

**NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS
SUBSIDIARIES**

**Consolidated financial statements
for the year ended 31 December 2021**

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Consolidated financial statements for the year ended 31 December 2021

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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 2021 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 2021;
- the consolidated statement of comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 (including International Independence Standards) issued by the International Ethics Standards Board for 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.

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

Our audit approach

Overview

Key Audit Matters

- Business acquisitions during the year
-

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)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Business acquisitions during the year</i></p> <p>During the year ended 31 December 2021, the Group acquired 100% equity interest in Saadiyat District Cooling LLC ("SDCL") and Saadiyat Cooling LLC ("SCL") for a total consideration of AED 962 million. SDCL and SCL are involved in the district cooling business.</p> <p>On 18 February 2021, the conditions precedent under SDCL and SCL Share Purchase Agreement (SPA) were substantively met, resulting in the Group gaining control of SDCL and SCL and thus accounting it for as a subsidiary. Details on the acquisition are provided in Note 27.2 of these consolidated financial statements.</p> <p>In addition, the Group has acquired the remaining 50% equity interest, from a joint venture partner which resulted having 100% ownership of Business District Cooling Investment LLC ("BDCI") for a total consideration of AED 311.5 million. BDCI is involved in the district cooling business.</p> <p>On 25 October 2021, the conditions precedent under BDCI Share Purchase Agreement (SPA) were substantively met, resulting in the Group gaining control of BDCI and thus changing the accounting from a joint venture to a subsidiary. Details on the acquisition are provided in Note 27.1 of these consolidated financial statements.</p> <p>These significant acquisitions are part of the Group's strategic plan to expand its business within UAE.</p> <p>An independent external valuation specialist (valuer) was engaged by the Group to perform Purchase Price Allocation (PPA) exercise, fair valuation of the acquired assets & liabilities and identification and valuation of intangible assets of SCL, SDCL and BDCI.</p> <p>The acquisitions of SCL, SDCL and BDCI are a key audit matter as these are the significant transactions during the year which required significant assumptions, estimates and judgements regarding the allocation of purchase price to the assets and liabilities and the identification and valuation of intangible assets i.e. customer contracts and goodwill.</p>	<p>We performed the following procedures to assess the key assumptions, estimates and judgement used in performing the PPA exercise and assessing the fair value of the assets and liabilities, acquired in the acquisitions:</p> <ul style="list-style-type: none"> • We reviewed relevant board of directors' resolutions and the contracts related to the acquisition; • We obtained the Purchase Price Allocation report prepared by the independent valuer engaged by the Group; • We assessed the competence, capabilities and objectivity of Group's independent valuer; • We involved our internal valuation experts to review the methodology and assumptions used and to assess reasonableness of the conclusions regarding key assumptions used to determine the fair values of assets and liabilities recognised. Further, we assessed the key assumptions including cash flows focusing on revenues and earnings before interest, tax depreciation and amortisation ('EBITDA') and appropriateness of discount and growth rates, whilst considering the risk of management bias; and • We assessed the appropriateness and adequacy of the related disclosures in Note 27.1 and 27.2 to the consolidated financial statements.

Refer to Note 2.3.1 for the accounting policy and Note 2.6.1 which explains the significant estimates, assumptions and judgement used by the Group.

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

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, as amended, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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:

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

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

- 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.
- 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, as amended, 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, as amended;
- (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 2021;
- (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 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, 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 2021; and
- (vii) as disclosed in Note 1 to the consolidated financial statements, the Group has made social contributions of AED 1 million during the year ended 31 December 2021.

PricewaterhouseCoopers
14 February 2022

A blue ink signature, appearing to be 'Rami Sarhan', written over a horizontal dashed line.

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

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Consolidated statement of profit or loss

	Notes	For the year ended 31 December	
		2021 AED '000	2020 AED '000
Continuing operations			
Revenues	3	1,955,085	1,740,715
Direct costs	6.1	(1,084,264)	(886,086)
Gross profit		870,821	854,629
Impairment provision for trade receivables	18	(1,096)	(5,579)
Administrative and other expenses	6.2	(246,545)	(218,986)
Operating profit		623,180	630,064
Finance costs	5	(257,708)	(221,601)
Finance income		2,685	2,808
Other gains and losses, net		130,233	79,041
Share of results of associates and joint ventures, net	12, 13	35,673	51,195
Profit from continuing operations		534,063	541,507
Profit from discontinued operation	12	76,682	31,963
Profit for the year		610,745	573,470
Attributable to:			
Equity holders of the parent			
Profit from continuing operations		508,474	518,379
Profit from discontinued operation		76,682	31,963
		585,156	550,342
Non-controlling interests			
Profit from continuing operations		25,589	23,128
Profit from discontinued operation		-	-
		25,589	23,128
		610,745	573,470
Basic and diluted earnings per share from continuing operations attributable to ordinary equity holders of the parent (AED)		0.18	0.19
Basic and diluted earnings per share from discontinued operation attributable to ordinary equity holders of the parent (AED)		0.03	0.01
Total basic and diluted earnings per share attributable to ordinary equity holders of the parent (AED)	7	0.21	0.20

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Consolidated statement of comprehensive income

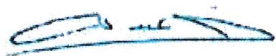
	Notes	For the year ended 31 December	
		2021 AED '000	2020 AED '000
Profit for the year		610,745	573,470
Other comprehensive income / (loss)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net movement in fair value of derivatives in cash flow hedges related to Interest Rate Swaps ("IRS")	26	81,317	(17,016)
Share of changes in fair value of derivatives of associates and joint venture in cash flow hedges related to IRS	12, 13	31,100	(28,509)
Reclassification adjustment for amounts recognized in profit or loss relating to step up acquisition of a joint venture	27	35,631	-
Exchange differences arising on translation of overseas operations		4,201	206
Total other comprehensive income / (loss)		152,249	(45,319)
Total comprehensive income for the year		762,994	528,151
Attributable to:			
Equity holders of the parent			
Profit from continuing operations		660,723	473,060
Profit from discontinued operation		76,682	31,963
		737,405	505,023
Non-controlling interests			
Profit from continuing operations		25,589	23,128
Profit from discontinued operation		-	-
		25,589	23,128
		762,994	528,151

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Consolidated statement of financial position

		As at 31 December	
		2021	2020
ASSETS	Notes	AED '000	AED '000
Non-current assets			
Capital work in progress	10	201,656	299,489
Property, plant and equipment	11	4,812,702	4,437,282
Right-of-use assets	16	210,331	165,469
Intangible assets	14	4,284,452	2,360,127
Investments in associates and joint ventures	12, 13	372,790	358,258
Finance lease receivables	15	2,688,690	2,793,069
		<u>12,570,621</u>	<u>10,413,694</u>
Current assets			
Inventories		50,838	42,420
Trade and other receivables	18	691,007	898,467
Finance lease receivables	15	323,588	315,581
Cash and bank balances	19	1,197,273	1,312,894
		<u>2,262,706</u>	<u>2,569,362</u>
Assets held for sale	12	-	329,885
Total assets		<u>14,833,327</u>	<u>13,312,941</u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	20	2,775,874	2,715,529
Treasury shares		(3,215)	(2,016)
Statutory reserve	21	456,648	413,020
Retained earnings		2,460,147	2,133,906
Foreign currency translation reserve		2,721	(1,480)
Cumulative changes in fair value of derivatives in cash flow hedges		53,970	(94,078)
Equity attributable to the equity holders of the parent		<u>5,746,145</u>	<u>5,164,881</u>
Non-controlling interests		700,251	710,289
Total equity		<u>6,446,396</u>	<u>5,875,170</u>
Liabilities			
Non-current liabilities			
Trade and other payables	26	215,059	116,727
Interest bearing loans and borrowings	22	2,495,034	2,132,930
Islamic financing arrangement	23	932,994	630,681
Non-convertible Bonds and Sukuk	24	3,643,080	3,639,348
Lease liabilities	17	200,579	219,599
Employees' end of service benefits	25	41,291	36,486
		<u>7,528,037</u>	<u>6,775,771</u>
Current liabilities			
Trade and other payables	26	768,777	593,722
Interest bearing loans and borrowings	22	35,014	23,477
Islamic financing arrangement	23	8,418	-
Lease liabilities	17	46,685	44,801
		<u>858,894</u>	<u>662,000</u>
Total liabilities		<u>8,386,931</u>	<u>7,437,771</u>
Total equity and liabilities		<u>14,833,327</u>	<u>13,312,941</u>

To the best of our knowledge, the consolidated financial statements fairly presents, in all material respects, the consolidated financial position, results of operation and consolidated cash flows of the Group as of, and for the year ended 31 December 2021.



Khaled Abdulla Al Qubaisi
Chairman



Khalid Abdulla Al Marzooqi
Chief Executive Officer



Adel Al Wahedi
Chief Financial Officer

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

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 in cash flow hedges AED'000	Total AED'000	Non- controlling interests AED'000	Total equity AED'000
Balance at 1 January 2020	2,715,529	(2,016)	358,466	1,923,249	(1,686)	(48,553)	4,944,989	70,666	5,015,655
Profit for the year	-	-	-	550,342	-	-	550,342	23,128	573,470
Other comprehensive loss for the year	-	-	-		206	(45,525)	(45,319)	-	(45,319)
Total comprehensive income for the year	-	-	-	550,342	206	(45,525)	505,023	23,128	528,151
Transfer to statutory reserve	-	-	54,554	(54,554)	-	-	-	-	-
Dividends paid to shareholders (Note 8)	-	-	-	(285,131)	-	-	(285,131)	-	(285,131)
Non-controlling interest on acquisition of a subsidiary	-	-	-	-	-	-	-	619,953	619,953
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(3,458)	(3,458)
Balance at 31 December 2020	2,715,529	(2,016)	413,020	2,133,906	(1,480)	(94,078)	5,164,881	710,289	5,875,170
Balance at 1 January 2021	2,715,529	(2,016)	413,020	2,133,906	(1,480)	(94,078)	5,164,881	710,289	5,875,170
Profit for the year	-	-	-	585,156	-	-	585,156	25,589	610,745
Other comprehensive profit for the year	-	-	-	-	4,201	148,048	152,249	-	152,249
Total comprehensive income for the year	-	-	-	585,156	4,201	148,048	737,405	25,589	762,994
Transfer to statutory reserve	-	-	43,628	(43,628)	-	-	-	-	-
Dividends paid to shareholders (Note 8)	-	-	-	(156,141)	-	-	(156,141)	-	(156,141)
Bonus Share (Note 8)	60,345	(1,199)	-	(59,146)	-	-	-	-	-
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(35,627)	(35,627)
Balance at 31 December 2021	2,775,874	(3,215)	456,648	2,460,147	2,721	53,970	5,746,145	700,251	6,446,396

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Consolidated statement of cash flows

	Notes	Year ended 31 December	
		2021 AED '000	2020 AED '000
Operating activities			
Profit from continuing operations		534,063	541,507
Profit from discontinued operation		76,682	31,963
Profit for the year including discontinued operation		610,745	573,470
Non-cash adjustments:			
Depreciation of property, plant and equipment	11	188,379	167,617
Depreciation of right-of-use assets	16	23,408	21,742
Amortisation of intangible assets	14	61,385	33,030
Finance lease income	3	(189,989)	(200,887)
Share of results of associates and joint ventures including discontinued operation, net	12, 13	(60,405)	(83,158)
Net movement in employees' end of service benefits	25	4,805	5,096
Gain on disposal of associate	12	(51,950)	-
Other gains and losses, net		(110,233)	(79,041)
Allowance for provision for trade receivables	18	1,096	5,579
Finance income		(2,685)	(2,808)
Finance costs	5	257,708	221,601
Operating cash flows before changes in working capital		732,264	662,241
Working capital changes:			
Inventories		(7,234)	(5,383)
Trade and other receivables		295,317	(258,900)
Trade and other payables		(30,773)	(87,181)
Lease rentals received	15	326,830	318,491
Net cash flows generated from operating activities		1,316,404	629,268
Investing activities			
Purchase of property, plant and equipment	11	(20,003)	(16,180)
Payments for capital work in progress		(168,605)	(90,104)
Payment for acquisition of shares in subsidiaries	27	(1,212,135)	(2,579,670)
Disposal of interest in an associate	12	406,567	-
Dividends from a joint venture	13	5,751	7,750
Dividends from associates	12	8,835	81,776
Finance income received		2,998	1,841
Net cash flows used in investing activities		(976,592)	(2,594,587)
Financing activities			
Interest bearing loans and borrowings received		52,279	1,864,748
Interest bearing loans and borrowings repaid		(27,800)	(739,317)
Islamic financing arrangement received		-	628,709
Islamic financing arrangement repaid		(5,115)	-
Proceeds upon issuance of non-convertible Bonds (net of transaction cost)		-	1,808,823
Principal elements of lease payments	17	(39,746)	(36,192)
Finance cost paid on lease liabilities	17	(14,013)	(15,603)
Finance cost paid		(229,270)	(171,268)
Dividends paid to shareholders	8	(156,141)	(285,131)
Dividends paid to non-controlling interests		(35,627)	(3,458)
Net cash flows (used in)/generated from financing activities		(455,433)	3,051,311
Net (decrease)/increase in cash and cash equivalents		(115,621)	1,085,992
Cash and cash equivalents at 1 January		1,312,894	226,902
Cash and cash equivalents at 31 December	19	1,197,273	1,312,894

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021

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, as amended and is listed on the Dubai Financial Market. The Company was originally incorporated under the U.A.E Federal Law No. (8) of 1984, as amended. Subsequently, the U.A.E Federal Law No. (8) of 1984 was superseded by U.A.E. Federal Law No (2) of 2015, as amended.

The Company is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended. On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Company has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021.

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 made social contributions of AED 1.0 million during the year.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 14 February 2022.

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 and assets held for sale which are measured at lower of carrying value and fair value less cost to sell. 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 the Company and its subsidiaries (together the "Group") as at 31 December 2021 over which the Group has control. 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:

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.2 Basis of consolidation (continued)

- 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.

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 consolidated statement of 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 consolidated statement of profit or loss.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies

The principal accounting policies applied by the Group Company in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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.

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.

In business combination achieved in stages, the Group remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in the consolidated profit or loss. If the Group have previously recognised changes in the value of its equity interest in the acquiree in other comprehensive income, it will reclassify this to consolidated profit or loss on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

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 consolidated statement of 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:

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.2 Revenue recognition (continued)

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.

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. For details on finance lease refer to note 2.28. Finance income on finance lease receivables is included in revenue due to its operating nature.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

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.

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Emirati Dirham currency units (AED), which is National Central cooling PJSC functional and presentation currency.

(b) 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 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).

(c) 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 AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 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 2021, no borrowing cost was capitalised (2020: 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.

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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.8 Leases

The Group as a lessee

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.

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.

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.

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. Right-of-use assets relate to land, plant, building and motor vehicles.

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 AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.8 Leases (continued)

The Group as a lessor (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. The Group reviews the contractual arrangements it enters into with its customers. In instances where the contract conveys the right to control the use of the identified asset for substantially all the economic benefits and the right to direct the use, such contracts are accounted for as a finance lease.

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.

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 AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

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.

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 consolidated statement of 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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

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.

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 assets.

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

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES**Notes to the consolidated financial statements****for the year ended 31 December 2021** (continued)**2.3 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 Group 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 Group 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.

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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.12 Financial instruments (continued)

Financial assets (continued)

(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 recognizing 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.

(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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.12 Financial instruments (continued)

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

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.

(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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.12 Financial instruments (continued)

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.

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.

2.3.13 Inventories

Raw materials and stores, 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.

2.3.14 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 bank 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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES**Notes to the consolidated financial statements****for the year ended 31 December 2021** (continued)**2.3 Significant accounting policies** (continued)**2.3.15 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 consolidated 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.

2.3.16 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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.17 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.

2.3.18 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 the 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.

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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES**Notes to the consolidated financial statements****for the year ended 31 December 2021** (continued)**2.3 Significant accounting policies** (continued)**2.3.18 Hedge accounting** (continued)*(a) Fair value hedges* (continued)

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.

(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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.18 Hedge accounting (continued)

(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.

The Group has 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.

2.3.19 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.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorised 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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.19 Fair value measurement (continued)

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 categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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.

2.3.20 Current versus non-current classification

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

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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.21 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 consolidated statement of profit or loss 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.

2.3.22 Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Receivables include trade receivables for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss provision. A provision for impairment of trade receivables is established based on the expected lifetime losses to be recognised from initial recognition of the receivables.

When a trade and contract receivables are uncollectible, it is written off against the provision for impairment account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement.

2.3.23 (i) Customer contracts

Customer contracts acquired in the business combination have been initially recognised at their fair value at the acquisition date. The valuation technique adopted has been the multi-period excess earning method. Subsequent to initial recognition, customer contracts are reported at cost less accumulated amortisation and accumulated impairment losses, if any.

Amortisation of customer contracts is recognised in the consolidated statement of profit or loss on a straight-line basis over their estimated useful lives. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

2.3.23 (ii) Other Contracts

Other contracts mainly represent contractual rights, acquired in the business combination which have been initially recognised at their fair value at the acquisition date. The valuation technique adopted has been the multi-period excess earning method. Subsequent to initial recognition, customer contracts are reported at cost less accumulated amortisation and accumulated impairment losses, if any.

Amortisation of other contracts is recognised in the consolidated statement of profit or loss on a straight-line basis over their estimated useful lives. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

2.3 Significant accounting policies (continued)

2.3.24 Assets classified as held for sale and discontinued operation

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the consolidated statement of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of Operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operation is presented separately in the consolidated statement of profit or loss.

2.3.25 Value added tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a net basis. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

2.3.26 Segment reporting

The Executive Management Committee is the Chief Operating Decision Maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. Also, the Group's financing (including finance costs, finance income and other income) are managed on a Group basis and are not allocated to operating segments.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

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 2021, have been adopted in these consolidated financial statements.

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2, which amends IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments complement those issued in September 2019 (endorsed in January 2020) and focus on the effects on financial statements when a Company replaces a previous interest rate benchmark with an alternative benchmark rate as a result of Interbank Offered Rates (IBOR) reform. The Phase 2 amendments are effective for the Group's fiscal year commencing 1 January 2021, and were adopted as of that date. Comparative amounts have not been restated, and there was no impact on the current period opening reserves amounts on adoption.

As of 31 December 2021, applicable interest rate benchmarks in the Group's agreements have not been replaced. As a result, the adoption of the Phase 2 amendments had no impact on the consolidated financial statements for the year ended 31 December 2021. Management will continue to monitor relevant developments and will evaluate the impact of the Phase 2 amendments on the consolidated financial statements as IBOR reform progresses.

The Group has cash flow hedge accounting relationships that are exposed to USD LIBOR. Many of the existing derivatives designated in relationships referencing LIBOR benchmarks are expected to transition to alternative benchmark in different ways and at different times. External progress on the transition to alternative benchmark is being monitored, with the objective of ensuring a smooth transition for the Group's hedge accounting relationships. The specific issues arising will vary with the details of each hedging relationship included in the designation. Some hedges may need to be de-designated and new relationships entered into, while others may survive the market-wide benchmarks reform.

The notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the Group that is expected to be directly affected by market-wide IBOR reform and in scope of Phase 1 and Phase 2 amendments. The swaps designated in hedge accounting relationships and affected by IBOR reform are presented below:

	Hedging instruments Impacted by IBOR Reform	Hedging instruments not impacted by IBOR Reform	Notional Contract Amount Impacted by IBOR Reform	Notional Contract Amount not Impacted by IBOR Reform
	AED '000	AED '000	AED '000	AED '000
Cash flow hedge:				
Interest rate swaps	63,485	(6,638)	3,209,557	156,001

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.

- Classification of Liabilities as Current or Non-current – Amendments to IAS 1 - (effective 1 January 2022)
The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (eg the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability;

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

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

- Reference to the Conceptual Framework – Amendments to IFRS 3 (effective 1 January 2022) Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date;
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28 - The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations); and
- Amendment to IAS 16 (effective 1 January 2022) The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

The Group is currently assessing the impact of these standards, and amendments on the future consolidated financial statements of the Group and intends to adopt these, if applicable, when they become effective.

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 |

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) 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).

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

2.6 Significant accounting judgements, estimates and assumptions (continued)

2.6.1 Judgments (continued)

(a) Determining lease terms (continued)

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.

(b) 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 the balance in the retained earnings. In addition, the gain/loss (if any) upon initial recognition of finance lease receivable is included in other gain and losses as management considers this as a non-core business activity.

(c) Business combinations

Accounting for the acquisition of a business requires the allocation of the purchase price to various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires judgment by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates and the useful lives of assets. The Group's management has used all available information to make these fair value determinations in the recent acquisitions of subsidiaries (Note 27).

The Group primarily considers the following information and criteria when determining whether it has control over an entity:

- governance arrangements: voting rights and whether the Group is represented in the governing bodies, majority rules and veto rights etc;
- the nature of substantive or protective rights granted to shareholders, relating to the entity's relevant activities;
- rules for appointing key management personnel; and
- whether the Group is exposed, or has rights, to variable returns from its involvement with the entity etc.

For the subsidiaries acquired during the year 2021, the management has concluded that it has control over these subsidiaries (Note 27).

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

2.6 Significant accounting judgements, estimates and assumptions (continued)

2.6.1 Judgments (continued)

(c) Business combinations (continued)

In relation to DDC (a subsidiary acquired in prior year), the Group has the right to appoint the majority of the directors who can take key decisions relating to the relevant activities of this subsidiary including expanding and acquiring other assets. Furthermore, the Group has the right to appoint all employees of this subsidiary, which provides clear evidence of operational control. The Group is directly and significantly exposed, and has rights to variable returns from this subsidiary and is able to use its power over this subsidiary to affect these returns.

Any rights provided to the minority shareholder are purely protective in nature.

Accordingly, the Group has concluded that it has control over DDC.

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 Group 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 an 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 600.1 million (2020: AED 827.6 million) and impairment loss recognised in the consolidated statement of profit or loss for the year ended 31 December 2021 was AED 1.1 million (2020: AED 5.6 million). Provision for impairment at 31 December 2021 is AED 41.7 million (2020: AED 48.9 million).

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

2.6 Significant accounting judgements, estimates and assumptions (continued)

2.6.2 Estimates and assumptions (continued)

(a) Impairment of financial assets (continued)

At the reporting date, gross finance lease receivables were AED 3,049 million (2020: AED 3,145 million) and provision for impairment at 31 December 2021 was AED 36.7 million (2020: AED 36.7 million). No impairment loss was recognised in the consolidated statement of profit or loss for the year ended 31 December 2021 (2020: nil).

(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 mainly property, plant and equipment, customer contract, and other contract assets (Note 11).

(c) COVID 19

Due to the nature of the services, the Group provides, there is no direct impact of COVID-19 on the business. However, in response to the spread of the Covid-19 in GCC and other territories where the Group operates and its resulting disruptions to the social and economic activities in those markets over the last two years, management continues to proactively assess its impacts on its operations. In particular the Group is closely monitoring the current surge in cases due to the outbreak of a new variant - Omicron.

The preventive measures taken by the Group in 2020 are still in effect including the creation of ongoing crisis management teams and processes, to ensure the health and safety of its employee and availability of uninterrupted customer service. Alternative working arrangements and social distancing measures have been made and administrative staff are working remotely as and when required.

(d) Impairment of goodwill

The Group reviews goodwill to assess impairment at least on an annual basis. In determining whether impairment losses should be recorded in the consolidated statement of profit or loss, management makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, provision for impairment is made - whenever appropriate - where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

3 Revenues

	2021 AED '000	2020 AED '000
Supply of chilled water	1,640,929	1,408,148
Value chain business	47,066	53,827
Revenue from contracts with customers	1,687,995	1,461,975
Operating lease income	77,101	77,853
Finance lease income (Note 15)	189,989	200,887
Lease income	267,090	278,740
	1,955,085	1,740,715

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

	2021 AED '000	2020 AED '000
Within one year	708,687	493,771
After one but no more than five years	2,745,216	1,906,843
More than five years	12,027,351	7,077,128
	15,481,254	9,477,742

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.

	2021 AED '000	2020 AED '000
Timing of transfer of goods and services:		
At a point in time	30,055	29,921
Over time	1,657,940	1,432,054
	1,687,995	1,461,975

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 AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

4 Operating segments (continued)

	2021				2020			
	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
Continuing operations								
Revenues								
External revenue	1,882,090	72,995	-	1,955,085	1,686,888	53,827	-	1,740,715
Inter-segment revenue	-	43,880	(43,880)	-	-	38,147	(38,147)	-
Total revenues	1,882,090	116,875	(43,880)	1,955,085	1,686,888	91,974	(38,147)	1,740,715
Direct costs	(1,038,931)	(64,142)	18,809	(1,084,264)	(856,122)	(44,081)	14,117	(886,086)
Gross profit	843,159	52,733	(25,071)	870,821	830,766	47,893	(24,030)	854,629
Impairment provision for trade receivables	(676)	(420)	-	(1,096)	(5,259)	(320)	-	(5,579)
Administrative and other expenses	(233,013)	(29,236)	15,704	(246,545)	(212,089)	(23,643)	16,746	(218,986)
Operating profit	609,470	23,077	(9,367)	623,180	613,418	23,930	(7,284)	630,064
Finance costs	(257,089)	(619)	-	(257,708)	(220,908)	(693)	-	(221,601)
Finance income	2,583	102	-	2,685	2,711	97	-	2,808
Other gains and losses, net	130,233	-	-	130,233	79,041	-	-	79,041
Share of results of associates and joint ventures	35,673	-	-	35,673	51,195	-	-	51,195
Profit from continuing operations	520,870	22,560	(9,367)	534,063	525,457	23,334	(7,284)	541,507
Profit from discontinued operation	76,682	-	-	76,682	31,963	-	-	31,963
Profit for the year	597,552	22,560	(9,367)	610,745	557,420	23,334	(7,284)	573,470

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

4 Operating segments (continued)

Inter-segment transactions are eliminated on consolidation.

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

	2021			2020		
	Chilled water	Value chain business	Total	Chilled water	Value chain business	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Depreciation on property, plant and equipment (Note 11)	184,859	3,520	188,379	163,898	3,719	167,617
Depreciation on Right-of-use asset (Note 16)	22,408	1,000	23,408	21,278	464	21,742
	207,267	4,520	211,787	185,176	4,183	189,359

Segment assets and liabilities are as follows:

	2021			2020		
	Chilled water	Value chain business	Total	Chilled water	Value chain business	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Other segment assets	14,300,835	159,702	14,460,537	12,494,881	129,917	12,624,798
Investments in associates	354,098	-	354,098	339,063	-	339,063
Investment in joint ventures	18,692	-	18,692	19,195	-	19,195
Assets held for sale	-	-	-	329,885	-	329,885
Total assets	14,673,625	159,702	14,833,327	13,183,024	129,917	13,312,941
Segment liabilities	8,377,490	80,704	8,458,194	7,372,803	64,968	7,437,771
Total liabilities	8,377,490	80,704	8,458,194	7,372,803	64,968	7,437,771

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

4 Operating segments (continued)

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

	2021			2020		
	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	<u>17,212</u>	<u>2,792</u>	<u>20,004</u>	<u>13,937</u>	<u>2,243</u>	<u>16,180</u>
Capital work in progress	<u>136,390</u>	<u>-</u>	<u>136,390</u>	<u>89,170</u>	<u>-</u>	<u>89,170</u>

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	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
United Arab Emirates	<u>1,876,397</u>	<u>1,667,824</u>	<u>11,988,169</u>	<u>9,878,249</u>
Others	<u>78,688</u>	<u>72,891</u>	<u>582,452</u>	<u>535,445</u>
	<u>1,955,085</u>	<u>1,740,715</u>	<u>12,570,621</u>	<u>10,413,694</u>

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 2021 and 31 December 2020.

	2021 AED'000	2020 AED'000
Chilled water segment:		
Customer 1	<u>346,195</u>	<u>361,148</u>
Customer 2	<u>303,565</u>	<u>206,004</u>
Customer 3	<u>183,329</u>	<u>218,046</u>
	<u>833,089</u>	<u>785,198</u>

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

5 Finance costs

	2021 AED '000	2020 AED '000
Interest charged to consolidated statement of profit or loss during the year	<u>257,708</u>	<u>221,601</u>
<i>Interest charged to consolidated statement of profit or loss comprises of:</i>		
Interest on interest bearing loans and borrowings	62,360	68,936
Profit on Sukuk	100,996	100,996
Interest on Bonds	45,913	7,620
Profit on Islamic financing arrangements	14,926	4,913
Amortisation of transaction costs (Note 19)	15,976	16,919
Finance cost related to lease liabilities (Note 17,19)	14,013	15,603
Other finance costs	3,524	6,614
	<u>257,708</u>	<u>221,601</u>

6 Profit from operations

6.1 Direct costs

	2021 AED '000	2020 AED '000
Cost of inventories recognised as an expense (i)	38,687	34,212
Depreciation of property, plant and equipment (Note 11)	179,046	157,833
Depreciation of right-of-use assets (Note 16)	15,128	12,419
Amortisation of intangible assets (Note 14)	61,385	33,030
Utility costs	646,042	521,297
Purchase of chilled water from a related party (Note 28)	62,256	62,128
Staff costs (Note 6.3)	76,622	63,306
Others	5,098	1,861
	<u>1,084,264</u>	<u>886,086</u>

(i) As at 31 December 2021, the inventory balance represents stores and spares which are utilised for repairs and maintenance of the plants managed by the Group.

6.2 Administrative and other expenses

	2021 AED '000	2020 AED '000
Staff costs (Note 6.3)	153,559	147,579
Depreciation of property, plant and equipment (Note 11)	9,333	9,784
Depreciation of right-of-use assets (Note 16)	8,280	9,323
Other expenses	75,373	52,300
	<u>246,545</u>	<u>218,986</u>

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

6 Profit from operations (continued)

6.3 Staff costs

	2021	2020
	AED '000	AED '000
Salaries, benefits and allowances	223,264	204,529
Employees' end of service benefits (Note 25)	6,917	6,356
	230,181	210,885

Staff costs are allocated as follows:

Direct costs (Note 6.1)	76,622	63,306
Administrative and other expenses (Note 6.2)	153,559	147,579
	230,181	210,885

Included in other gains and losses is an amount of AED 20 million in regard to the costs related to acquisition of subsidiaries and other cost written off related to other bids submitted during the year.

Included in other gains and losses is an amount of AED 30 million for provisions made against capital inventory.

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:

	2021	2020
	AED '000	AED '000
Profit for the year attributable to ordinary equity holders of the parent for basic earnings (AED '000)		
From continuing operations	508,474	518,379
From discontinued operation	76,682	31,963
	585,156	550,342
Weighted average number of shares (excluding treasury shares) outstanding during the year ('000)	2,772,659	2,772,659
Basic earnings per share from continuing operations (AED)	0.18	0.19
Basic earnings per share from discontinued operation (AED)	0.03	0.01
Total basic earnings per share (AED)	0.21	0.20

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 years ended 31 December 2021 and 2020.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

8 Dividends and board remuneration

On 14 February 2022, the Board of Directors resolved to recommend to the shareholders at the upcoming Annual General Assembly meeting, the distribution of cash dividends of 6.0 fils per share and bonus shares of 2.5% to the shareholders in respect of the fiscal year ended 31 December 2021.

In 2021, the Board of Directors proposed the distribution of cash dividends of 5.75 fils per share and bonus shares of 2.22% to the shareholders in respect of the fiscal year ended 31 December 2020. The shareholders at the Annual General Assembly Meeting held on 21 March 2021 approved the dividend and the bonus shares. Accordingly, the dividend amounted to AED 156.1 million and was paid in April 2021 and the bonus shares comprising 60,345,091 shares were issued in April 2021.

In 2020, the Board of Directors proposed a cash dividend of 10.5 fils per share to the shareholders in respect of the fiscal year ended 31 December 2019. The shareholders at the Annual General Assembly Meeting held on 15 March 2020 approved the dividend. The dividend amounted to AED 285.1 million and was paid in April 2020.

Furthermore, Board of Directors' remuneration of AED 7.1 million for the year ended 31 December 2020 was also approved at the Annual General Meeting held on 21 March 2021. Board remuneration of AED 7.1 million for the year ended 31 December 2019 was approved at the previous Annual General Meeting held on 15 March 2020.

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
		2021	2020	
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	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	UAE	100	100	Sale of chilled water
Tabreed Amaravati District Cooling Private Limited (TADCPL)	India	100	100	Sale of chilled water
Downtown District Cooling LLC	UAE	80	80	Sale of chilled water

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

9 Subsidiaries (continued)

Chilled water segment	Country of incorporation	Percentage of holding		Principal activities
		2021	2020	
Tabreed Sustainable City Limited	UAE	100	100	Sale of chilled water
Saadiyat District Cooling LLC	UAE	100	-	Sale of chilled water
Saadiyat Cooling LLC	UAE	100	-	Sale of chilled water
Business District Cooling Investment LLC	UAE	100	-	Sale of chilled water

Value chain business segment:	Country of incorporation	2021	2020	
Gulf Energy Systems LLC	UAE	100	100	Construction of secondary networks
Emirates Preinsulated Pipes Industries LLC	UAE	65	65	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	UAE	100	100	Water treatment services and sale chilled water related
Cooltech Water Service L.L.C.	UAE	100	100	Water treatment services and sale chilled water related
Tabreed Energy Service L.L.C.	UAE	100	100	Building energy efficiency service

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES
Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

9 Subsidiaries (continued)

Others – Unallocated:	Country of incorporation	2021	2020	
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	100	Act as a holding company
Tabreed Energy Investments Sole Proprietorship 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
Tabreed Infopark Cooling Private Limited	India	100	-	Act as a holding company
Tabreed Asia Central Cooling Company LTE PTE	Singapore	100	-	Act as a holding company
Tabreed Company for Central Cooling Services LLC (Tabreed Misr)	Egypt	99	-	Act as a holding company

During the year ended 31 December 2021, the Group purchased 100% shares in Saadiyat District Cooling LLC , 100% shares in Saadiyat Cooling LLC and 50% shares of Business District Cooling Investment LLC (BDCI), from a joint venture partner and BDCI became 100% owner of the entity (Note 27).

10 Capital work in progress

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

	2021	2020
	AED '000	AED '000
At 1 January	292,808	62,912
Additions during the year	136,359	89,170
Acquisition through business combination (Note 27)	17,463	173,820
Transfer to property, plant and equipment (Note 11)	(278,145)	(33,094)
Transfer to finance lease receivable (Note 15)	(40,469)	-
	128,016	292,808
Advances (i)	73,640	6,681
At 31 December	201,656	299,489

- (i) In December 2021, the Group signed an Agreement with a developer in Oman to acquire a district cooling plant for a value of AED 65.3 million. The payment was made in December 2021 but the transaction was not completed and was subject to finalisation of certain conditions and is therefore recorded under capital work in progress. The transaction was completed subsequent to year end and accordingly will be transferred from capital work in progress to the relevant financial position line items in the subsequent reporting period.
- (ii) Refer to note 11 for impairment indicators assessment of cash generating units.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

11 Property, plant and equipment

	Land, plant and buildings AED'000	Distribution network AED'000	Furniture and fixtures AED'000	Office equipment and instruments AED'000	Motor vehicles AED'000	Total AED'000
2021						
Cost:						
At 1 January 2021	4,326,786	2,576,593	24,004	54,538	1,329	6,983,250
Additions during the year	10,647	4,395	403	4,534	24	20,003
Acquisition through business combination (Note 27)	265,651	-	-	-	-	265,651
Transfer from capital work in progress (Note 10)	196,775	81,135	235	-	-	278,145
At 31 December 2021	4,799,859	2,662,123	24,642	59,072	1,353	7,547,049
Accumulated depreciation:						
At 1 January 2021	1,020,989	467,861	9,939	44,218	1,288	1,544,295
Depreciation for the year	123,897	59,805	1,305	3,316	56	188,379
At 31 December 2021	1,144,886	527,666	11,244	47,534	1,344	1,732,674
Net carrying amount before accumulated impairment:						
At 31 December 2021	3,654,973	2,134,457	13,398	11,538	9	5,814,375
Accumulated impairment:						
At 1 January 2021 and at 31 December 2021	527,691	473,982	-	-	-	1,001,673
Net carrying amount after accumulated impairment:						
At 31 December 2021	3,127,282	1,660,475	13,398	11,538	9	4,812,702

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

11 Property, plant and equipment (continued)

	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
2020						
Cost:						
At 1 January 2020	3,840,041	2,404,794	21,833	50,716	1,327	6,318,711
Additions for the year	8,178	4,126	66	3,810	-	16,180
Acquisition through business combination	478,503	136,741	7	12	2	615,265
Transfer from capital work in progress (Note 10)	64	30,932	2,098	-	-	33,094
At 31 December 2020	4,326,786	2,576,593	24,004	54,538	1,329	6,983,250
Accumulated depreciation:						
At 1 January 2020	917,220	408,933	8,406	40,901	1,218	1,376,678
Depreciation for the year	103,769	58,928	1,533	3,317	70	167,617
At 31 December 2020	1,020,989	467,861	9,939	44,218	1,288	1,544,295
Net carrying amount before accumulated impairment:						
At 31 December 2020	3,305,797	2,108,732	14,065	10,320	41	5,438,955
Accumulated impairment:						
At 1 January 2020 and at 31 December 2020	527,691	473,982	-	-	-	1,001,673
Net carrying amount after accumulated impairment:						
At 31 December 2020	2,778,106	1,634,750	14,065	10,320	41	4,437,282

11 Property, plant and equipment (continued)

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

	2021	2020
	AED '000	AED '000
Included in direct costs (Note 6.1)	179,046	157,833
Included in administrative and other expenses (Note 6.2)	9,333	9,784
	188,379	167,617

Property, plant and equipment of AED 339.8 million (2020: AED 310.4 million) have been pledged as security against interest-bearing loans (Note 22).

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, customer and other contracts 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, customer and other contracts 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 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 2021, no borrowing cost is capitalised (2020: nil).

12 Investments in associates

The Group has the following investments in associates:

	Country of incorporation	Principal activities	Ownership		Carrying value	
			2021	2020	2021	2020
Industrial City Cooling Company	United Arab Emirates	Sale of chilled water	20%	20%	-	4,139
Tabreed District Cooling Company (Saudi)	Kingdom of Saudi Arabia	Sale of chilled water	28%	28%	313,572	306,199
Sahara Cooling Limited	United Arab Emirates	Sale of chilled water	40%	40%	40,526	28,725
					354,098	339,063

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

	2021 AED '000	2020 AED '000
At 1 January	339,063	566,454
Share of results for the year from continuing operations	21,026	35,191
Share of results for the year from discontinued operation (i)	24,732	31,963
Additions (ii)	-	126,274
Dividends received	(8,835)	(81,776)
Share of changes in fair value of effective cash flow hedges	10,715	(4,513)
Adjustments for inter group transactions	(7,871)	(4,645)
Classified as held for sale (i)	(24,732)	(329,885)
At 31 December	354,098	339,063

Below is the movement of assets held for sale:

	2021 AED '000	2020 AED '000
At 1 January	329,885	-
Classified as held for sale	-	297,922
Share of results for the year from discontinued operation (i)	24,732	31,963
Disposed of during the year (i)	(354,617)	-
At 31 December	-	329,885

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) On 15 August 2021, the group disposed of its interest in Qatar Central Cooling Company PJSC to its existing shareholders for a consideration of AED 406.6 million (net of tax). The carrying value of investment at the time of disposal was AED 354.6 million which accordingly resulted in a gain of AED 51.95 million upon disposal, and is reported under profit from discontinued operation in the consolidated statement of profit or loss.

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for the year ended 31 December 2021 (continued)

12 Investments in associates (continued)

During the year 2020, the Group recorded acquisition of 8% additional shares purchased from an existing shareholder of Tabreed District Cooling Company (Saudi), at a price of AED 126.3 million. Accordingly, this amount was transferred from 'Advance towards investment in an associate' to 'investments in associates'. The transaction resulted in an increase in the Group's shareholding in Tabreed District Cooling Company (Saudi) from 20% to 28% in 2020.

The following illustrates summarised financial information of the Group's investments in associates. The information disclosed reflects the amounts presented in the financial statements of the relevant associates and not the Group's share of those amounts. They have been amended to reflect adjustments made by the Group when using the equity method, including fair value adjustments and premiums.

	Tabreed District Cooling Company (Saudi) AED '000	Others AED '000	Total AED '000
2021			
Total current assets	501,624	68,821	570,445
Total non-current assets	1,977,840	324,544	2,302,384
Total current liabilities	(247,702)	(35,371)	(283,073)
Total non-current liabilities	(1,111,861)	(256,678)	(1,368,539)
Net assets	1,119,901	101,316	1,221,217
Tabreed's share of net assets	313,572	40,526	354,098

	Tabreed District Cooling Company (Saudi) AED '000	Others AED '000	Total AED '000
2020			
Total current assets	726,912	66,960	793,872
Total non-current assets	1,963,654	336,911	2,300,565
Total current liabilities	(387,660)	(26,835)	(414,495)
Total non-current liabilities	(1,209,338)	(284,525)	(1,493,863)
Net assets	1,093,568	92,511	1,186,079
Tabreed's share of net assets	306,199	32,864	339,063

Reconciliation of carrying amounts

	Tabreed District Cooling Company (Saudi) AED '000	Others AED '000	Total AED '000
2021			
Opening net assets	1,093,567	92,511	1,186,078
Profit for the year	5,000	42,778	47,778
Other comprehensive income	26,100	8,518	34,618
Dividends paid	-	(24,710)	(24,710)
Other adjustments	(4,768)	(17,781)	(22,549)
Closing net assets	1,119,899	101,316	1,221,215
Tabreed's share of net assets	313,572	40,526	354,098

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for the year ended 31 December 2021 (continued)

12 Investments in associates (continued)

Reconciliation of carrying amounts (continued)

	Tabreed District Cooling Company (Saudi) AED 000'	Others AED 000'	Total AED 000'
2020			
Opening net assets	862,169	256,664	1,118,833
Profit for the year	42,436	62,260	104,696
Other comprehensive loss	(21,955)	(308)	(22,263)
Dividends paid	-	(208,460)	(208,460)
Other adjustments	210,917	(17,645)	193,272
Closing net assets	1,093,567	92,511	1,186,078
Tabreed's share of net assets	306,199	32,864	339,063
	Tabreed District Cooling Company (Saudi) AED 000'	Others AED 000'	Total AED 000'
2021			
Revenue	260,956	118,968	379,924
Cost of sales	(98,163)	(43,333)	(141,496)
Administrative and other expenses	(82,250)	(23,753)	(106,003)
Other income	2,211	121	2,332
Net finance cost	(77,754)	(9,225)	(86,979)
Profit for the year	5,000	42,778	47,778
Tabreed's share of results for the year	1,400	19,626	21,026
	Tabreed District Cooling Company (Saudi) AED 000'	Others AED 000'	Total AED 000'
2020			
Revenue	257,494	134,156	391,650
Cost of sales	(88,067)	(60,276)	(148,343)
Administrative and other expenses	(57,155)	(3,550)	(60,705)
Other loss	(1,936)	-	(1,936)
Net finance cost	(67,900)	(8,070)	(75,970)
Profit for the year	42,436	62,260	104,696
Tabreed's share of results for the year	11,882	23,309	35,191

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Notes to the consolidated financial statements

for the year ended 31 December 2021 (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 2.9 million (2020: AED 13.6 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 notes 29 and 30.

13 Investments in joint ventures

The Group has the following investments in joint ventures:

	Country of incorporation	Principal activities	Ownership		Carrying value	
			2021	2020	2021 AED 000'	2020 AED 000'
SNC Lavalin Gulf Contractors LLC (i)	United Arab Emirates	Construction business	51%	51%	18,692	18,983
Business District Cooling Investment LLC (ii)	United Arab Emirates	Sale of chilled water	100%	50%	-	212
					18,692	19,195

- (i) 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.
- (ii) On 25 October 2021, the Group acquired additional 50% of the shares of Business District Cooling Investment 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 (Note 27).

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

Movement in investments in joint ventures was as follows:

	2021 AED '000	2020 AED '000
At 1 January	19,195	39,254
Share of results for the year	14,647	16,004
Dividends paid	(5,751)	(7,750)
Share of changes in fair value of effective cash flow hedges	20,385	(23,996)
Adjustments for inter group transactions	(4,929)	(4,317)
De-recognition of investment in joint ventures and recognition as a subsidiary (Note 27)	(24,855)	-
At 31 December	18,692	19,195

Share of the joint ventures' revenues and profits:

Revenues	69,217	78,501
Profit for the year	14,647	16,004

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for the year ended 31 December 2021 (continued)

13 Investments in joint ventures (continued)

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

	2021 AED '000	2020 AED '000
Revenue	138,119	156,613
Cost of sales	(62,482)	(64,022)
Administrative and other expenses	(14,530)	(17,437)
Other income	264	18
Net finance cost	(32,064)	(43,135)
Profit for the year	29,307	32,037
Tabreed's share of results for the year	14,647	16,004

Total current assets	51,399	101,448
Total non-current assets	299	833,142
Total current liabilities	(15,536)	(243,811)
Total non-current liabilities	488	(652,389)
Net assets	36,650	38,390
Tabreed's share of net assets	18,692	19,195

Reconciliation of carrying amounts:

Opening net assets	38,389	78,508
Profit for the year	29,307	32,037
Other comprehensive income/(loss)	30,820	(47,990)
Dividends paid	(11,502)	(15,500)
Other adjustments	(655)	(8,666)
Closing net assets	86,359	38,389
De-recognition of investment in joint ventures and recognition as a subsidiary	(24,855)	-
Tabreed's share of net assets	18,692	19,195

Net assets of joint ventures include the Group's share of negative fair value of derivatives of a joint venture amounting to nil (2020: AED 56.0 million). Summarised financial information of the Group's investments in joint ventures is adjusted for intercompany transactions.

Commitments and contingent liabilities in respect of the joint ventures are disclosed in Notes 29 and 30.

14 Intangible assets
Goodwill

	2021	2020
	AED '000	AED '000
At 1 January	107,446	28,527
Acquisition through business combinations	240,288	78,919
At 31 December	347,734	107,446

	2021	2020
	AED '000	AED '000
Ian Banham & Associates	28,527	28,527
Downtown District Cooling LLC	78,919	78,919
Business District Cooling Investment LLC (Note 27)	240,288	-
	347,734	107,446

The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of the goodwill for each cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by the board covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth and inflation rates. These growth rates are consistent with forecasts from previous years and industry specific benchmarks in which each CGU operates.

Intangibles: Contracts

	2021	2020
	AED '000	AED '000
At 1 January	2,252,681	-
Acquisition through business combinations (Note 27)	1,745,422	2,285,711
Amortisation charge for the year (Note 6.1)	(61,385)	(33,030)
At 31 December	3,936,718	2,252,681

The customer contracts and contractual rights were acquired as part of a business combination. They are recognised at their fair value at the date of acquisition, and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

Refer to note 11 for impairment indicators assessment of intangible assets.

15 Finance lease receivables

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

	2021	2020
	AED '000	AED '000
At 1 January, net	3,108,650	3,144,531
Finance lease income	227,062	234,493
Variable lease payment CPI indexation	(37,073)	(33,606)
Total finance lease income (Note 3)	189,989	200,887
Initial recognition of new finance lease receivables	40,469	-
Lease rentals received	(326,830)	(318,491)
Modification of existing finance lease	-	81,723
At 31 December, net	3,012,278	3,108,650

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

	2021	2020
	AED '000	AED '000
Current assets	323,588	315,581
Non-current assets	2,688,690	2,793,069
	3,012,278	3,108,650

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

	2021		2020	
	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	336,623	323,588	328,493	315,581
After one but no more than five years	1,346,490	1,081,289	1,345,969	1,080,829
More than five years	3,428,911	1,607,401	3,755,832	1,712,240
	5,112,024	3,012,278	5,430,294	3,108,650
Unearned finance income	(2,099,746)	-	(2,321,644)	-
	3,012,278	3,012,278	3,108,650	3,108,650

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for the year ended 31 December 2021 (continued)

15 Finance lease receivables (continued)

Movement in unearned finance income was as follows:

	2021 AED '000	2020 AED '000
At 1 January	2,321,644	2,143,048
Modification of existing finance lease	-	441,074
Finance income recognised during the year	(227,062)	(234,493)
Variable lease payment CPI indexation	(29,907)	(27,985)
Relating to new finance leases	35,071	-
At 31 December	2,099,746	2,321,644

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

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.

16 Right-of-use assets

Movement in right-of-use asset was summarised as follows:

	Land, plant and buildings AED'000	Distribution network AED'000	Motor vehicles AED'000	Total AED'000
2021				
Cost:				
At 1 January 2021	239,527	45,100	10,733	295,360
Acquisition through business combination (Note 27)	-	45,660	-	45,660
Additions during the year	16,320	-	6,290	22,610
At 31 December 2021	255,847	90,760	17,023	363,630
Depreciation:				
At 1 January 2021	35,907	82	5,649	41,638
Depreciation for the year	18,384	1,777	3,247	23,408
At 31 December 2021	54,291	1,859	8,896	65,046
Net carrying amount before accumulated impairment:				
At 31 December 2021	201,556	88,901	8,127	298,584
Impairment:				
At 1 January 2021 and at 31 December 2021 (i)	88,253	-	-	88,253
Net carrying amount after accumulated impairment:				
At 31 December 2021	113,303	88,901	8,127	210,331

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for the year ended 31 December 2021 (continued)

16 Right-of-use assets (continued)

	Land, plant and buildings AED'000	Distribution network AED'000	Motor vehicles AED'000	Total AED'000
2020				
Cost:				
At 1 January 2020	238,383	-	6,033	244,416
Acquisition through business combination (Note 27)		45,100	-	45,100
Additions	1,144	-	4,700	5,844
At 31 December 2020	239,527	45,100	10,733	295,360
Depreciation:				
At 1 January 2020	17,913	-	1,983	19,896
Depreciation for the year	17,994	82	3,666	21,742
At 31 December 2020	35,907	82	5,649	41,638
Net carrying amount before accumulated impairment:				
At 31 December 2020	203,620	45,018	5,084	253,722
Impairment:				
At 1 January 2020 and at 31 December 2020	88,253	-	-	88,253
Net carrying amount after accumulated impairment:				
At 31 December 2020	115,367	45,018	5,084	165,469

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

	2021 AED '000	2020 AED '000
Included in direct costs (Note 6.1)	15,128	12,419
Included in administrative and other expenses (Note 6.2)	8,280	9,323
	23,408	21,742

17 Lease liabilities

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

	2021	2020
	AED '000	AED '000
At 1 January 2020	264,400	294,749
Addition	22,610	5,843
Accretion (Note 5)	14,013	15,603
Repayment	(53,759)	(51,795)
At 31 December 2020	247,264	264,400

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

	2021	2020
	AED '000	AED '000
Current	46,685	44,801
Non-current	200,579	219,599
	247,264	264,400

Amounts recognised in the consolidated statement of comprehensive income as follows:

The statement of comprehensive income shows the following amounts relating to leases:

	2021	2020
	AED '000	AED '000
Depreciation of right-of-use asset (Note 16)	23,408	21,742
Finance cost on lease liabilities (Note 5)	14,013	15,603
	37,421	37,345

The statement of cash flows shows the following movement relating to leases:

	2021	2020
	AED '000	AED '000
Principle elements of lease payments	39,746	36,192
Finance cost on lease liabilities (Note 5)	14,013	15,603
	53,759	51,795

18 Trade and other receivables

	2021	2020
	AED '000	AED '000
Trade receivables, net	500,936	728,055
Amounts due from related parties (Note 28)	57,523	50,642
Advances to suppliers and employees	20,540	11,171
Deposits, accruals and other receivables	97,676	96,150
Prepayments	14,332	12,449
	691,007	898,467

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for the year ended 31 December 2021 (continued)

18 Trade and other receivables (continued)

As at 31 December 2021, trade receivables with a nominal value of AED 41.7 million (2020: AED 48.9 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:

	2021 AED '000	2020 AED '000
At 1 January	48,866	61,449
Charge for the year	1,096	5,579
Amounts reversed/ written off	(8,285)	(18,162)
At 31 December	<u>41,677</u>	<u>48,866</u>

The following table details the risk profile of trade receivables and amounts due from related parties based on the Group's provision matrix. Group's provision for loss allowance is based on past due status between the Group's different customer base for majority of the customers.

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
2021								
Gross receivable (AED'000)	600,136	248,970	69,583	89,412	39,108	20,242	54,946	77,875
Provision %	6.9%	0.1%	0.2%	0.2%	1.0%	1.7%	16.7%	39.9%
Provision (AED'000)	<u>41,677</u>	<u>290</u>	<u>168</u>	<u>199</u>	<u>403</u>	<u>334</u>	<u>9,194</u>	<u>31,089</u>
Net receivable (AED'000)	<u>558,459</u>	<u>248,680</u>	<u>69,415</u>	<u>89,213</u>	<u>38,705</u>	<u>19,908</u>	<u>45,752</u>	<u>46,786</u>
2020								
Gross receivable (AED'000)	827,563	235,471	95,490	152,680	32,147	93,087	123,853	94,835
Provision %	5.6%	0.1%	0.2%	1.2%	1.5%	1.6%	14.8%	27.7%
Provision (AED'000)	<u>48,866</u>	<u>263</u>	<u>192</u>	<u>1,853</u>	<u>485</u>	<u>1,494</u>	<u>18,284</u>	<u>26,295</u>
Net receivable (AED'000)	<u>778,697</u>	<u>235,208</u>	<u>95,298</u>	<u>150,827</u>	<u>31,662</u>	<u>91,593</u>	<u>105,569</u>	<u>68,540</u>

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.

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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:

	2021 AED '000	2020 AED '000
Bank balances and cash	354,217	239,031
Bank deposits	843,056	1,073,863
Cash and cash equivalents as at 31 December	<u>1,197,273</u>	<u>1,312,894</u>

Included in the bank balances is an amount of AED 8.6 million (2020: AED 9.7 million) placed in debt service reserve accounts in relation to bank facilities and an amount of AED 3.7 million (2020: AED 4.2 million) held as cash margin against trade related bank guarantees and letters of credit.

Bank deposits attract a fixed rate of interest ranging from 0.17 % to 1.85% per annum (2020: 0.4% to 2.5% per annum).

Geographical concentration of cash and bank balances is as follows:

	2021 AED '000	2020 AED '000
Within UAE	1,166,399	1,285,785
Outside UAE	30,874	27,109
	<u>1,197,273</u>	<u>1,312,894</u>

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

	2021 AED '000	2020 AED '000
Cash and bank balances	1,197,273	1,312,894
Interest bearing loans and borrowings	(2,530,048)	(2,156,407)
Islamic financing arrangements	(941,412)	(630,681)
Non-convertible Bonds and Sukuk	(3,643,080)	(3,639,348)
Lease liabilities	(247,264)	(264,400)
Net debt	<u>(6,164,531)</u>	<u>(5,377,942)</u>

Non-cash transactions in the consolidated statement of cash flows for the year 2021:

- AED 210.3 million of right-of-use assets.
- AED 247.3 million of lease liabilities.

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for the year ended 31 December 2021 (continued)

19 Cash and bank balances (continued)

	Cash and bank balances AED'000	Interest bearing loans and borrowings AED'000	Islamic financing arrangements AED'000	Non- convertible Bonds and Sukuk AED'000	Lease liabilities AED'000	Total AED'000
Net debt						
Balance at 1 January 2021	1,312,894	(2,156,407)	(630,681)	(3,639,348)	(264,400)	(5,377,942)
Cash flows	(115,621)	(24,479)	5,115	-	53,759	(81,226)
Non-cash transaction:						
Amortisation of transaction cost (Note 5)	-	(9,725)	(2,519)	(3,732)	-	(15,976)
Addition (Note 17)	-	(339,437)	(313,327)	-	(22,610)	(675,374)
Accretion (Note 5)	-	-	-	-	(14,013)	(14,013)
Balance at 31 December 2021	<u>1,197,273</u>	<u>(2,530,048)</u>	<u>(941,412)</u>	<u>(3,643,080)</u>	<u>(247,264)</u>	<u>(6,164,531)</u>

	Cash and bank balances AED'000	Interest bearing loans and borrowings AED'000	Islamic financing arrangements AED'000	Non- convertible Sukuk AED'000	Lease liabilities AED'000	Total AED'000
Net debt						
Balance at 1 January 2020	226,902	(1,017,711)	-	(1,828,843)	(294,749)	(2,914,401)
Cash flows	1,085,992	(1,125,431)	(628,709)	(1,808,823)	51,795	(2,425,176)
Noncash transaction:						
Amortisation of transaction cost (Note 5)	-	(13,265)	(1,972)	(1,682)	-	(16,919)
Addition (Note 17)	-	-	-	-	(5,843)	(5,843)
Accretion (Note 5)	-	-	-	-	(15,603)	(15,603)
Balance at 31 December 2020	<u>1,312,894</u>	<u>(2,156,407)</u>	<u>(630,681)</u>	<u>(3,639,348)</u>	<u>(264,400)</u>	<u>(5,377,942)</u>

20 Issued capital

	2021 AED '000	2020 AED '000
Authorised, issued and fully paid up share capital		
Shares 2,775,874,215 (2020: 2,715,529,124) ordinary shares of AED 1 each (Note 8)	<u>2,775,874</u>	<u>2,715,529</u>

Total of 60,345,091 of bonus shares were issued in April 2021 (Note 8).

21 Statutory reserve

As required by the UAE Federal Law No. (2) of 2015, as amended, 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.

22 Interest bearing loans and borrowings

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

		2021 AED '000	2020 AED '000
	Effective interest rate %		
Term loan 1(i)	LIBOR + margin	1,873,755	1,864,756
Term loan 2(ii) (Note 27)	LIBOR + margin	334,297	-
Term loan 3 (iii)	EIBOR + margin	146,474	157,072
Term loan 4(iv)	5.75%	63,416	67,558
Term loan 5(v)	5.75%	51,651	-
Term loan 6(vi)	EIBOR + margin	60,455	67,021
Term loan 7(vii)	EIBOR + Margin	-	-
		<u>2,530,048</u>	<u>2,156,407</u>

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

	2021 AED '000	2020 AED '000
Current portion	35,014	23,477
Non-current portion	<u>2,495,034</u>	<u>2,132,930</u>
	<u>2,530,048</u>	<u>2,156,407</u>

(i) Term loan 1

During the year 2020, the Group secured a facility of AED 1,900.4 million (US\$ 517.4 million) from a syndicate of banks to finance the acquisition of a subsidiary. The facility carries interest rate of LIBOR plus a margin. The interest is payable in cash on a flexible basis as agreed with the Bank at every interest reset period. The facility is repayable with a 100% bullet payment in March 2025.

It is an un-secured facility, ranks pari passu with all other unsecured and unsubordinated liabilities of the Group.

(ii) Term loan 2

Term loan 2 relates to a subsidiary (Business District Cooling Investment LLC or "BDCI") and represents borrowing with a local commercial bank. The loan was acquired during 2021, as part of the business combination. The loan carries interest rate of LIBOR plus a margin, payable in cash on a quarterly basis and is secured against shares of the subsidiary pledged with the bank. The facility is repayable in semi-annual instalments with the last instalment due on 30 June 2034. During the year, total repayments of AED 5.5 million were made against this facility post acquisition.

(iii) Term loan 3

Term loan 3 relates to a subsidiary and represents borrowing with a local commercial bank. The facility amounting to AED 192.5 million was obtained to finance the construction of a 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 which commenced on March 2017 with a bullet payment of AED 48.1 million in March 2028. During the year, total repayments of AED 10.8 million were made against this facility (2020: AED 9.5 million).

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

22 Interest bearing loans and borrowings (continued)

(iv) Term loan 4

Term loan 4 relates to a subsidiary and represents borrowing with a local commercial bank. This facility is secured against the receivables and commercial charge over property, plant and equipment (plant & machinery). The loan is repayable in quarterly instalments and maturing in June 2029 and carries fixed interest of 5.75% per annum (December 2020: 5.75% per annum). During the year total repayments of AED 4.8 million were made (2020: AED 1.7 million).

(v) Term loan 5

During 2021, the Group acquired a new facility through a subsidiary which represents borrowing with a local commercial bank. This facility is secured against the receivables and commercial charge over property, plant and equipment (plant & machinery). The loan is repayable in quarterly instalments and maturing in December 2033 and carries fixed interest of 5.75% per annum (2020: nil).

(vi) Term loan 6

Term loan 6 relates to a subsidiary and represents borrowing with a local commercial bank. The facility amounting to AED 77.9 million was obtained to finance the acquisition of a 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 31 December 2031. During the year, total repayments of AED 6.7 million were made against this facility (2020: AED 2.7 million).

(vii) Term loan 7

The Group has a revolving facility of AED 590 million to be utilised in form of cash withdrawals. The revolving facility carries interest at EIBOR plus a margin and will expire on 31 December 2023. As of 30 September 2021, the Group has not utilised balance from this revolving facility. This facility is unsecured.

Included in the interest-bearing loans and borrowings is an amount of AED 31.2 million of unamortised transaction cost (2020: AED 38.4 million).

The Group has complied with all the applicable financial covenants at the reporting date.

23 Islamic financing arrangement

		2021 AED '000	2020 AED '000
Islamic financing arrangement (1)	LIBOR + margin	632,990	630,681
Islamic financing arrangement (2)	LIBOR + margin	308,422	-
		<u>941,412</u>	<u>630,681</u>

Islamic financing arrangement are allocated in the consolidated statement of financial position as follows:

	2021 AED '000	2020 AED '000
Current portion	8,418	-
Non-current portion	932,994	630,681
	<u>941,412</u>	<u>630,681</u>

Islamic financing arrangement (1)

During the year ended 31 December 2020, the Group secured a new Islamic facility of AED 641.3 million (US\$ 174.6 million) from a syndicate of banks to finance the acquisition of a subsidiary. The facility carries profit rate of LIBOR plus a margin. The profit is payable in cash on a flexible basis as agreed with the Bank at every profit reset period. The facility is repayable with a 100% bullet payment in March 2025.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

23 Islamic financing arrangement (continued)

Islamic financing arrangement (2)

During the year 2021, the Group acquired an Islamic financing facility of AED 313.3 million as part of the business combination of a subsidiary (BDCl). The facility carries profit rate of LIBOR plus a margin, payable in cash on a quarterly basis and is secured against shares of a subsidiary pledged with the bank. The facility is repayable in semi-annual instalments with the last instalment due on 30 June 2034. During the year, total repayments of AED 5.1 million were made against this facility post acquisition.

Included in the Islamic financing arrangement is an amount of AED 8.3 million of unamortised transaction cost.

The Group has complied with all the applicable financial covenants at the reporting date.

24 Non-convertible Bonds and Sukuk

Non-convertible Sukuk

2021 AED '000	2020 AED '000
<u>1,831,186</u>	<u>1,829,987</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 Bonds are repayable on 31 October 2025. The proceeds of the Bonds were utilised to repay the portion of previous Term Loans and Islamic financing arrangement.

The Sukuk is stated net of discount and transaction costs incurred in connection with the Sukuk arrangements, amounting to AED 5.3 million, which are amortised to the consolidated statement of profit or loss over the repayment period of Sukuk using effective interest rate method.

Non-convertible Bonds

2021 AED '000	2021 AED '000
<u>1,811,894</u>	<u>1,809,361</u>

During the year 2020, the Group issued 7-year investment grade Bond of US\$ 500 million which is listed on the London Stock Exchange. The Bonds carry coupon rate of 2.5% payable semi-annually. The Bonds are repayable on 31 October 2027. The proceeds of the Bonds were utilised to repay the previous Term Loan and to fund the future growth.

The Bonds are stated net of discount and transaction costs incurred in connection with the Bonds issuance, amounting to AED 24.6 million, which are amortised to the consolidated statement of profit or loss over the repayment period of the Bonds using effective interest rate method.

There are no covenants applied on non-convertible Bonds and Sukuk, as long as the Group maintains investment grade credit rating status.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

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:

	2021 AED '000	2020 AED '000
At 1 January	36,486	31,390
Charge for the year (Note 6.3)	6,917	6,356
Payments made during the year	(2,112)	(1,260)
At 31 December	41,291	36,486

26 Trade and other payables

	2021 AED '000	2020 AED '000
Non-current liabilities		
<i>Relating to capital expenditure:</i>		
Contractor payable and retentions	10,069	5,740
<i>Others:</i>		
Contract liabilities	204,990	110,987
	215,059	116,727
Current liabilities		
<i>Relating to capital expenditure:</i>		
Contractor payable and retentions	16,773	20,850
Accrued expenses	91,892	57,356
	108,665	78,206
<i>Others:</i>		
Trade payables	54,165	47,681
Due to related parties (Note 28)	26,189	35,618
Accrued expenses	322,350	209,477
Derivative financial instruments(i)	14,262	28,339
Contract liabilities	79,006	88,793
Deferred income	21,775	15,243
Dividend payable	3,058	3,058
VAT payable	2,602	8,933
Deposits	92,984	53,889
Other payables	43,721	24,485
	660,112	515,516
	768,777	593,722

(i) The Group has entered into interest rate swaps (IRS) for the interest-bearing loans denominated in AED and USD, which are designated as a hedging instrument (Note 31). During the year ended December 2021, the fair value movement of IRS amounting to AED 81.3 million was recorded in the consolidated statement of comprehensive income (2020: AED 17.0 million).

Terms and conditions of the financial liabilities:

Trade payables and other financial liabilities are non-interest bearing and are normally settled on 60-90 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.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

26 Trade and other payables (continued)

Movement in contract liabilities is as follows:

	2021	2020
	AED '000	AED '000
Contract liabilities	283,996	199,780

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

During the year ended 31 December 2021, total addition of AED 94.8 million (2020: AED 31.6 million), including AED 22.4 million made through business combination to contract liabilities. The revenue recognised during the year is AED 10.6 million (2020: AED 10.3 million).

27 Business combination

27.1 Business District Cooling Investment LLC

On 25 October 2021, the Group acquired remaining 50% of the shares of Business District Cooling Investment LLC, from a joint venture partner and became 100% owner of this entity. The acquisition has been accounted for using step acquisition method in accordance with IFRS 3 Business Combinations.

The initial accounting is based on the management's best estimate of the fair value of the assets and liabilities acquired by the Group and will be finalised within the 12 months period. The finalisation of the purchase price allocation may result in a change in the fair value of assets and liabilities acquired, and accordingly a corresponding change in the goodwill. The purchase consideration and the fair value of the identifiable assets and liabilities of the acquired entity at the date of acquisition are as follows:

	2021
	AED '000
Intangible assets: contracts (i) (Note 14)	1,122,316
Inventories	1,184
Trade and other receivables (ii)	25,286
Bank balances and cash	61,127
Derivatives	(71,263)
Trade and other payables	(103,174)
Interest bearing loans and borrowings (Note 22)	(339,437)
Islamic finance arrangements (Note 23)	(313,327)
Fair value of net assets acquired	382,712
Goodwill arising on acquisition (Note 14)	240,288
Purchase consideration	623,000
Fair value of existing 50% share holding	311,500
Less: carrying value of existing 50% investment (Note 13)	(24,855)
Less: reclassification adjustment for amounts recognized in profit or loss on derivative	(35,631)
Gain on fair valuation of existing shareholding	251,014
Cash consideration	311,500
Fair value of existing share holding	311,500
Purchase consideration	623,000

The gain resulted due to fair valuation of existing ownership of 50% of AED 251.0 million is recorded under 'other gains and losses' in the consolidated statement of profit or loss.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

27 Business combination (continued)

27.1 Business District Cooling Investment LLC (continued)

- (i) Includes customer contracts and concession right and are recorded at their fair value at the acquisition date. This represents the expected cash flows from Business District Cooling Investment LLC discounted at the target's Weighted Average Cost of Capital ("WACC"). The valuation technique adopted was multi-period excess earning method. The customer contracts and concession contract are amortised over their estimated remaining useful life.
- (ii) The fair value and the gross contractual amount for trade receivables acquired was AED 25.3 million, with no loss allowance recognised on acquisition.

Revenue and profit contribution:

The acquired business contributed revenues of AED 21.3 million and net profit of AED 2.1 million to the Group for the period from acquisition date to 31 December 2021.

If the acquisition had occurred on 1 January 2021, consolidated pro-forma revenue and profit for the year ended 31 December 2021 would have been AED 133.8 million and AED 22.1 million, respectively.

27.2 Saadiyat District Cooling and Saadiyat Cooling L.L.C

On 18 February 2021, the Group acquired 100% of the shares of Saadiyat Cooling L.L.C. and Saadiyat District Cooling L.L.C., cooling service providers in Saadiyat island in Abu Dhabi, from an Abu Dhabi based real estate developer. This acquisition has been accounted for in accordance with IFRS 3 Business Combinations.

The purchase consideration and the fair value of the identifiable assets and liabilities of the acquired entities at the date of acquisition are as follows:

	2021 AED '000
Purchase consideration	
Cash consideration	961,762
	<u>961,762</u>
Assets	
Land	55,411
Property, plant and equipment (i)	210,240
Capital work in progress (Note 8)	17,463
Intangible assets: customer contracts (ii) (Note 14)	623,106
Right-of-use assets	45,660
Trade and other receivables (iii)	63,981
Trade and other payables	<u>(54,099)</u>
Net assets acquired	<u>961,762</u>

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

27 Business combination (continued)

27.2 Saadiyat District Cooling and Saadiyat Cooling L.L.C (continued)

- (i) Property, plant and equipment are recorded at their fair value at the acquisition date.
- (ii) Customer contracts are recorded at their fair value at the acquisition date. This represents the expected cash flows from Saadiyat District Cooling and Saadiyat Cooling L.L.C discounted at the target's Weighted Average Cost of Capital ("WACC"). The valuation technique adopted was multi-period excess earning method. The customer contracts are amortised over 50 years, which represent their estimated remaining useful life.
- (iii) The fair value and the gross contractual amount for trade receivables acquired was AED 64.0 million, with no loss allowance recognised on acquisition.

Revenue and profit contribution:

The acquired business contributed revenues of AED 80.2 million and net profit of AED 26.9 million to the Group for the period from 18 February 2021 to 31 December 2021.

If the acquisition had occurred on 1 January 2021, consolidated pro-forma revenue and profit for the year ended 31 December 2021 would have been AED 89.5 million and AED 30.6 million, respectively.

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 party includes purchase and sale of chilled water and provision of management services. Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	2021		2020	
	Revenue AED '000	Direct costs AED '000	Revenue AED '000	Direct costs AED '000
Associated companies	11,245	62,256	11,336	62,128
Joint Ventures	4,975	-	4,828	-
Non-Controlling interest	321,092	-	206,004	-

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

	2021	
	Trade receivables AED '000	Trade payables and advances AED '000
Associated companies	9,666	26,189
Non-controlling interest	47,857	-
	57,523	26,189

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

28 Related party transactions and balances (continued)

	2020	
	Trade receivables AED '000	Trade payables and advances AED '000
Associated companies	7,911	35,618
Joint ventures	1,666	-
Non-controlling interest	41,065	-
	50,642	35,618

During the year ended 31 December 2021, the Group has a management and technical services agreement with a shareholder amounting to AED 3 million (2020: AED 3 million).

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:

		2021 AED '000	2020 AED '000
	Terms and conditions		
Trade receivables	Interest free, unsecured, settled over agreed payment terms	57,523	50,642
Trade payables and advances	Interest free, unsecured, settled over normal credit period	26,189	35,618

Compensation of key management personnel

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

	2021 AED '000	2020 AED '000
Short-term benefits	14,293	11,836
Employees' end of service benefits	173	172
	14,466	12,008
Number of key management personnel	5	5

29 Contingent liabilities

Bank guarantees

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

	2021 AED '000	2020 AED '000
Performance guarantees	96,508	96,991
Advance payment guarantees	633	633
Financial guarantees	50	50
	97,191	97,674

The Group's share of contingencies of associates and joint ventures as of 31 December 2021 amounted to AED 37.0 million (2020: AED 20.4 million) and AED 0.1 million (2020: AED 2.1 million), respectively. The Group expects no outflow of economic resources and accordingly no provision has been made in the consolidated financial statements.

30 Commitments

Contractual commitments

The authorised contractual commitments as at 31 December 2021, contracted but not provided for amounted to AED 195 million (2020: AED 174 million). The Group's share of authorised future capital expenditure of associates at 31 December 2021 amounted to AED 25.4 million (2020: AED 22 million) and the Group's share of authorised future capital expenditure for joint ventures amounted to nil (2020: AED 63 million).

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.

30 Commitments (continued)

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

	2021 AED '000	2020 AED '000
Within one year	77,101	77,853
After one year but not more than five years	308,406	311,411
More than five years	831,693	962,548
	<u>1,217,200</u>	<u>1,351,812</u>

31 Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise interest bearing loans and borrowings, Islamic financing, lease liabilities, non-convertible bonds and Sukuk, trade payables and due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. 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 2021 and 2020 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 2021 and 2020.

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 2021 and 2020.

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 2021 and 2020 including the effect of hedge accounting.

31 Financial risk management objectives and policies (continued)

(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 2021, after taking into account the effect of interest rate swaps, approximately 98% of the Group's borrowings are at a fixed rate of interest (2020: 97%).

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>
2021	
+100 basis point increase	(571)
-100 basis point decrease	571
2020	
+100 basis point increase	(1,948)
-100 basis point decrease	1,948

(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 accounted for 45% of outstanding trade and related party receivable balances at 31 December 2021 (2020: 3 customers, including a related party, account for approximately 55%). Amounts due in respect of finance lease receivables are from three customers (2020: three customers).

31 Financial risk management objectives and policies (continued)*(d) Credit risk* (continued)

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.

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 2021 based on undiscounted payments and current market interest rates.

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Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

31 Financial risk management objectives and policies (continued)

(e) Liquidity risk (continued)

	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	Carrying Value AED'000
Interest bearing loans and borrowings	-	21,146	87,351	2,364,287	516,155	2,988,939	2,530,048
Islamic financing arrangements	-	2,730	32,590	782,071	302,413	1,119,804	941,412
Non-convertible Bonds and Sukuk	-	-	146,920	2,323,173	1,882,413	4,352,506	3,643,080
Lease liabilities	-	12,092	36,277	185,008	64,838	298,215	247,264
Trade and retention payables, due to related parties and other financial liabilities	-	206,243	342,008	10,069	-	558,320	558,320
At 31 December 2021	-	242,211	645,146	5,664,608	2,765,819	9,317,784	7,920,124
Interest bearing loans and borrowings	-	19,078	47,942	2,170,522	192,550	2,430,092	2,156,407
Islamic financing arrangements	-	3,109	9,493	676,189	-	688,791	630,681
Non-convertible Bonds and Sukuk	-	-	146,920	2,424,180	1,928,325	4,499,425	3,639,348
Lease liabilities	-	11,749	35,247	172,909	108,064	327,969	264,400
Trade and retention payables, due to related parties and other financial liabilities	-	173,855	193,300	5,740	-	372,895	372,895
At 31 December 2020	-	207,791	432,902	5,449,540	2,228,939	8,319,172	7,063,731

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

	2021 AED '000	2020 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, Islamic financing arrangement, non-convertible bonds and Sukuk and lease liabilities less cash and bank balances. Capital includes total equity excluding non-controlling interests less cumulative changes in fair value of derivatives.

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for the year ended 31 December 2021 (continued)

31 Financial risk management objectives and policies (continued)

(f) *Capital management* (continued)

	2021 AED '000	2020 AED '000
Interest bearing loans and borrowings	2,530,048	2,156,407
Islamic financing arrangement	941,412	630,681
Non-convertible Bonds and Sukuk	3,643,080	3,639,348
Lease liabilities	247,264	264,400
	<u>7,361,804</u>	<u>6,690,836</u>
Less: cash and bank balances	<u>(1,197,273)</u>	<u>(1,312,894)</u>
Net debt	<u>6,164,531</u>	<u>5,377,942</u>
Equity attributable to equity holders of the parent	5,746,145	5,164,835
Adjustment for cumulative changes in fair values of derivatives	<u>(53,970)</u>	<u>94,078</u>
Total capital	<u>5,692,175</u>	<u>5,258,913</u>
Capital and net debt	11,856,706	10,636,855
Gearing ratio	<u>52%</u>	<u>51%</u>

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:

	2021 AED '000	2020 AED '000
Derivative financial instruments	14,262	28,339
Trade and other receivables	558,459	778,697
Finance lease receivables	3,012,278	3,108,650
Cash and bank balances	1,197,273	1,312,894
Financial assets measured at amortised cost	<u>4,768,010</u>	<u>5,200,241</u>
Trade and other payables	107,196	109,889
Interest bearing loans and borrowings	2,530,048	2,156,407
Islamic financing arrangement	941,412	630,681
Non-convertible Bonds and Sukuk	3,643,080	3,639,348
Lease liabilities	247,264	264,400
Financial liabilities measured at amortised cost	<u>7,469,000</u>	<u>6,800,725</u>

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

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

32 Financial instruments and fair value measurement (continued)

32.1 Financial instruments (continued)

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 bonds and Sukuk and lease liabilities. Set out below is a comparison of carrying amounts and fair values of such instruments:

	Carrying Amount		Fair Value	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Liabilities measured at fair value				
Interest rate swaps	14,262	28,339	14,262	28,339
Financial assets				
Finance lease receivables	3,012,278	3,108,650	3,897,725	3,949,472
Financial liabilities				
Interest bearing loans and borrowings	2,530,048	2,156,407	2,499,958	2,191,499
Islamic financing arrangement	941,412	630,681	907,887	637,162
Non-convertible bonds and Sukuk	3,643,080	3,639,348	3,891,176	3,999,860
Lease liabilities	247,264	264,400	269,774	298,214

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES PJSC

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

32 Financial instruments and fair value measurement (continued)

32.2 Fair value hierarchy

As at 31 December 2021 and 2020, the fair value measurement hierarchy of the Group's assets and liabilities is as follows:

	2021				2020			
	31 December 2021 AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	31 December 2020 AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Liabilities measured at fair value								
Interest rate swaps	14,262	-	14,262	-	28,339	-	28,339	-
Assets for which fair values are disclosed								
Finance lease receivables	3,897,725	-	-	3,897,725	3,949,472	-	-	3,949,472
Liabilities for which fair values are disclosed								
Interest bearing loans and borrowings	2,499,958	-	-	2,499,958	2,191,499	-	-	2,191,499
Islamic financing arrangement	907,887	-	-	907,887	637,162	-	-	637,162
Non-convertible bonds and Sukuk	3,891,176	3,891,176	-	-	3,999,860	3,999,860	-	-
Lease liabilities	269,774	-	-	269,774	298,214	-	-	298,214
	7,568,795	3,891,176	-	3,677,619	7,126,735	3,999,860	-	3,126,875

During the reporting years ended 31 December 2021, 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.

32 Financial instruments and 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 3,348 billion as at 31 December 2021 (2020: AED 2,574 billion).

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
2021			
Cash inflows (assets)	18,426	95,245	113,671
Cash outflows (liabilities)	(34,207)	(62,299)	(96,506)
Net cash outflows	<u>(15,781)</u>	<u>32,946</u>	<u>17,165</u>
2020			
Cash inflows (assets)	5,442	20,440	25,882
Cash outflows (liabilities)	(16,987)	(31,722)	(48,709)
Net cash outflows	<u>(11,545)</u>	<u>(11,282)</u>	<u>(22,827)</u>

All derivative contracts are with counterparty banks in UAE.