,203	125,122	764,949
Cost of sales	(189,661)	(79,992)	(57,909)	(327,562)
Administrative and other expenses	(106,850)	(41,847)	(4,706)	(153,403)
Other income	17,588	11,162	971	29,721
Net finance cost	(30,917)	(62,920)	(8,088)	(101,925)
Other charges	(2,755)	-	-	(2,755)
Profit for the year	81,029	72,606	55,390	209,025
Tabreed's share of results for the year	35,653	14,521	20,530	70,704
	Qatar Central Cooling Company PJSC AED 000'	Tabreed District Cooling Company (Saudi) AED 000'	Others AED 000'	Total AED 000'
2018				
Revenue	397,910	240,741	107,416	746,067
Cost of sales	(193,116)	(84,061)	(50,665)	(327,842)
Administrative and other expenses	(103,550)	(23,939)	(9,943)	(137,432)
Other income	3,422	32,516	113	36,051
Net finance cost	(23,910)	(55,401)	(9,850)	(89,161)
Other charges	(3,593)	-	-	(3,593)
Profit for the year	77,163	109,856	37,071	224,090
Tabreed's share of results for the year	33,952	21,971	16,927	72,850

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

12 Investments in associates (continued)

Net assets of associates include the Group's share of negative fair value of derivatives of associates amounting to AED 9.0 million (2018: AED 2.7 million). Summarised financial information of the Group's investments in associates is adjusted for intercompany transactions.

Commitments and contingent liabilities in respect of the associates are disclosed in note 29.

13 Investments in joint ventures

The Group has the following investments in joint ventures:

	Country of incorporation	Principal activities	Ownership		Carrying value	
			2019	2018	2019	2018
SNC Lavalin Gulf Contractors LLC	United Arab Emirates	Construction business	51%	51%	20,031	33,042
Business District Cooling Investment LLC	United Arab Emirates	Sale of chilled water	50%	50%	19,223	18,185
					<u>39,254</u>	<u>51,227</u>

SNC Lavalin Gulf Contractors LLC (SLGC), a limited liability company is involved in engineering, procurement, construction and construction management in the field of District Cooling. The Group's interest in SLGC is accounted for using the equity method in the consolidated financial statements as both the shareholders jointly control and have equal rights to the net assets. The Group does not maintain full control over the company and no significant judgements are used in

The reporting date for the joint ventures is same as for Tabreed.

Movement in investments in joint ventures is as follows:

	2019 AED '000	2018 AED '000
At 1 January	51,227	123,881
De-recognition of investment in joint ventures and recognition as subsidiary (note 28)	-	(71,123)
Share of results for the year	28,423	17,440
Dividends paid	(23,500)	(18,000)
Share of changes in fair value of effective cash flow hedges	(13,084)	2,250
Adjustments for inter group transactions	(3,812)	(3,221)
At 31 December	<u>39,254</u>	<u>51,227</u>
Share of the joint ventures' revenues and profits:		
Revenues	<u>97,338</u>	<u>77,625</u>
Profit for the year	<u>28,423</u>	<u>17,440</u>

13 Investments in joint ventures (continued)

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

The following illustrates summarised financial information of the Group's investment in joint ventures:

	2019 AED '000	2018 AED '000
Revenue	193,751	155,058
Cost of sales	(91,514)	(90,256)
Administrative and other expenses	(12,048)	(8,619)
Other income	8,127	192
Net finance cost	(41,469)	(21,519)
Profit for the year	56,847	34,856
Tabreed's share of results for the year	28,423	17,440
Total current assets	100,866	96,433
Non-current assets	856,593	894,641
Total current liabilities	(205,650)	(189,569)
Total non-current liabilities	(673,301)	(699,765)
Net assets	78,508	101,740
Tabreed's share of net assets	39,254	51,227

Reconciliation of carrying amounts:

Opening net assets	101,740	247,125
Profit for the period	56,847	34,854
Other comprehensive income	(26,166)	4,500
Dividends paid	(47,000)	(36,000)
Other adjustments	(6,913)	(148,739)
Closing net assets	78,508	101,740
Tabreed's share of net assets	39,254	51,227

Net assets of joint ventures include the Group's share of negative fair value of derivatives of a joint venture amounting to AED 32.0 million (2018: AED 18.9 million). Summarised financial information of the Group's investments in joint ventures is adjusted for intercompany transactions.

None of the joint ventures are individually material to the Group.

Commitments and contingent liabilities in respect of the associates are disclosed in note 29.

14 Goodwill

	2019 AED '000	2018 AED '000
At 1 January	28,527	27,710
Additional goodwill on acquisition (note 27)	-	817
At 31 December	28,527	28,527

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

14 Goodwill (continued)

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 2023. The discount rate applied to the cash flow projections is 25% (2018: 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% (2018: 3%).

15 Finance lease receivables

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

	2019 AED '000	2018 AED '000
At 1 January	2,869,966	2,957,744
Impact of implementation of IFRS 9	-	(36,675)
Impact of implementation of IFRS 16	171,642	-
At 1 January (restated)	3,041,608	2,921,069
Initial recognition of new finance lease receivables during the year (i)	163,783	34,338
Finance lease income (note 3)	208,120	196,359
Lease rentals received	(323,029)	(281,800)
Variable lease payment CPI indexation	54,049	-
At 31 December	3,144,531	2,869,966

Finance lease receivable is allocated in this consolidated statement of financial position as follows:

	2019 AED '000	2018 AED '000
Current assets	307,984	244,916
Non-current assets	2,836,547	2,625,050
	3,144,531	2,869,966

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

15 Finance lease receivables (continued)

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

	2019		2018	
	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	331,412	319,925	256,692	244,524
After one but no more than five years	1,325,652	1,089,950	1,092,477	891,869
More than five years	3,630,515	1,734,656	3,482,525	1,733,573
	5,287,579	3,144,531	4,831,694	2,869,966
Unearned finance income	(2,143,048)	-	(1,961,728)	-
	3,144,531	3,144,531	2,869,966	2,869,966

Movement in unearned finance income is as follows:

	2019 AED '000	2018 AED '000
At 1 January	1,961,728	2,135,216
Impact of implementation of IFRS 16	150,653	-
At 1 January (restated)	2,112,381	2,135,216
Relating to new finance leases (i)	190,634	22,871
Finance income recognised during the year (note 3)	(208,120)	(196,359)
Variable lease payment CPI indexation	48,153	-
At 31 December	2,143,048	1,961,728

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

(i) During the year, the Group completed construction of a new district cooling plant for an existing customer and new district cooling plant for new customers and signed a cooling agreement with the customers. Management has carried out an assessment of the arrangement to provide cooling services to the customer through the plant in accordance with the terms of the agreement and the requirements of the relevant IFRSs, and concluded that the arrangement contains a finance lease with respect to the plant and related distribution network as it transfers substantially all the risk and rewards incidental to the ownership of the plant to the customer.

Accordingly, the carrying amount of the plant and related distribution network was transferred out from capital work in progress and finance lease receivable was recorded at fair value at the commencement of lease, which resulted in a gain of AED 27.4 million which is recorded in consolidated statement of profit or loss.

The Group leases represent district cooling plants. Contracts are usually made for fixed periods of 15 years to 30 years. Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. The Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

16 Right-of-use asset

Movement in right-of-use asset is summarized as follows:

	Land, plant and buildings AED'000	Motor vehicles AED'000	Total AED'000
2019			
Cost:			
At 1 January 2019	-	-	-
Impact of implementation of IFRS 16	238,118	5,432	243,550
Additions	265	601	866
At 31 December 2019	238,383	6,033	244,416
Depreciation:			
At 1 January 2019	-	-	-
Depreciation for the year (ii)	17,913	1,983	19,896
At 31 December 2019	17,913	1,983	19,896
Net carrying amount before accumulated impairment:			
At 31 December 2019	220,470	4,050	224,520
Impairment:			
Impact of implementation of IFRS 16 (i)	88,253	-	88,253
Net carrying amount after accumulated impairment:			
At 31 December 2019	132,217	4,050	136,267

- (i) The balance represents an amount of AED 88 million, which represents onerous provision related to one of the Group associates for the respective contracts (Note 26).
- (ii) Depreciation charge of AED 11.6 million (2018: AED nil) and AED 8.3 million (2018: AED nil) is charged to direct costs and administrative and other expenses, respectively.

17 Lease liabilities

Movement in the lease liabilities during the period is as follows:

	31 December 2019 AED '000	31 December 2018 AED '000
At 1 January 2019	-	-
Impact of implementation of IFRS 16	327,906	-
At 1 January (restated)	327,906	-
Addition	866	-
Accretion	17,234	-
Repayment	(51,257)	-
At 31 December 2019	294,749	-

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

17 Lease liabilities (continued)

Lease liabilities are allocated in the consolidated statement of financial position as follows:

	31 December 2019 AED '000	31 December 2018 AED '000
Current	47,254	-
Non-current	247,495	-
	<u>294,749</u>	<u>-</u>

18 Trade and other receivables

	2019 AED '000	2018 AED '000
Trade receivables, net	514,353	437,781
Amounts due from related parties (note 28)	18,821	16,424
Advances to suppliers and employees	13,214	12,560
Deposits and other receivables	35,000	86,515
Prepayments	12,036	15,202
	<u>593,424</u>	<u>568,482</u>

As at 31 December 2019, trade receivables with a nominal value of AED 61.5 million (2018: AED 48.4 million) were provided for as per the requirements of IFRS 9 expected credit loss model. Movement in the provision for impairment of trade receivables is as follows:

	2019 AED '000	2018 AED '000
At 1 January	48,380	21,246
Impact of implementation of IFRS 9	-	44,825
At 1 January (restated)	48,380	66,071
Charge for the year (note 6.2)	13,576	13,112
Amounts recovered	-	(30,803)
Amounts written off	(507)	-
At 31 December	<u>61,449</u>	<u>48,380</u>

The following table details the risk profile of trade receivables based on the Group's provision matrix. As the Group's historical credit loss experience does not show significantly different loss patterns for different customer segments, the provision for loss allowance based on past due status is not further distinguished between the Group's different customer base.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

18 Trade and other receivables (continued)

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

	Total	Current	< 30 days	30 – 60 days	60 – 90 days	90 – 120 days	120 – 365 days	>365 days
2019								
Gross								
Receivable								
(AED'000)	594,623	295,309	42,595	113,807	13,663	18,075	48,478	62,696
Provision %	10.3%	0.2%	0.2%	1.1%	3.4%	19.9%	25.5%	68.6%
Provision								
(AED'000)	61,449	638	94	1,276	465	3,591	12,359	43,026
Net								
Receivable								
(AED'000)	533,174	294,671	42,501	112,531	13,198	14,484	36,119	19,670
2018								
Gross								
Receivable								
(AED'000)	502,585	254,943	83,735	54,558	17,266	6,771	42,358	42,954
Provision %	9.6%	1.5%	4.0%	4.1%	17.3%	23.6%	32.1%	48.4%
Provision								
(AED'000)	48,380	3,818	3,367	2,244	2,977	1,598	13,607	20,769
Net								
Receivable								
(AED'000)	454,205	251,125	80,368	52,314	14,289	5,173	28,751	22,185

Trade receivables are non-interest bearing and are generally on 30 – 60 days terms. It is not the practice of the Group to obtain collateral over receivables and the vast majority are therefore, unsecured. For terms and conditions relating to related party receivables, refer to note 28.

19 Cash and bank balances

Bank balances and cash included in the consolidated statement of financial position and in the consolidated statement of cash flows are as follows:

	2019 AED '000	2018 AED '000
Bank balances and cash	120,646	231,419
Bank deposits	106,256	17,527
Cash and cash equivalents as at 31 December	<u>226,902</u>	<u>248,946</u>

Included in the bank balances is an amount of AED 2.6 (2018: AED 6.9 million) placed in debt service reserve accounts in relation to bank facilities and an amount of AED 16.6 (2018: AED 23.9 million) held as cash margin against trade related bank guarantees and letters of credit.

Bank deposits attract a fixed rate of interest ranging from 1.4 % to 3.1 % per annum (2018: 1% to 2.63% per annum).

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

19 Cash and bank balances (continued)

Geographical concentration of cash and bank balances is as follows:

	2019 AED '000	2018 AED '000
Within UAE	196,436	222,716
Outside UAE	30,466	26,230
	<u>226,902</u>	<u>248,946</u>

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes.

	2019 AED '000	2018 AED '000
Cash and bank balances	226,902	248,946
Interest bearing loans and borrowings	(1,017,711)	(1,160,191)
Non- Convertible Sukuk	(1,828,843)	(1,828,794)
Lease liabilities	(294,749)	-
Net debt	<u>(2,914,401)</u>	<u>(2,740,039)</u>

Non-cash transactions in the consolidated statement of cash flows:

- AED 136.3 million of right-of-use assets.
- AED 294.8 million of lease liabilities.

	Cash and bank balances AED'000	Interest bearing loans and borrowings AED'000	Islamic financing arrange- ments AED'000	Non- Convertible Sukuk AED'000	Lease liabilities AED'000	Total AED'000
Net debt						
Balance at 1 January 2019	248,946	(1,160,191)	-	(1,828,794)	-	(2,740,039)
Impact of implementation of IFRS 16		-	-	-	(327,906)	(327,906)
Cash flows	(22,044)	145,588	-	-	51,257	174,801
Non cash transaction:						
Amortisation of transaction cost (note 5)	-	(3,108)	-	(49)	-	(3,157)
Addition	-	-	-	-	(866)	(866)
Accretion	-	-	-	-	(17,234)	(17,234)
Balance at 31 December 2019	<u>226,902</u>	<u>(1,017,711)</u>	<u>-</u>	<u>(1,828,843)</u>	<u>(294,749)</u>	<u>(2,914,401)</u>

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

19 Cash and bank balances (continued)

	Cash and bank balances AED'000	Interest bearing loans and borrowings AED'000	Islamic financing arrangem- ents AED'000	Non- Convertible Sukuk AED'000	Lease liabilities AED'000	Total AED'000
Net debt						
Balance at 1 January 2018	418,280	(2,009,079)	(1,155,172)	-	-	(2,745,971)
Financing cash flows	(169,334)	880,265	1,181,215	(1,828,643)	-	63,503
Non cash transaction:						
Amortisation of transaction cost (note 5)	-	(11,710)	(3,036)	(151)	-	(14,897)
Transaction cost write off	-	(19,667)	(23,007)	-	-	(42,674)
Balance at 31 December 2018	248,946	(1,160,191)	-	(1,828,794)	-	(2,740,039)

20 Issued capital

	2019 AED '000	2018 AED '000
Authorised, issued and fully paid up share capital		
Shares 2,715,529,123 (2018: 2,715,529,123) ordinary shares of AED 1 each	2,715,529	2,715,529

21 Reserves

Statutory reserve

As required by the UAE Federal Law No. (2) of 2015 and the articles of association of companies registered in UAE, 10% of the profit of the parent and relevant subsidiaries 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

Other reserve in the past was maintained in relation to the conversion of mandatory convertible bonds. The reverse remained unutilised and during the year 2019, the Company's Board of Directors resolved to transfer the balance of other reserve of AED 706.9 million to retained earnings.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

22 Interest bearing loans and borrowings

	Effective interest rate %	2019 AED '000	2018 AED '000
Term loan 1(i)	LIBOR + margin	714,676	840,417
Term loan 2 (ii)	5.25%	67,311	72,702
Term loan 3(iii)	EIBOR + margin	166,114	174,095
Term loan 4(iv)	EIBOR + margin	69,610	72,977
		<u>1,017,711</u>	<u>1,160,191</u>

Interest bearing loans and borrowings are allocated in the consolidated statement of financial position as follows:

	2019 AED '000	2018 AED '000
Current portion	147,234	143,665
Non-current portion	870,477	1,016,526
	<u>1,017,711</u>	<u>1,160,191</u>

(i) Term loan 1

The facility carries interest rate of LIBOR plus a margin, payable in cash on a quarterly basis and is secured by pari passu charge over property, plant and equipment. The facility is repayable in 10 fixed semi-annual instalments commencing on December 2018 with a bullet payment of 30% on 31 December 2023. During the year 2019, total repayments of AED 128.5 million were made against this facility.

The Group also has a revolving facility of AED 590 million to be utilised in the form of drawing cash advances. The revolving facility carries interest at EIBOR plus a margin and is repayable on 31 December 2023. As of 31 December 2019, the Group has no utilisation from the revolving facility.

(ii) Term loan 2

The loan is repayable in quarterly instalments and carries fixed interest of 5.25% per annum. The loan is secured by pari passu charge over plant and machinery. During the year 2019, total repayments of AED 5.4 million were made against this facility.

(iii) Term loan 3

This facility amounting to AED 192.5 million was obtained to finance the construction of a new plant. The facility carries interest rate of EIBOR plus a margin, payable in cash on a quarterly basis and is secured against the plant for which facility was obtained. The facility is repayable in 23 semi-annual instalments commencing on March 2017 with a bullet payment of AED 48.1 million in March 2028. During the year 2019, total repayments of AED 8.2 million were made against this facility.

(iv) Term loan 4

This facility amounting to AED 77.9 million was obtained to finance the acquisition of a new plant. The facility carries interest rate of EIBOR plus a margin, payable in cash on a quarterly basis and is secured against the plant for which facility was obtained. The facility is repayable in 60 quarterly instalments with the last instalment due on 30 June 2031. During the year 2019, total repayments of AED 3.5 million were made against this facility.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

22 Interest bearing loans and borrowings (continued)

(iv) Term loan 4 (continued)

The Group has complied with all the applicable financial covenants throughout the reporting period.

In 2018, an amount of AED 19.7 million was written off relating to the unamortised transaction cost of previous term Loan and is recorded in the consolidated statement of profit or loss.

Included in the interest bearing loans and borrowings is an amount of AED 10.7 (2018: AED 14.0 million) of unamortised transaction cost.

23 Islamic financing arrangement

In 2018, the Group settled its Islamic financing arrangement facility through the issuance of new 7 year investment grade Islamic Bonds (Sukuk) of US\$ 500 million listed on the London Stock Exchange (note 24). As part of the Group's refinancing, an amount of AED 23.0 million was written off relating to the unamortised transaction cost of Islamic financing arrangement and is recorded in the consolidated statement of profit or loss.

24 Non-convertible Sukuk

	2019 AED '000	2018 AED '000
Non-convertible Sukuk	<u>1,828,843</u>	<u>1,828,794</u>

In 2018, the Group issued a 7 year investment grade Islamic Bonds (Sukuk) of US\$ 500 million which is listed on the London Stock Exchange. The bond carries profit rate of 5.5% payable semi-annually. The bond is repayable on 31 October 2025. The proceeds of the bonds were utilised to repay the portion of previous Term Loans and full settlement of Islamic financing arrangement.

The loan is stated net of discount and transaction costs incurred in connection with the loan arrangements, amounting to AED 8.8 million, which are amortised to the consolidated statement of profit or loss over the repayment period of Sukuk using effective interest rate method.

25 Employees' end of service benefits

The Group provides for employees' end of service benefits in respect of its non-UAE employees in accordance with the employees' contracts of employment. The movement in the provision recognised in the consolidated statement of financial position is as follows:

	2019 AED '000	2018 AED '000
Balance at 1 January	29,255	25,976
Charge for the year (note 6.3)	6,877	6,715
Released during the year	<u>(4,742)</u>	<u>(3,436)</u>
Balance at 31 December	<u>31,390</u>	<u>29,255</u>

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

26 Trade and other payables

	2019 AED '000	2018 AED '000
Non-current liabilities		
<i>Relating to capital expenditure:</i>		
Contractor payable and retentions	5,740	14,079
<i>Others:</i>		
Contract liabilities	89,521	88,838
	<u>95,261</u>	<u>102,917</u>
Current liabilities		
<i>Relating to capital expenditure:</i>		
Contractor payable and retentions	35,214	61,459
Accrued expenses	40,778	25,063
	<u>75,992</u>	<u>86,522</u>
Others:		
Trade payables	96,324	46,663
Due to related parties (note 28)	44,057	40,340
Accrued expenses	213,641	223,047
Derivative financial instruments(i)	7,453	(796)
Contract liabilities	93,983	61,404
Other payables	88,563	168,465
	<u>544,021</u>	<u>539,123</u>
	<u>620,013</u>	<u>625,645</u>

(i) The Group has entered into interest rate swaps (IRS) for the interest bearing loans denominated in AED, which are designated as a hedging instrument (note 31).

In 2014, the Group recognised a provision of AED 102 million on an onerous contract with an associate for the purchase of chilled water related to plants covered under a cooling agreement with a customer. During the year 2019, upon adoption of IFRS-16, the Group has net-off the remaining balance of provision, amounting to AED 88.8 million against the right-of-use asset.

Terms and conditions of the financial liabilities:

Trade payables 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 28.

Movement in contract liabilities is as follows:

	2019 AED '000	2018 AED '000
Contract liabilities	<u>183,504</u>	<u>150,242</u>

Contract liabilities represent un-satisfied performance obligation related to connection fees.

During the year total addition of AED 40.6 million (2018: AED 27.3 million) is made to contract liabilities. The revenue recognised during the year is AED 7.3 million (2018: AED 7.1 million)

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

27 Business combination

In March 2018, the Group acquired 50% of the shares of S&T Cool District Cooling Company LLC, from a joint venture partner and became 100% owner of the entity. The acquisition has been accounted for using step acquisition method in accordance with IFRS 3 Business Combination.

The fair values of the identifiable assets and liabilities of S&T Cool District Cooling Company LLC as at the date of acquisition were:

	AED '000
Assets	
Property, plant and equipment	382,881
Trade and other receivables	30,249
Bank balances and cash	15,135
	<u>428,265</u>
Liabilities	
Loans and borrowings	(163,103)
Trade and other payables	(34,922)
	<u>(198,025)</u>
Fair value of net assets acquired	230,240
Goodwill arising on acquisition	817
Purchase consideration	<u>231,057</u>
Fair value of existing 50% share holding	115,120
Less: carrying value of existing 50% investment	(71,123)
Gain on fair valuation of existing shareholding	<u>43,997</u>
Consideration to be paid in cash (i)	103,806
Contingent consideration liability (ii)	12,131
Fair value of existing share holding	115,120
Purchase consideration	<u>231,057</u>

The gain resulted due to fair valuation of existing ownership of 50% of AED 43.99 million is recorded under 'other gains and losses' in the consolidated statement of profit or loss.

(i) The Group agreed to repay loan of AED 163.1 million to the seller as part of acquisition, which was repaid on 4th April 2018. This payment is included in investing activities in the consolidated statement of cash flows.

(ii) As part of the purchase agreement, there will be an additional cash payments to the previous owners of S&T Cool District Cooling Company LLC, upon completion of any new future connections. As at the acquisition date, the fair value of the contingent consideration was estimated to be AED 12.1 million

Revenue and profit contribution:

The acquired business contributed revenues of AED 46.4 million and net profit of AED 19.9 million to the Group for the period from 31 March 2018 to 31 December 2018.

If the acquisition had occurred on 1 January 2018, consolidated pro-forma revenue and profit for the year ended

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

31 December 2018 would have been AED 53.3 million and AED 22.2 million, respectively.

27 Business combination (continued)

Acquired receivables:

The fair value and the gross contractual amount for trade receivables due of acquired trade receivables was AED 30.3 million, with no loss allowance recognised on acquisition.

28 Related party transactions and balances

Related parties represent associated companies, joint ventures, directors and key management personnel of the Group, management entities engaged by the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	2019		2018	
	Revenue AED '000	Direct costs AED '000	Revenue AED '000	Direct costs AED '000
Associated companies	3,972	60,839	5,003	99,167
Joint Ventures	4,892	-	4,545	-

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

	2019	
	Trade receivables AED'000	Trade payables and advances AED'000
Associated companies	16,787	44,057
Joint ventures	2,034	-
	18,821	44,057
	2018	
	Trade receivables AED'000	Trade payables and advances AED'000
Associated companies	14,863	40,340
Joint ventures	1,561	-
	16,424	40,340

During the year 2019, the Group entered into a management and technical services agreement with a shareholder amounting to AED 3 million (2018: AED 3 million).

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

28 Related party transactions and balances (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:

		2019 AED '000	2018 AED '000
	Terms and conditions		
Trade receivables	Interest free, unsecured, settled over agreed payment terms	18,821	16,424
Trade payables and advances	Interest free, unsecured, settled over normal credit period	44,057	40,340

Compensation of key management personnel

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

	2019 AED '000	2018 AED '000
Short-term benefits	12,813	10,985
Employees' end of service benefits	231	296
	<u>13,044</u>	<u>11,281</u>
Number of key management personnel	<u>5</u>	<u>5</u>

29 Contingent liabilities

Bank guarantees

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

	2019 AED '000	2018 AED '000
Performance guarantees	100,257	91,652
Advance payment guarantees	633	633
Financial guarantees	50	24,986
	<u>100,940</u>	<u>117,271</u>

The Group's share of contingencies of associates and joint ventures as of 31 December 2019 amounted to AED 10.0 million (2018: AED 11.3 million) and AED 2.0 million (2018: AED 2.0 million), respectively. The Group expects no outflow of economic resources and accordingly no provision has been made in the consolidated financial statements.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

30 Commitments

Contractual commitments

The authorised contractual commitments as at 31 December 2019, contracted but not provided for amounted to AED 148.0 million (2018: AED 174.6 million). The Group's share of authorised future capital expenditure of associates at 31 December 2019 amounted to AED 2.6 million (2018: AED 61.2 million) and The Group's share of authorised future capital expenditure for joint ventures amounted to AED 1.5 million (2018: AED 1.9 million).

Business combination

In December 2019, the Group signed a Share Purchase Agreement (SPA) with Abu Dhabi Future Energy Company PJSC – Masdar to acquire 100% shares of Masdar City Cooling Company Limited for a value of AED 110 million. The transaction is subject to finalisation of all other incidental agreements and approval from local government body and will therefore be recorded in the future once all conditions are met.

Operating lease commitments - lessor

The Group 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 and have been accounted for as an operating lease as the Group does not transfer substantially all the risks and rewards of ownership of the asset to the customer.

These non-cancellable leases have remaining term between 15 and 30 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:

	2019 AED '000	2018 AED '000
Within one year	70,924	69,789
After one year but not more than five years	283,696	279,155
More than five years	931,479	1,052,927
	<u>1,286,099</u>	<u>1,401,871</u>

Operating lease commitments - lessee

	2019 AED '000	2018 AED '000
Within one year	-	50,189
After one year but not more than five years	-	179,740
More than five years	-	193,867
	<u>-</u>	<u>423,796</u>

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

31 Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise interest bearing loans and borrowings, lease liabilities, non-convertible Sukuk, 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 activities. The Group has various financial assets such as finance lease receivables, trade receivables, due from related parties and cash and bank balances, 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 2019 and 2018 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.

(a) 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, Islamic financing arrangements, deposits, finance lease receivables, lease liabilities and derivative financial instruments.

The sensitivity analysis in the following sections relate to the position as at 31 December 2019 and 2018.

The sensitivity analysis 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 2019 and 2018.

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

- The consolidated statement of financial position sensitivity relates to derivatives instruments.
- The sensitivity of the relevant statement of profit or loss 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 2019 and 2018 including the effect of hedge accounting.

(b) 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 cash flow 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 cash flow risk relating to its variable interest borrowings, the Group enters into interest rate swaps, in which the Group 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 2019, after taking into account the effect of interest rate swaps, approximately 60% of the Group's borrowings are at a fixed rate of interest (2018: 61%).

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

31 Financial risk management objectives and policies (continued)

(b) 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, on the Group's profit for one year (through the impact on term deposits and unhedged portion of loans and borrowings).

	<i>Effect on profit</i> <i>AED '000</i>
2019	
+100 basis point increase	(8,088)
-100 basis point decrease	8,088
2018	
+100 basis point increase	(9,245)
-100 basis point decrease	9,245

(c) 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 the transactions and balances are in either UAE Dirham or US Dollar or currencies that are pegged to US Dollar. As the UAE Dirham is pegged to the US Dollar, balances in US Dollar are not considered to represent significant foreign currency risk.

(d) Credit risk

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 relating to trade receivables, contract assets and finance lease receivables is the carrying amount as disclosed in notes 18 and 15. The Group's three largest customers, including a related party, account for approximately 62% of outstanding trade and related party receivable balances at 31 December 2019 (2018: 3 customers 49%). Amounts due in respect of finance lease receivables are from three customers (2018: three customers).

The Group applies IFRS 9 simplified approach to measure expected credit losses which uses a expected loss allowance for all trade receivables, contract assets and finance lease receivables.

To measure the expected credit losses, trade receivables, contract assets and finance lease receivables have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

31 Financial risk management objectives and policies (continued)

(d) Credit risk (continued)

With respect to credit risk arising from other financial assets of the Group, which comprise cash and bank balances and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, maximum is equal to the carrying amount of these instruments. The Group seeks to limit its credit risk to banks by only dealing with reputable banks, and independently rated parties with a minimum of investment grade ratings are accepted.

For finance lease receivables, the Group uses simplified approach, requiring lifetime ECL recognition at all times. ECL provision is based on the Group's historical information adjusted for future expectations using macro-economic indicators. The finance lease receivables are concentrated with a few parties which are owned by Government of UAE and thus carries very low credit risk leading towards immaterial provision allowance.

(e) 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 (trade receivables, 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 term loans.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2019 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 2019						
Interest bearing loans and borrowings	-	15,673	165,364	780,747	236,903	1,198,687
Non-convertible Sukuk	-	-	101,021	404,085	1,937,771	2,442,877
Lease liabilities	-	12,308	34,947	147,841	99,664	294,760
Trade and retention payables, due to related parties and other financial liabilities	-	179,538	278,952	5,740	-	464,230
		<u>207,519</u>	<u>580,284</u>	<u>1,338,413</u>	<u>2,274,338</u>	<u>4,400,554</u>
At 31 December 2018						
Interest bearing loans and borrowings	-	20,058	282,883	1,407,421	2,155,626	3,865,988
Non-convertible Sukuk	-	-	101,008	404,030	2,038,515	2,543,553
Trade and retention payables, due to related parties and other financial liabilities	-	152,003	204,326	14,079	-	370,408
	-	<u>172,061</u>	<u>588,217</u>	<u>1,825,530</u>	<u>4,194,141</u>	<u>6,779,949</u>

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

31 Financial risk management objectives and policies (continued)

(e) Liquidity risk (continued)

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2019 AED '000	2018 AED '000
Expiring beyond one year (bank loans)	<u>590,000</u>	<u>590,000</u>

(f) 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 adjusts it, in the 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, non-convertible Sukuk less cash and bank balances. Capital includes total equity excluding non-controlling interests less cumulative changes in fair value of derivatives.

	2019 AED '000	2018 AED '000
Interest bearing loans and borrowings	1,017,711	1,160,584
Non-convertible Sukuk	1,828,843	1,828,794
Lease liabilities	<u>294,749</u>	<u>-</u>
	<u>3,141,303</u>	<u>2,989,378</u>
Less: cash and bank balances	<u>(226,902)</u>	<u>(248,946)</u>
Net debt	<u>2,914,401</u>	<u>2,740,432</u>
Equity attributable to equity holders of the parent	4,944,989	4,670,006
Adjustment for cumulative changes in fair values of derivatives	<u>48,553</u>	<u>20,886</u>
Total capital	<u>4,993,542</u>	<u>4,690,892</u>
Capital and net debt	<u>7,613,194</u>	<u>7,431,324</u>
Gearing ratio	<u>38%</u>	<u>37%</u>

National Central Cooling Company PJSC

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

32 Financial instruments and fair value measurement

32.1 Financial instruments

The accounting policies for financial instruments have been applied to the line items below:

	2019 AED '000	2018 AED '000
Derivative financial instruments	7,453	(796)
Trade and other receivables	533,174	454,205
Finance lease receivables	3,144,531	2,869,966
Cash and bank balances	226,902	248,946
Financial assets measured at amortised cost	3,904,607	3,573,117
Trade and other payables	181,335	162,541
Interest bearing loans and borrowings	1,017,711	1,160,191
Non-convertible Sukuk	1,828,843	1,828,794
Lease liabilities	294,749	-
Financial liabilities measured at amortised cost	3,322,638	3,151,526

For the purpose of the financial instruments disclosure, non-financial assets and non-financial liabilities have been excluded from 'trade and other receivables' and 'trade and other payables', respectively.

32.2 Fair values of financial instruments

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values at the reporting date except for finance lease receivables, non-convertible Sukuk and lease liabilities. Set out below is a comparison of carrying amounts and fair values of such instruments:

	Carrying Amount		Fair Value	
	2019 AED '000	2018 AED '000	2019 AED '000	2018 AED '000
Liabilities measured at fair value				
Interest rate swaps	7,454	(796)	7,454	(796)
Financial assets				
Finance lease receivables	3,144,531	2,869,966	3,582,872	3,156,812
Financial liabilities				
Non-convertible Sukuk	1,828,843	1,828,794	2,042,849	1,917,581
Lease liabilities	294,749	-	321,280	-

National Central Cooling Company PJSC

Notes to the consolidated financial statements ended 31 December 2019 (continued)

32 Fair value measurement (continued)

32.2 Fair value hierarchy

As at 31 December 2019 and 2018, the fair value measurement hierarchy of the Group's assets and liabilities is as follows:

	2019				2018			
	31 December 2019 AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	31 December 2018 AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Liabilities measured at fair value								
Interest rate swaps	7,454	-	7,454	-	(796)	-	(796)	-
Assets for which fair values are disclosed								
Finance lease receivables	3,582,872	-	-	3,582,872	3,156,812	-	-	3,156,812
Liabilities for which fair values are disclosed								
Non-convertible Sukuk	2,042,849	2,042,849	-	-	1,917,581	1,917,581	-	-
Lease liabilities	321,280	-	-	321,280	-	-	-	-
	2,364,129	2,042,849	-	321,280	1,917,581	1,917,581	-	-

During the reporting years ended 31 December 2019 and 31 December 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

National Central Cooling Company PJSC

Notes to the consolidated financial statements For the year ended 31 December 2019 (continued)

32 Fair value measurement (continued)

32.2 Fair value hierarchy (continued)

The following methods and assumptions were used to estimate the fair values for assets and liabilities measured at fair value:

The Group enters into derivative financial instruments with various banks and financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are interest rate swaps. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, interest rate curves and forward rate curves of the underlying commodity.

32.3 Hedging activities

Cash flow hedges

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

In order to reduce its exposure to interest rate fluctuations on the interest bearing loans and borrowings the Group 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 157.3 million as at 31 December 2019 (2018: AED 164 million).

The 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	Total AED '000
2019			
Cash inflows (assets)	2,949	6,045	8,994
Cash outflows (liabilities)	(5,084)	(9,324)	(14,408)
Net cash outflows	<u>(2,135)</u>	<u>(3,279)</u>	<u>(5,414)</u>
2018			
Cash inflows (assets)	4,879	9,981	14,860
Cash outflows (liabilities)	(5,345)	(9,918)	(15,263)
Net cash outflows	<u>(466)</u>	<u>63</u>	<u>(403)</u>

All derivative contracts are with counterparty banks in UAE.

33 Advance towards investment in an associate

During the year 2019, the Group signed a share purchase agreement with an existing shareholder of Tabreed District Cooling Company (Saudi), to acquire 8% shares at a price of AED 126.3 million. The legal ownership of the additional shares is subject to the approval from the local regulatory body. The Group has already paid consideration in advance and has recorded it as an 'advance towards investment in associate'. Upon completion of the regulatory approvals, the acquisition transaction will increase the shareholding of the Group in the said associate from 20% to 28%.