

**National Central Cooling
Company PJSC**

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Central Cooling Company PJSC (the "Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2.1 to the consolidated financial statements which indicate that as of 31 December 2010, the Group's current liabilities exceeded its current assets by AED 5.2 billion and its accumulated losses of AED 1 billion amounted to 413% of its share capital. These conditions, along with other matters as set forth in Note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis as the management supported by the Board of Directors are confident on the positive outcome of the mitigating factors as outlined in Note 2.1 of the consolidated financial statements. In particular, we note as of the date of approval of the consolidated financial statements of the Company, all the major existing lenders of the Group have unanimously approved the principal terms of an agreement to refinance AED 2.6 billion of existing liabilities and the Group announced it has reached an agreement-in-principle with a shareholder to provide up to AED 3.1 billion in new long-term capital.

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; an inventory was duly carried out and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We further report that we have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

A handwritten signature in dark ink, appearing to read 'Ernst & Young'.

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

28 March 2011
Abu Dhabi

National Central Cooling Company PJSC

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

| | Notes | 2010 AED '000 | 2009 AED '000 <i>Restated</i> |
|---|-------------|-----------------------|-------------------------------------|
| Revenue | 3 & 4 | 1,023,734 | 782,898 |
| Operating costs | 6.1 & 4 | <u>(597,361)</u> | <u>(504,788)</u> |
| GROSS PROFIT | | 426,373 | 278,110 |
| Administrative and other expenses | 6.2 | <u>(157,696)</u> | <u>(139,815)</u> |
| Other income | | <u>5,616</u> | <u>4,589</u> |
| PROFIT FROM OPERATIONS | 6 | 274,293 | 142,884 |
| Provision for doubtful debts | 18 & 34 | (2,730) | (46,644) |
| Impairment of property, plant and equipment and capital work in progress | 7 | - | (1,235,895) |
| Impairment of investment in an associate, available for sale investments and goodwill | 12, 14 & 19 | - | (12,535) |
| Finance costs | 5 | <u>(195,751)</u> | <u>(107,567)</u> |
| Interest income | | 4,408 | 4,158 |
| Changes in fair value of derivative liability | 29 | 25,300 | (16,180) |
| Changes in fair value and loss on sale of investments carried at fair value through income statement, net | | - | 1,246 |
| Share of results of associates | 12 | 42,453 | 29,794 |
| Share of results of joint ventures | 13 | <u>(1,685)</u> | <u>4,850</u> |
| PROFIT(LOSS) FOR THE YEAR | | <u>146,288</u> | <u>(1,235,889)</u> |
| Attributable to: | | | |
| Ordinary equity holders of the parent | | 136,823 | (1,118,499) |
| Non-controlling interests | | <u>9,465</u> | <u>(117,390)</u> |
| | | <u>146,288</u> | <u>(1,235,889)</u> |
| Basic and diluted earnings (loss) per share attributable to ordinary equity holders of the parent (AED) | 8 | <u>0.36</u> | <u>(2.97)</u> |

The attached notes 1 to 40 form part of these consolidated financial statements.

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

| | <i>Notes</i> | 2010 AED '000 | 2009 AED '000 |
|--|--------------|--------------------------------|--------------------------------|
| PROFIT(LOSS) FOR THE YEAR | | <u>146,288</u> | <u>(1,235,889)</u> |
| Other comprehensive income | | | |
| Changes in fair value of derivatives in cash flow hedges | 25 | 11,795 | 10,863 |
| Share of changes in fair value of derivatives of associate in cash flow hedges | 12 & 25 | (3,836) | 9,378 |
| Changes in fair value of available for sale investments | | (1,532) | 9,448 |
| Impairment loss on available for sale investment recognised in consolidated income statement | 19 & 25 | - | 4,797 |
| Exchange differences arising on translation of overseas operations | | <u>(1,618)</u> | <u>(28)</u> |
| Other comprehensive income for the year | | <u>4,809</u> | <u>34,458</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR | | <u>151,097</u> | <u>(1,201,431)</u> |
| Attributable to: | | | |
| Ordinary equity holders of the parent | | 141,632 | (1,084,041) |
| Non-controlling interests | | <u>9,465</u> | <u>(117,390)</u> |
| | | <u>151,097</u> | <u>(1,201,431)</u> |

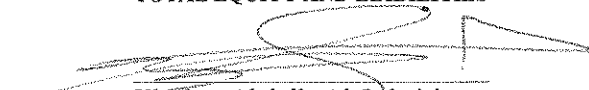
The attached notes 1 to 40 form part of these consolidated financial statements.

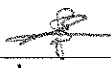
National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

| | Notes | 2010 AED '000 | 2009 AED '000 Restated |
|--|---------|-------------------------|------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Capital work in progress | 10 | 932,045 | 1,638,765 |
| Property, plant and equipment | 11 | 4,401,521 | 3,310,103 |
| Intangible assets | 14 | 37,598 | 37,600 |
| Investments in associates | 12 | 298,041 | 239,655 |
| Investments in joint ventures | 13 | 3,142 | 70,432 |
| Available for sale investments | 19 | - | 68,421 |
| Loans to associate and joint venture | 16 & 34 | 72,207 | 77,628 |
| Finance lease receivables | 17 | <u>1,194,607</u> | <u>1,135,762</u> |
| | | 6,939,161 | 6,578,366 |
| Current assets | | | |
| Inventories | | 35,796 | 36,307 |
| Accounts receivable and prepayments | 18 | 723,894 | 542,225 |
| Loan to an associate | 16 & 34 | 9,781 | 9,781 |
| Finance lease receivables | 17 | 81,888 | 33,862 |
| Contract work in progress | 20 | 40,704 | 21,392 |
| Cash and short term deposits | 21 | <u>361,815</u> | <u>304,589</u> |
| | | 1,253,878 | 948,156 |
| Assets classified as held for sale | 22 | - | 33,800 |
| TOTAL ASSETS | | <u>8,193,039</u> | <u>7,560,322</u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | 23 | 243,380 | 1,213,380 |
| Treasury shares | 24 | (2,016) | (10,050) |
| Statutory reserve | 25 | 61,115 | 47,433 |
| Accumulated losses | | (1,004,808) | (1,045,766) |
| Foreign currency translation reserve | | (2,310) | (692) |
| Cumulative changes in fair value of derivatives and available for sale investments | 25 | (71,276) | (77,703) |
| Mandatory convertible bond – equity component | 29 | 1,301,679 | 1,301,679 |
| Capital reduction reserve | 26 | <u>961,966</u> | - |
| | | 1,487,730 | 1,428,281 |
| Non - controlling interests | | <u>94,505</u> | <u>18,385</u> |
| Total equity | | <u>1,582,235</u> | <u>1,446,666</u> |
| Non-current liabilities | | | |
| Accounts payable and accruals | 32 | 65,624 | 76,608 |
| Obligations under finance lease | 30 | 34,403 | 38,004 |
| Mandatory convertible bond – liability component | 29 | - | 160,847 |
| Employees' end of service benefits | 31 | <u>14,971</u> | <u>13,923</u> |
| | | 114,998 | 289,382 |
| Current liabilities | | | |
| Bank overdraft | 21 | 53,717 | 52,007 |
| Accounts payable and accruals | 32 | 1,045,696 | 1,742,256 |
| Advances | 33 | 400,000 | 400,000 |
| Interest bearing loans and borrowings | 27 | 2,406,091 | 1,174,444 |
| Islamic financing arrangements | 28 | 2,320,683 | 2,330,327 |
| Mandatory convertible bond – liability component | 29 | 262,255 | 117,876 |
| Obligations under finance lease | 30 | <u>7,364</u> | <u>7,364</u> |
| | | 6,495,806 | 5,824,274 |
| Total liabilities | | <u>6,610,804</u> | <u>6,113,656</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>8,193,039</u> | <u>7,560,322</u> |


Khadem Abdulla Al Qubaisi
CHAIRMAN


Sujit S. Parhar
CHIEF EXECUTIVE OFFICER

The attached notes 1 to 40 form part of these consolidated financial statements.

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | Notes | 2010 AED '000 | 2009 AED '000 Restated |
|---|-------|-----------------------|------------------------------|
| OPERATING ACTIVITIES | | | |
| Profit (loss) for the year | | 146,288 | (1,235,889) |
| Non-cash adjustments to reconcile profit (loss) for the year to net cash flows: | | | |
| Depreciation of property, plant and equipment | 11 | 102,208 | 87,236 |
| Amortisation of trademarks | 14 | 2 | 3 |
| Impairment of property plant and equipment and capital work in progress | 7 | - | 1,235,895 |
| Impairment of goodwill | 14 | - | 1,275 |
| Impairment of investment in an associate | 12 | - | 6,463 |
| Impairment of available for sale investment | 19 | - | 4,797 |
| Finance income relating to finance lease receivable | 17 | (67,070) | - |
| Share of results of associates | 12 | (40,074) | (27,208) |
| Share of results of joint ventures | 13 | 1,685 | (4,850) |
| Net movement in employees' end of service benefits | 31 | 1,048 | (1,492) |
| Interest income | | (4,408) | (4,158) |
| Finance costs | 5 | 195,751 | 107,567 |
| Loss on disposal of financial assets carried at fair value through income statement | | - | 79 |
| Changes in fair value relating to financial assets carried at fair value through income statement | | - | (1,325) |
| Changes in fair value of derivative liability | 29 | (25,300) | 16,180 |
| Gain on disposal of property, plant and equipment | | - | (1,854) |
| | | <u>310,130</u> | <u>182,719</u> |
| Working capital adjustments: | | | |
| Inventories | | 511 | 41,031 |
| Trade and other receivables and prepayments | | (84,488) | (86,451) |
| Contract work in progress | | (19,312) | 186,172 |
| Accounts payable and accruals | | 23,900 | 14,282 |
| Finance lease receivables | | <u>38,681</u> | <u>-</u> |
| Net cash flows from operating activities | | <u>269,422</u> | <u>337,753</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 11 | (7,542) | (7,552) |
| Proceeds from sale of property, plant and equipment | | - | 2,288 |
| Investments in associates | 12 | (22,148) | (100) |
| Investments in joint venture | | - | (2,500) |
| Loan to joint venture | | - | (56,544) |
| Purchase of intangible assets | 14 | - | (316) |
| Proceeds on disposal of financial assets carried at fair value through income statement | | - | 60,086 |
| Advances received | 33 | - | 400,000 |
| Additions to capital work in progress | | (1,238,726) | (1,604,168) |
| Investment in bank deposits | | - | 226,788 |
| Proceeds from disposal of available for sale investments, net | | 35,342 | - |
| Repayment of loan by associate | | 5,421 | 11,164 |
| Interest received | | <u>4,408</u> | <u>4,158</u> |
| Net cash flows used in investing activities | | <u>(1,223,245)</u> | <u>(966,696)</u> |
| FINANCING ACTIVITIES | | | |
| Interest bearing loans and borrowings received | | 1,261,919 | 942,956 |
| Interest bearing loans and borrowings repaid | | (9,086) | (101,173) |
| Islamic financing arrangement repaid | | (20,000) | (405,845) |
| Islamic financing arrangement received | | - | 668,000 |
| Transaction costs on interest bearing loans and borrowings | | - | (17,388) |
| Transaction costs on Islamic financing arrangements | | - | (13,029) |
| Coupon payment of convertible bond | 29 | - | (123,250) |
| Payment for obligations under finance lease | | (3,601) | (3,268) |
| Interest paid | | (204,365) | (174,299) |
| Dividends paid to non-controlling interests | | <u>(15,528)</u> | <u>(25,991)</u> |
| Net cash flows from financing activities | | <u>1,009,339</u> | <u>746,713</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents at 1 January | | <u>252,582</u> | <u>134,812</u> |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 21 | <u>308,098</u> | <u>252,582</u> |

The attached notes 1 to 40 form part of these consolidated financial statements.

National Central Cooling Company PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

1 ACTIVITIES

National Central Cooling Company PJSC ("Tabreed" or "the Company") is registered in the United Arab Emirates as a Public Joint Stock Company pursuant to the UAE Commercial Companies Law No. 8 of 1984 (as amended) and is listed on the Dubai Financial Market. The principal activities of the Company and its subsidiaries ("the Group") are described in note 4 to the consolidated financial statements.

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2011.

2.1 FUNDAMENTAL ACCOUNTING CONCEPT

As of 31 December 2010, the Group's current liabilities exceeded its current assets by AED 5.2 billion and its accumulated losses of AED 1 billion amounted to 413% of its issued share capital.

The excess of current liabilities over current assets includes the impact of reclassification of interest bearing loans and borrowings and Islamic financing arrangements amounting to AED 1.3 billion (net of prepaid finance costs) which were due more than one year from the balance sheet date based on their respective original maturity profile but have been reclassified to current liability in the consolidated statement of financial position as at 31 December 2010. The reclassification has been made in accordance with the requirement of International Accounting Standard No.1 requiring an entity which breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability is capable of being payable on demand, to reclassify such liability as current. As at 31 December 2010, the Company had breaches in relation to its debt obligations. A breach in one debt obligation resulted in cross default provisions in other debt obligations being triggered, such that the entire debt obligations of the Group is capable of being payable on demand.

The above factors indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis based on the following mitigating factors:

1. As of the date of approval of the consolidated financial statements of the Company, no lender has requested accelerated repayment of its loans and borrowings. All the major existing lenders of the Group have unanimously approved the principal terms of an agreement to refinance AED 2.6 billion of existing liabilities and to extend a new AED 150 million revolving facility to the Group. The agreement is expected to be formally approved once the re-capitalisation programme completes.
2. As a result of the unanimous approval in (1), the Group secured an additional short term financing from Mubadala Development Company PJSC, amounting to AED 400 million in the form of an amendment to the AED existing 1.3 billion bridge loan facility provided to the Company during the year ended 31 December 2009. This bridge loan will provide the Group with funding till the Group completes its recapitalisation program.
3. On 2 March 2011 the Group announced it has reached an agreement-in-principle with Mubadala Development Company PJSC to provide up to AED 3.1 billion in new long-term capital, which once the capitalisation completes will ensure the company has the long term capital structure required to transform the business and realise disciplined growth. AED 1.7 billion of this will repay the short term financing in (2) and a further up to AED 1.4 billion will be available to fund the business through the end of 2012.
4. Expected profitability and operating cash flows in the year ending 31 December 2011, together with the short term loan in (2) and the additional capital injection in (3) above, is expected to cover funding shortfall relating to anticipated operating and capital expenditure and finance costs up to 31 December 2011; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.1 FUNDAMENTAL ACCOUNTING CONCEPT continued

5. During the year, the Company's Board of Directors convened an Extra-ordinary General Assembly (the "EGA") in compliance with the requirements of Article (285) of the UAE Commercial Companies Law of 1984 (as amended) which states that if the losses of a joint stock company amount to half its capital, the Board of Directors must call a meeting of the extra ordinary general assembly and decide whether the Company should continue or be dissolved before the duration specified in its articles.

An EGA was held on 30 May 2010 and the following resolutions were passed at that EGA:

- o Approving the continuation of the Company pursuant to Article (285) of the UAE Commercial Companies Law;
- o Granting the Board full authority to implement cancellation of up to 970 million ordinary shares of the Company of AED 1 each on a pro rata basis (note 26);
- o Granting the Board full authority to issue, or guarantee, up to AED 4.2 billion of bonds or sukuk;
- o Granting the Board full authority to enter into negotiations with creditors of the Company and the holders of the 2006 Sukuk and/or the 2008 Sukuk to revise terms and conditions;
- o Granting the Board full authority to increase the Company's share capital.

The Company's management and Board of Directors are confident on the positive outcome of the mitigating factors noted above.

Had the going concern basis not been used, adjustments would be made relating to the recoverability of recorded asset amounts, or to the amounts of liabilities to reflect the fact the Group may be required to realise its assets and extinguish its liabilities other than in the normal course of business, at amounts different from those stated in the consolidated financial statements.

2.2 BASIS OF PREPARATION

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

Statement of compliance

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of Tabreed and its subsidiaries as at 31 December each year.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.2 BASIS OF PREPARATION continued**Basis of consolidation continued**

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interests principally represent the interest in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the Company shareholders' equity. The Group's accounting policy for acquisition of non-controlling interests is using 'entity concept method'. Under this method, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid are recognised directly in equity (in accumulated losses) and attributed to the owners of the parent.

2.3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

As a result of a voluntary change in accounting policy for accounting treatment relating to joint ventures from proportionate consolidation to equity accounting method, the following adjustments were made to the comparative numbers for the year ended 31 December 2009:

| | 2009 <i>As previously Reported (Note 1)</i> AED '000 | <i>Effect of change in accounting policy</i> AED '000 | 2009 <i>As restated</i> AED '000 |
|---|--|--|--|
| <u>Consolidated income statement</u> | | | |
| Revenues | 818,704 | (35,806) | 782,898 |
| Operating cost | 535,297 | (30,509) | 504,788 |
| Administrative and other expenses | 140,280 | (465) | 139,815 |
| Interest income | 4,176 | (18) | 4,158 |
| Share of results of joint ventures | - | 4,850 | 4,850 |
| <u>Consolidated statement of financial position</u> | | | |
| Capital work in progress | 1,824,867 | (186,102) | 1,638,765 |
| Investment in joint ventures | - | 70,432 | 70,432 |
| Trade receivables and prepayments | 586,449 | (44,224) | 542,225 |
| Contract work in progress | 30,813 | (9,421) | 21,392 |
| Cash and short term deposits | 343,954 | (39,365) | 304,589 |
| Employees' end of service benefits | 16,116 | (2,193) | 13,923 |
| Accounts payable and accruals | 1,892,972 | (150,716) | 1,742,256 |

The above change in accounting policy did not have an effect on the reported loss for the year ended 31 December 2009 and therefore did not impact the earnings per share.

The statement of financial position as of 1 January 2009 has not been presented, since management believes that it is not practicable to obtain the information.

Note 1: Adjusted for reclassifications (Note 40)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the standards or interpretations is described below:

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010. The amendments to IFRS 3 and IAS 27 did not have an impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the Group.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

Issued in May 2008

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position or financial performance of the Group.

Issued in April 2009

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment is applied prospectively and has no impact on the financial position or financial performance of the Group.
- *IFRS 8 Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The amendment is applied prospectively and has no impact on the financial position or financial performance of the Group.
- *IAS 7 Statement of Cash Flows*: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will have no impact on the financial position or financial performance of the Group.
- *IAS 36 Impairment of Assets*: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

The adoption of the above standards and interpretations did not have any material effect on the financial performance or position of the Group.

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2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Judgments

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

Classification of financial instruments

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through income statement, loans, or available for sale financial assets, as appropriate.

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

IFRIC 4 Determining whether an Arrangement contains a Lease

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

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

Impairment of non financial assets – Indicators of impairment

Management determines at each balance sheet date whether there are any indicators of impairment relating to the Group's property, plant and equipment, capital work in progress and intangible assets. A broad range of internal and external factors is considered as part of the indicator review process.

Fair value of financial instruments

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

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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued**Estimates and assumptions continued***Useful lives of property, plant and equipment*

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

During the year, the estimated useful life of buildings was revised from 30 years to 50 years as a result of review of their useful life carried out by an independent consultant. The change in useful life estimate has been applied prospectively with effect from 1 January 2010. The financial impact of the change in the estimated useful life of the buildings is a reduction in the depreciation charge of AED 11 million for the year ended 31 December 2010, which has been reflected in the profit for the year.

Impairment of non-financial assets

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

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

| | 2010 | 2009 |
|-------------------------------|------------------|-----------------|
| | AED '000 | AED '000 |
| Capital work in progress | 932,045 | 1,638,765 |
| Property, plant and equipment | 4,401,521 | 3,310,103 |
| Intangible assets | 37,598 | 37,600 |

An impairment loss of AED nil (2009: AED 127.7 million) relating to property plant and equipment, AED nil (2009: AED 1,108 million) relating to capital work in progress and AED nil (2009: AED 1.3 million) relating to goodwill is recognised in the consolidated income statement for the year.

Impairment of accounts receivable, amounts due from related parties and finance lease receivable

An estimate of the collectible amount of accounts receivable, amounts due from related parties and finance lease receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade accounts receivable, amounts due from related parties and finance lease receivable were AED 597.4 million (2009: AED 484 million), AED 92.4 million (2009: AED 60.7 million) and AED 1,276 million (2009: AED 1,170 million) respectively and impairment loss recognised in the consolidated income statement for the year ended 31 December 2010 was AED 2.7 million (2009: AED 34.8 million), AED nil (2009: AED 11.8 million) and AED nil (2009: nil) respectively.

Impairment of inventories

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

At the reporting date, gross inventory was AED 36.1 million (2009: AED 36.3 million). Provision of AED 0.3 million has been made for obsolete inventories during the year ended 31 December 2010 (2009: nil). Any difference between the amounts actually realised in future periods and the amounts expected to be realised will be recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

Contracting

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

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

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

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

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

Provisions relating to contracts

The Group reviews all its contracts on a regular basis to identify any arrangements where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The Group estimates any such provision based on the facts and circumstances relevant to the contract. The Group is carrying a provision in respect of a contract amounting to AED 23 million.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

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

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

Interest revenue 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.

Where the Group determines that an agreement with a customer contains a finance lease, capacity payments are recognised as finance income using a rate of return to give constant periodic rate of return on the investment in each year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

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

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.

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

Foreign currency translation

The consolidated financial statements are presented in AED, which is the parent Company's functional and presentation currency. Functional currency is the currency of the primary economic environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and balances

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

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

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

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

ii) Group companies

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

Capital work in progress

Capital work in progress is recorded at cost incurred by the Group for the construction of the plants. 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 available for use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Borrowing costs

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated income statement as incurred. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| | |
|-------------------------------------|--------------------------------|
| Plant and related integrated assets | over 30 years |
| Buildings | over 50 years (2009: 30 years) |
| Distribution assets | over 50 years |
| Furniture and fixtures | over 3 to 4 years |
| Office equipment and instruments | over 3 to 4 years |
| Motor vehicles | over 4 to 5 years |

Estimated useful lives of the buildings have been revised during the year (note 2.4)

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

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

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

Investments in associates

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investments in associates continued

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

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

Intangible assets

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

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

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

Investments in joint ventures

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investments in joint ventures continued

The joint venture is consolidated until the date on which the Company ceases to have joint control over the joint ventures. Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Company measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in consolidated income statement. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

Assets held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

Business combinations

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

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 fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit 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, 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.

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

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Goodwill continued

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

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

Investment and other financial assets

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

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

Trade and settlement date accounting

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

Offsetting

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement.

Financial assets carried at amortised cost

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment and other financial assets continued

Financial assets carried at amortised cost continued

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of finance income in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Impairment and non collectibility of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

If such evidence exists, any impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement. Reversals of impairment in respect of equity instruments classified as available for sale are not recognised in the consolidated income statement;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition of financial instruments

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment and other financial assets continued

Derecognition of financial instruments continued

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

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Inventories

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

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

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

Contract work in progress

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

Treasury shares

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Capital reduction reserve

As a result of the Capital Reduction a new reserve (the Capital Reduction Reserve) was created and the utilisation of the Capital Reduction Reserve will be determined by the Board of Directors.

Accounts payable and accruals

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

Provisions

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

Interest bearing loans & borrowings and Islamic financing arrangements

Interest bearing loans & borrowings and Islamic financing arrangements are initially recognised at the fair values less directly attributable transaction costs.

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

Mandatory convertible bond

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

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

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

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

Leases

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

Group as lessee

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Leases continued

Group as lessor – Finance leases

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

Group as lessor – Operating leases

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

Employees' end of service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

With respect to its national employees, the Group makes contributions to the relevant UAE Government pension scheme calculated as a percentage of the employees' salaries. The obligations under these schemes are limited to these contributions, which are expensed when due.

Share-based payment transactions

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

Derivative financial instruments and hedging

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedging continued

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

Cash flow hedges

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

Amounts recognised in the statement of comprehensive income are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when the hedged financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the cumulative amounts recognised in the statement of changes in equity are transferred to the initial carrying amount of the non financial asset or liability.

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

Fair value hedges

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

Fair value of financial instruments

Financial instruments comprise financial assets and financial liabilities.

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

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

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

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. The amendment clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group has concluded that the Amendment will not have any significant impact on its financial position or performance.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have no effect on the classification and measurement of the Group's financial assets.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group unless the Group enters into any agreement in the future with its creditors which results in the extinguishment of a liability through issue of the Company's ordinary shares.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011.

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

- IAS 1: Presentation of Financial Statements
- IFRS 7: Financial Instruments: Disclosures
- IAS 27: Consolidated and Separate Financial Statements

The Group expects no significant impact from the adoption of the Standards, interpretations, amendments on its financial position or performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

3 REVENUE

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> <i>Restated</i> |
|--------------------------------|--------------------------------|---|
| Supply of chilled water | 485,675 | 296,944 |
| Finance lease income (note 17) | 67,070 | - |
| Operating lease income | 200,400 | 137,692 |
| Contracting revenue | 123,878 | 138,051 |
| Manufacturing revenue | 83,194 | 141,652 |
| Services | <u>63,517</u> | <u>68,559</u> |
| | <u>1,023,734</u> | <u>782,898</u> |

4 OPERATING SEGMENTS

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments as follows:

- The 'chilled water' segment constructs, owns, assembles, installs, operates and maintains cooling and conditioning systems. In addition, the segment distributes and sells chilled water for use in district cooling technologies.
- The 'contracting' segment is involved in construction of air conditioning chilled water central plants and networks for new or existing buildings.
- The 'manufacturing' segment is engaged in production of pre-insulated piping systems for chilled and hot water, gas and other energy related applications and provision of pipe protection services.
- The 'services' segment is involved in design and supervision of electrical, mechanical coding and sanitary engineering works.

Operating segments which have similar economic characteristics are aggregated to form the above reportable operating segments.

Management 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 operating profit or loss and is measured consistently with the Group's operating profit or loss in the consolidated financial statements. However, Group financing (including finance costs, interest income and changes in fair value of derivatives) is managed on a group basis and is not allocated to operating segments.

National Central Cooling Company PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

4 OPERATING SEGMENTS continued

| | <i>Chilled water AED '000</i> | <i>Contracting AED '000</i> | <i>Manufacturing AED '000</i> | <i>Services AED '000</i> | <i>Eliminations AED '000</i> | <i>Total AED '000</i> |
|---|---------------------------------------|---------------------------------|-----------------------------------|------------------------------|----------------------------------|---------------------------|
| Year ended 31 December 2010: | | | | | | |
| Revenue | | | | | | |
| External revenue | 753,145 | 123,878 | 83,194 | 63,517 | - | 1,023,734 |
| Inter-segment revenue | <u>150</u> | <u>8,401</u> | <u>12,658</u> | <u>12,796</u> | <u>(34,005)</u> | <u>-</u> |
| Total revenue | 753,295 | 132,279 | 95,852 | 76,313 | (34,005) | 1,023,734 |
| Operating costs | (432,672) | (101,200) | (67,672) | (27,888) | 32,071 | (597,361) |
| Gross profit | 320,623 | 31,079 | 28,180 | 48,425 | (1,934) | 426,373 |
| Results | | | | | | |
| Segment results | <u>206,261</u> | <u>24,877</u> | <u>18,546</u> | <u>27,042</u> | <u>(2,433)</u> | <u>274,293</u> |
| Provision for doubtful debts | - | (85) | (21) | (2,624) | - | (2,730) |
| Finance costs | - | - | - | - | - | (195,751) |
| Changes in fair value of derivative liability | - | - | - | - | - | 25,300 |
| Interest income | - | - | - | - | - | 4,408 |
| Share of results of associates | 42,453 | - | - | - | - | 42,453 |
| Share of results of joint ventures | (1,685) | - | - | - | - | (1,685) |
| Profit for the year | | | | | | 146,288 |

Year ended 31 December 2009:

| | | | | | | |
|---|----------------|----------------|----------------|---------------|-----------------|--------------------|
| Revenue | | | | | | |
| External revenue (restated) | 434,636 | 138,051 | 141,652 | 68,559 | - | 782,898 |
| Inter-segment revenue | <u>325</u> | <u>40,107</u> | <u>3,627</u> | <u>15,110</u> | <u>(59,169)</u> | <u>-</u> |
| Total revenue | 434,961 | 178,158 | 145,279 | 83,669 | (59,169) | 782,898 |
| Operating costs | (269,161) | (155,038) | (99,799) | (32,113) | 51,323 | (504,788) |
| Gross profit | 165,800 | 23,120 | 45,480 | 51,556 | (7,846) | 278,110 |
| Results | | | | | | |
| Segment results | <u>62,511</u> | <u>20,071</u> | <u>37,730</u> | <u>28,327</u> | <u>(5,755)</u> | <u>142,884</u> |
| Provision for doubtful debts | (30,028) | (122) | - | (16,494) | - | (46,644) |
| Impairment of property plant and equipment | (127,675) | - | - | - | - | (127,675) |
| Impairment of capital work in progress | (1,108,220) | - | - | - | - | (1,108,220) |
| Finance costs | - | - | - | - | - | (107,567) |
| Impairment of investment in an associate | (6,463) | - | - | - | - | (6,463) |
| Impairment of available for sale investment | - | - | - | - | - | (4,797) |
| Impairment of goodwill | (316) | (959) | - | - | - | (1,275) |
| Changes in fair value of derivative liability | - | - | - | - | - | (16,180) |
| Interest income | - | - | - | - | - | 4,158 |
| Changes in fair value of investments, net | - | - | - | - | - | 1,246 |
| Share of results of associates | 29,794 | - | - | - | - | 29,794 |
| Share of results of joint venture | 4,850 | - | - | - | - | 4,850 |
| Loss for the year | | | | | | (1,235,889) |

Inter-segment revenues are eliminated on consolidation.

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

| | <i>Chilled water AED '000</i> | <i>Contracting AED '000</i> | <i>Manufacturing AED '000</i> | <i>Services AED '000</i> | <i>Total AED '000</i> |
|------------------------------------|---------------------------------------|---------------------------------|-----------------------------------|------------------------------|---------------------------|
| Year ended 31 December 2010 | 95,769 | 137 | 5,785 | 519 | 102,210 |
| Year ended 31 December 2009 | 80,977 | 7 | 5,692 | 563 | 87,239 |

National Central Cooling Company PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

4 OPERATING SEGMENTS continued

Segment assets and liabilities are as follows:

| | <i>Chilled water AED '000</i> | <i>Contracting AED '000</i> | <i>Manufacturing AED '000</i> | <i>Services AED '000</i> | <i>Unallocated AED '000</i> | <i>Total AED '000</i> |
|-------------------------------|---------------------------------------|---------------------------------|-----------------------------------|------------------------------|---------------------------------|---------------------------|
| 2010: | | | | | | |
| Segment assets | 7,536,344 | 111,411 | 124,331 | 99,452 | - | 7,871,538 |
| Investments in associates | 298,041 | - | - | - | - | 298,041 |
| Investments in joint ventures | 3,142 | - | - | - | - | 3,142 |
| Unallocated assets | - | - | - | - | 20,318 | 20,318 |
| Total assets | <u>7,837,527</u> | <u>111,411</u> | <u>124,331</u> | <u>99,452</u> | <u>20,318</u> | <u>8,193,039</u> |
| Segment liabilities | 1,389,940 | 105,468 | 13,249 | 17,634 | - | 1,526,291 |
| Unallocated liabilities | - | - | - | - | 5,084,513 | 5,084,513 |
| Total liabilities | <u>1,389,940</u> | <u>105,468</u> | <u>13,249</u> | <u>17,634</u> | <u>5,084,513</u> | <u>6,610,804</u> |
| 2009: | | | | | | |
| Segment assets | 6,753,703 | 138,041 | 139,596 | 102,726 | - | 7,134,066 |
| Investments in associates | 239,655 | - | - | - | - | 239,655 |
| Investments in joint ventures | 70,432 | - | - | - | - | 70,432 |
| Unallocated assets | - | - | - | - | 116,169 | 116,169 |
| Total assets | <u>7,063,790</u> | <u>138,041</u> | <u>139,596</u> | <u>102,726</u> | <u>116,169</u> | <u>7,560,322</u> |
| Segment liabilities | 1,919,543 | 271,368 | 13,531 | 28,345 | - | 2,232,787 |
| Unallocated liabilities | - | - | - | - | 3,880,869 | 3,880,869 |
| Total liabilities | <u>1,919,543</u> | <u>271,368</u> | <u>13,531</u> | <u>28,345</u> | <u>3,880,869</u> | <u>6,113,656</u> |

Segment assets do not include available for sale investments of AED nil (2009: AED 68,421 thousand) and bank deposits AED 20,318 (2009: AED 47,748 thousand) as these assets are managed on a group basis.

Segment liabilities do not include interest bearing loans and borrowings of AED 2,406,091 thousand (2009: AED 1,174,444 thousand), Islamic financing arrangements AED 2,320,683 thousand (2009: AED 2,330,327 thousand), obligations under finance lease AED 41,767 thousand (2009: AED 45,368 thousand), convertible bond – liability component AED 262,255 thousand (2009: AED 278,723 thousand) and bank overdraft AED 53,717 thousand (2009: AED 52,007 thousand) as these liabilities are managed on a group basis.

| | <i>Chilled water AED '000</i> | <i>Contracting AED '000</i> | <i>Manufacturing AED '000</i> | <i>Services AED '000</i> | <i>Total AED '000</i> |
|--|---------------------------------------|---------------------------------|-----------------------------------|------------------------------|---------------------------|
| <i>Other information:</i> | | | | | |
| 2010: | | | | | |
| <i>Capital expenditure:</i> | | | | | |
| Property, plant and equipment | <u>6,979</u> | <u>218</u> | <u>110</u> | <u>235</u> | <u>7,542</u> |
| Capital work in progress | <u>590,183</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>590,183</u> |
| 2009: | | | | | |
| <i>Capital expenditure:</i> | | | | | |
| Property, plant and equipment | <u>3,814</u> | <u>-</u> | <u>3,361</u> | <u>377</u> | <u>7,552</u> |
| Capital work in progress (<i>restated</i>) | <u>2,297,349</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,297,349</u> |
| Intangible asset | <u>316</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>316</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

4 OPERATING SEGMENTS continued**Geographic information**

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

| | <i>Revenue</i> | | <i>Non-current assets</i> | |
|----------------------|------------------|-----------------|---------------------------|------------------|
| | <i>2010</i> | <i>2009</i> | <i>2010</i> | <i>2009</i> |
| | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> |
| | | <i>Restated</i> | | <i>Restated</i> |
| United Arab Emirates | 1,013,219 | 779,191 | 6,118,094 | 5,812,932 |
| Others | <u>10,515</u> | <u>3,707</u> | <u>447,677</u> | <u>309,298</u> |
| | <u>1,023,734</u> | <u>782,898</u> | <u>6,565,771</u> | <u>6,122,230</u> |

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

Revenue from external customers

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

| | <i>Chilled water</i> | <i>Contracting</i> | <i>Manufacturing</i> | <i>Services</i> | <i>Total</i> |
|-------------------------------------|----------------------|--------------------|----------------------|-----------------|-----------------|
| | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> |
| <i>Year ended 31 December 2010:</i> | | | | | |
| Customer 1 | 260,867 | 25,560 | - | - | 286,427 |
| Customer 2 | <u>150,719</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>150,719</u> |
| | <u>411,586</u> | <u>25,560</u> | <u>-</u> | <u>-</u> | <u>437,146</u> |
| <i>Year ended 31 December 2009:</i> | | | | | |
| Customer 1 | 237,043 | 48,013 | - | - | 285,056 |
| Customer 3 | <u>-</u> | <u>79,998</u> | <u>-</u> | <u>-</u> | <u>79,998</u> |
| | <u>237,043</u> | <u>128,011</u> | <u>-</u> | <u>-</u> | <u>365,054</u> |

5 FINANCE COSTS

| | <i>2010</i> | <i>2009</i> |
|--|-----------------|-----------------|
| | <i>AED '000</i> | <i>AED '000</i> |
| Interest on interest bearing loans and borrowings and overdrafts | 125,417 | 49,731 |
| Rental charges on Islamic financing arrangements | 67,126 | 54,392 |
| Interest element of finance lease | <u>3,208</u> | <u>3,444</u> |
| | <u>195,751</u> | <u>107,567</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

6 PROFIT FROM OPERATIONS**6.1 Operating costs**

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> <i>Restated</i> |
|---|--------------------------------|---|
| Costs of inventories recognised as an expense | 56,287 | 89,447 |
| Contract costs | 92,434 | 112,610 |
| Depreciation | 95,049 | 80,083 |
| Utility costs | 191,242 | 81,283 |
| Purchase of chilled water (note 34) | 89,834 | 85,074 |
| Chiller rental costs | 35,864 | 2,998 |
| Others | <u>36,651</u> | <u>53,293</u> |
| | <u>597,361</u> | <u>504,788</u> |

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> <i>Restated</i> |
|--|--------------------------------|---|
|--|--------------------------------|---|

6.2 Administrative and other expenses

| | | |
|---|-----------------------|-----------------------|
| Staff costs | 96,827 | 93,720 |
| Depreciation and amortisation | 7,161 | 7,156 |
| Other administrative and general expenses | <u>53,708</u> | <u>38,939</u> |
| | <u>157,696</u> | <u>139,815</u> |

7 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND CAPITAL WORK IN PROGRESS

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> |
|---|--------------------------------|--------------------------------|
| Impairment of property, plant and equipment (note 11) | - | 127,675 |
| Impairment of capital work in progress (note 10) | <u>-</u> | <u>1,108,220</u> |
| | <u>-</u> | <u>1,235,895</u> |

In 2009, the unprecedented events in the global economy had a significant impact on the real estate sector in the UAE and GCC. As a result, the management undertook a strategic review of all its projects with the view of assessing the impact of the global downturn on the recoverable amount of the Group's property, plant and equipment and capital work in progress.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

7 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND CAPITAL WORK IN PROGRESS continued

In 2010, management reviewed and updated the assumptions in the strategic review conducted in 2009 and determined no additional impairment is required in 2010.

Key assumptions used in value in use calculations

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

- 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 not contracted at the year end and 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;
- Discount rate; and
- Terminal value of distribution assets and buildings.

Revenue estimates are based on management's view of the demand for the chilled water. To the extent possible, these estimates are corroborated based on discussions with existing and potential customers. Cash inflows are based on the term of the existing contracts with the respective customers extended to the period of the remaining useful life of the plant (i.e. 30 years). An inflation rate of 3% is applied to the cash flows.

Cost of construction relating to capital work in progress (i.e. plant and equipment under construction) is based on contracts signed to date and estimate of cost required to complete.

Discount rate is based on the Company's WACC (i.e. weighted average cost of capital). This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. The Company applied a WACC of 8.5% (2009: 8.5%) for the purpose of the value in use calculation.

8 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Basic and diluted earnings (loss) per share are calculated by dividing the profit (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of mandatory convertible bond.

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

| | <i>2010</i> | <i>2009 Restated</i> |
|---|----------------|--------------------------|
| Profit (loss) for the year attributable to ordinary equity holders of the parent for basic and diluted earnings (loss) (AED '000) | <u>136,823</u> | <u>(1,118,499)</u> |
| Weighted average number of ordinary shares (excluding treasury shares) outstanding during the year ('000) | <u>241,364</u> | <u>241,364</u> |
| Effect of convertible bond ('000) | <u>135,313</u> | <u>135,313</u> |
| Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of convertible bond ('000) | <u>376,677</u> | <u>376,677</u> |
| Basic and diluted earnings (loss) per share (AED) | <u>0.36</u> | <u>(2.97)</u> |

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8 BASIC AND DILUTED EARNINGS (LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT continued

Basic and diluted earnings (loss) per share has been calculated on the basis of maximum number of shares that may be issued for mandatory convertible bond (note 29).

The weighted average number of ordinary shares outstanding for the year ended 31 December 2009 has been adjusted for the effect of reduction in share capital during the year (note 23).

9 SUBSIDIARIES

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

| | <i>Country of incorporation</i> | <i>Percentage of holding 2010</i> | <i>2009</i> |
|--|-------------------------------------|---------------------------------------|-------------|
| Gulf Energy Systems LLC | UAE | 100 | 100 |
| National Central Cooling Company Ras Al Khaimah LLC | UAE | 100 | 100 |
| Emirates Preinsulated Pipes Industries LLC | UAE | 60 | 60 |
| Installation Integrity 2000 LLC | UAE | 60 | 60 |
| CoolTech Energy Water Treatment LLC (formerly BAC Balticare Gulf LLC) | UAE | 100 | 100 |
| Summit District Cooling Company | UAE | 100 | 100 |
| Bahrain District Cooling Company (Note 1) | Bahrain | 90 | 74 |
| Ian Banham and Associates | UAE | 70 | 70 |
| Tabreed Holdings WLL | Bahrain | 100 | 100 |
| Tabreed LLC Oman | Oman | 100 | 100 |
| Tabreed Captive Insurance Company B.S.C. | Bahrain | 100 | 100 |
| Installation Integrity 2006 WLL | Qatar | 52 | 52 |
| Tabreed Oman SAOC | Oman | 60 | 60 |
| Sahara Cooling and Air Conditioning LLC | UAE | 51 | 51 |

Note 1- During the year, the Company acquired an additional 16.3% shareholding interest in an existing subsidiary. This resulted in increase in the Company's holding in that subsidiary from 74% to 90.3%.

Consideration paid (in the form of conversion of outstanding loans and advances into equity) to acquire the additional interest in the subsidiary and carrying value of net assets acquired from non-controlling interests were AED 106.9 million and AED 24.7 million respectively. The difference of AED 82.2 million between the consideration and carrying value of the interest acquired has been recognised in accumulated losses within equity.

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10 CAPITAL WORK IN PROGRESS

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

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> <i>Restated</i> |
|---|--------------------------------|---|
| Balance at 1 January | 1,578,083 | 2,472,294 |
| Additions during the year | 590,183 | 2,297,349 |
| Impairment during the year (note 7) | - | (1,108,220) |
| Transfer to finance lease receivable (note 17) | - | (1,169,624) |
| Transfer to a joint venture | - | (22,407) |
| Transfer to property, plant and equipment (note 11) | <u>(1,264,566)</u> | <u>(891,309)</u> |
| | 903,700 | 1,578,083 |
| Advances to contractors | <u>28,345</u> | <u>60,682</u> |
| Balance at 31 December | <u>932,045</u> | <u>1,638,765</u> |

The receivables relating to capital work in progress balance have been assigned as security against certain interest bearing loans and borrowings and Islamic financing arrangements. The capital work in progress balance subject to this arrangement amounts to AED 487.1 million (2009: AED 1,229 million).

Included in additions to capital work in progress are capitalised financing costs amounting to AED 87 million (2009: AED 109 million).

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11 PROPERTY, PLANT AND EQUIPMENT

| | <i>Land, plant and buildings AED '000</i> | <i>Distribution network AED '000</i> | <i>Furniture and fixtures AED '000</i> | <i>Office equipment and instruments AED '000</i> | <i>Motor vehicles AED '000</i> | <i>Total AED '000</i> |
|---|---|--|--|--|--|---------------------------|
| 2010 | | | | | | |
| Cost: | | | | | | |
| At 1 January 2010 | 2,689,938 | 1,020,271 | 9,256 | 27,306 | 1,673 | 3,748,444 |
| Additions | 992 | - | 3,381 | 3,169 | - | 7,542 |
| Transfer from capital work in progress (note 10) | 599,277 | 665,289 | - | - | - | 1,264,566 |
| Transfer to finance lease receivables (note 17) | <u>(58,380)</u> | <u>(26,360)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(84,740)</u> |
| At 31 December 2010 | <u>3,231,827</u> | <u>1,659,200</u> | <u>12,637</u> | <u>30,475</u> | <u>1,673</u> | <u>4,935,812</u> |
| Depreciation: | | | | | | |
| At 1 January 2010 | 224,199 | 60,176 | 7,401 | 17,347 | 1,346 | 310,469 |
| Depreciation for the year | 70,065 | 22,986 | 3,563 | 5,479 | 115 | 102,208 |
| Transfer to finance lease receivables (note 17) | <u>(4,951)</u> | <u>(1,307)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(6,258)</u> |
| At 31 December 2010 | <u>289,313</u> | <u>81,855</u> | <u>10,964</u> | <u>22,826</u> | <u>1,461</u> | <u>406,419</u> |
| Net carrying amount before impairment: | | | | | | |
| At 31 December 2010 | <u>2,942,514</u> | <u>1,577,345</u> | <u>1,673</u> | <u>7,649</u> | <u>212</u> | <u>4,529,393</u> |
| Impairment | | | | | | |
| At 1 January 2010 and at 31 December 2010 | <u>89,550</u> | <u>38,322</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>127,872</u> |
| Net carrying amount after impairment: | | | | | | |
| At 31 December 2010 | <u>2,852,964</u> | <u>1,539,023</u> | <u>1,673</u> | <u>7,649</u> | <u>212</u> | <u>4,401,521</u> |
| 2009 | | | | | | |
| Cost: | | | | | | |
| At 1 January 2009 | 2,109,995 | 705,120 | 9,023 | 23,772 | 2,737 | 2,850,647 |
| Additions | 3,785 | - | 233 | 3,534 | - | 7,552 |
| Transfer from capital work in progress (note 10) | 576,158 | 315,151 | - | - | - | 891,309 |
| Disposals | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,064)</u> | <u>(1,064)</u> |
| At 31 December 2009 | <u>2,689,938</u> | <u>1,020,271</u> | <u>9,256</u> | <u>27,306</u> | <u>1,673</u> | <u>3,748,444</u> |
| Depreciation: | | | | | | |
| At 1 January 2009 | 162,402 | 40,860 | 6,508 | 12,610 | 1,483 | 223,863 |
| Depreciation for the year | 61,797 | 19,316 | 893 | 4,737 | 493 | 87,236 |
| Depreciation relating to disposals | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(630)</u> | <u>(630)</u> |
| At 31 December 2009 | <u>224,199</u> | <u>60,176</u> | <u>7,401</u> | <u>17,347</u> | <u>1,346</u> | <u>310,469</u> |
| Net carrying amount before impairment: | | | | | | |
| At 31 December 2009 | <u>2,465,739</u> | <u>960,095</u> | <u>1,855</u> | <u>9,959</u> | <u>327</u> | <u>3,437,975</u> |
| Impairment: | | | | | | |
| At 1 January 2009 | 197 | - | - | - | - | 197 |
| Impairment during the year (note 7) | <u>89,353</u> | <u>38,322</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>127,675</u> |
| At 31 December 2009 | <u>89,550</u> | <u>38,322</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>127,872</u> |
| Net carrying amount after impairment: | | | | | | |
| At 31 December 2009 | <u>2,376,189</u> | <u>921,773</u> | <u>1,855</u> | <u>9,959</u> | <u>327</u> | <u>3,310,103</u> |

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11 PROPERTY, PLANT AND EQUIPMENT continued

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

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> |
|--|--------------------------------|--------------------------------|
| Included in operating costs (note 6.1) | 95,049 | 80,083 |
| Included in administrative and other expenses (note 6.2) | <u>7,159</u> | <u>7,153</u> |
| | <u>102,208</u> | <u>87,236</u> |

The receivables relating to plant and distribution network have been assigned as security against certain interest bearing loans and borrowings and Islamic financing arrangements. The plant and distribution network balance subject to this arrangement amounts to AED 3,285 million (2009: AED 2,364 million).

Net book value of plant amounting to AED 50 million (2009: AED 54.3 million) are held under finance lease. The leased assets are pledged as security for the related finance lease (note 30).

12 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

| | <i>Country of incorporation</i> | <i>2010</i> | <i>Ownership</i> <i>2009</i> |
|--|---------------------------------|-------------|---------------------------------|
| Industrial City Cooling Company | United Arab Emirates | 20% | 20% |
| Qatar Central Cooling Company PJSC | State of Qatar | 44% | 44% |
| Tabreed District Cooling Company (Saudi) | Kingdom of Saudi Arabia | 25% | 25% |
| Sahara Cooling Limited | United Arab Emirates | 40% | 40% |
| Cool Tech Qatar | State of Qatar | 49% | 49% |

Movement in investment in associates is as follows:

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> |
|--|--------------------------------|--------------------------------|
| At 1 January | 239,655 | 243,232 |
| Capital injection | 22,148 | 100 |
| Share of results for the year | 40,074 | 27,208 |
| Share of changes in fair value of effective cash flow hedges | (3,836) | 9,378 |
| Transfer to asset held for sale (note 22) | - | (33,800) |
| Impairment during the year | <u>-</u> | <u>(6,463)</u> |
| At 31 December | <u>298,041</u> | <u>239,655</u> |

During 2010, the Company made an additional investment of AED 22.1 million in Tabreed District Cooling Company (Saudi), to contribute to its share in increase in share capital required for a specific project.

The associates are involved in the same business activity as Tabreed. The reporting dates for the associates are identical to Tabreed.

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12 INVESTMENTS IN ASSOCIATES continued

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

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> |
|---|--------------------------------|--------------------------------|
| Share of the associates' statement of financial position: | | |
| Current assets | 178,523 | 198,168 |
| Non-current assets | 810,669 | 739,982 |
| Current liabilities | (140,435) | (135,790) |
| Non-current liabilities | (540,538) | (550,359) |
| Loan from shareholders | <u>(10,178)</u> | <u>(12,346)</u> |
| Net assets | <u>298,041</u> | <u>239,655</u> |
| Share of the associates' revenues and results: | | |
| Revenues | <u>134,412</u> | <u>103,597</u> |
| Results (as adjusted by profit resulting from transactions between the Company and the associates amounting to AED 2.4 million (2009: AED 2.6 million)) | <u>42,453</u> | <u>29,794</u> |

Net assets of associates include the Company's share of negative fair value of derivatives of associates amounting to AED 13.8 million (2009: AED 10 million).

Management believes that the carrying value of the investments will be realised in full.

13 INVESTMENTS IN JOINT VENTURES

The Company has the following investments in joint ventures:

| | <i>Country of incorporation</i> | <i>2010</i> | <i>Ownership</i> <i>2009</i> |
|---------------------------------------|---------------------------------|-------------|---------------------------------|
| SNC Lavalin Gulf Contractors LLC | United Arab Emirates | 51% | 51% |
| S&T Cool District Cooling Company LLC | United Arab Emirates | 50% | 50% |

SNC Lavalin Gulf Contractors LLC (SLGC), a limited liability company is involved in engineering, procurement, construction and construction management in the field of District Cooling.

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

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

The Company changed its accounting policy for accounting joint ventures from proportionate consolidation to equity method. The change in accounting policy has been retrospectively applied with comparatives restated. The change in accounting policy is designed to provide greater clarity and more relevant information regarding the Group's core chilled water business.

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13 INVESTMENTS IN JOINT VENTURES continued

Movement in investments in joint ventures is as follows:

| | 2010 AED '000 | 2009 AED '000 |
|--|------------------|------------------|
| At 1 January | 70,432 | 67,027 |
| Capital injection | - | 2,500 |
| Share of results for the year | (3,909) | 1,975 |
| Dividend received during the year | (61,927) | - |
| Adjustments for inter group profits | <u>(1,454)</u> | <u>(1,070)</u> |
| At 31 December | <u>3,142</u> | <u>70,432</u> |
| Share of the joint ventures' revenues and profits: | | |
| Revenues | <u>102,486</u> | <u>249,848</u> |
| (Loss) profit for the year | <u>(1,685)</u> | <u>4,850</u> |

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

| | 2010 AED '000 | 2009 AED '000 |
|---|------------------|------------------|
| Tabreed's share of the assets and liabilities of the joint ventures are as follows: | | |
| Current assets | 192,461 | 318,317 |
| Non-current assets | 160,263 | 102,789 |
| Current liabilities | (241,578) | (291,940) |
| Non-current liabilities | (79,732) | (30,462) |
| Loan from shareholders | <u>(28,272)</u> | <u>(28,272)</u> |
| Total net assets | <u>3,142</u> | <u>70,432</u> |

The balance amount of AED 2.2 million loss (2009: AED 2.9 million loss) has been debited to the capital work in progress balance as at 31 December 2010 as it relates to construction activity for the Company's plants.

14 INTANGIBLE ASSETS

| | Goodwill | | Trademarks | | Total | |
|----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2010 AED '000 | 2009 AED '000 | 2010 AED '000 | 2009 AED '000 | 2010 AED '000 | 2009 AED '000 |
| Balance at 1 January | 37,596 | 38,555 | 4 | 7 | 37,600 | 38,562 |
| Additions during the year | - | 316 | - | - | - | 316 |
| Impairment during the year | - | (1,275) | - | - | - | (1,275) |
| Amortisation for the year | <u>-</u> | <u>-</u> | <u>(2)</u> | <u>(3)</u> | <u>(2)</u> | <u>(3)</u> |
| Balance at 31 December | <u>37,596</u> | <u>37,596</u> | <u>2</u> | <u>4</u> | <u>37,598</u> | <u>37,600</u> |

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15 IMPAIRMENT TESTING OF GOODWILL

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

| | 2010 AED '000 | 2009 AED '000 |
|----------------------------------|----------------------|----------------------|
| Ian Banham & Associates | 27,711 | 27,711 |
| Tabreed 1 District Cooling Plant | 9,712 | 9,712 |
| Other | <u>173</u> | <u>173</u> |
| Total | <u>37,596</u> | <u>37,596</u> |

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

- Ian Banham & Associates cash-generating unit relating to goodwill arising from acquisition of equity interest in Ian Banham & Associates; and
- Tabreed 1 District Cooling Plant relating to goodwill arising from acquisition of Gulf Energy Systems.

Ian Banham & Associates

The recoverable amount of Ian Banham & Associates unit has been determined based on a value in use calculation using revenue and cost cash flow projections approved by the board of directors to cover a five-year period ending 31 December 2015. The discount rate applied to the cash flow projections is 25% (2009: 25%). Revenue is earned from projects supervision and study and design contracts. The revenue in the five year cash flow model reflects management estimates of projected revenue on a conservative basis. Contract costs primarily represent salaries and related benefits of technical staff such as engineers and other administrative costs. Such costs are included in the model based on current expected market trend. The cash flow projections include an estimate of terminal value based on inflation related growth rate of 3% (2009: 3%).

Tabreed 1 District Cooling Plant

The recoverable amount of Tabreed 1 District Cooling Plant unit is determined based on a value in use calculation using cash flow projections. Revenue comprises of available capacity and variable output based on signed contract with customer for a period of 20 years. As the useful life of the plant is assessed as 30 years, the Company has used the remaining useful life of the plant of 21 years at the year end in the model based on rates currently agreed with the customer. The management is confident that the current 20 year contract with the customer will be extended for the remaining useful life of the plant. The operating costs mainly represent cost of utilities to operate the plant and salaries and related benefits of staff and are determined based on management's approved financial forecast. The discount rate applied to the cash flow projections is 8.5 % representing the Company's WACC (weighted average cost of capital). A general price inflation level of 3% has been applied to the cash flows. The basis used to determine the value assigned to the price inflation is management's estimate of the long term average forecast for the United Arab Emirates.

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

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16 LOANS TO ASSOCIATE AND JOINT VENTURE

| | 2010 AED '000 | 2009 AED '000 |
|-----------------------------------|------------------|------------------|
| Loan to an associate (note i) | 25,444 | 30,865 |
| Loan to a joint venture (note ii) | <u>56,544</u> | <u>56,544</u> |
| | <u>81,988</u> | <u>87,409</u> |

(i) The loan was granted to Sahara Cooling Limited, an associate company. The loan is unsecured and interest is charged at LIBOR + 0.85%. An amount of AED 9.8 million (2009: AED 9.8 million) is expected to be repaid within twelve months from the balance sheet reporting date and accordingly has been classified as current assets in the consolidated statement of financial position.

(ii) In 2009, the Company granted a loan of AED 56.5 million to S&T Cooling Limited, a joint venture. The loan is unsecured and interest free. The amount is not expected to be repaid within twelve months from the reporting date.

The loans are classified in the consolidated statement of financial position as follows:

| | 2010 AED '000 | 2009 AED '000 |
|-------------|------------------|------------------|
| Current | 9,781 | 9,781 |
| Non-current | <u>72,207</u> | <u>77,628</u> |
| | <u>81,988</u> | <u>87,409</u> |

17 FINANCE LEASE RECEIVABLES

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

| | 2010 AED '000 | 2009 AED '000 |
|---|------------------|------------------|
| At 1 January | 1,169,624 | - |
| Transfers from property, plant and equipment and capital work in progress during the year (notes 10 and 11) | 78,482 | 1,169,624 |
| Finance lease income | 67,070 | - |
| Received during the year | <u>(38,681)</u> | <u>-</u> |
| At 31 December | <u>1,276,495</u> | <u>1,169,624</u> |

Analysed in the consolidated statement of financial position as follows:

| | 2010 AED '000 | 2009 AED '000 |
|--------------------|------------------|------------------|
| Current assets | 81,888 | 33,862 |
| Non-current assets | <u>1,194,607</u> | <u>1,135,762</u> |
| | <u>1,276,495</u> | <u>1,169,624</u> |

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17 FINANCE LEASE RECEIVABLES continued

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

| | 2010 | | 2009 | |
|---------------------------------------|----------------------------------|--|----------------------------------|--|
| | <i>Minimum lease receivables</i> | <i>Present value of minimum lease receivable</i> | <i>Minimum lease receivables</i> | <i>Present value of minimum lease receivable</i> |
| | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> |
| Within one year | 85,005 | 81,888 | 36,238 | 33,862 |
| After one but no more than five years | 362,054 | 292,897 | 405,941 | 309,932 |
| More than five years | <u>2,613,781</u> | <u>901,710</u> | <u>2,527,577</u> | <u>825,830</u> |
| | 3,060,840 | 1,276,495 | 2,969,756 | 1,169,624 |
| Unearned revenue (note i) | <u>(1,784,345)</u> | <u>-</u> | <u>(1,800,132)</u> | <u>-</u> |
| | <u>1,276,495</u> | <u>1,276,495</u> | <u>1,169,624</u> | <u>1,169,624</u> |

(i) Movement in unearned revenue is as follows:

| | 2010 | 2009 |
|-------------------------------------|------------------|------------------|
| | <i>AED '000</i> | <i>AED '000</i> |
| At 1 January | 1,800,312 | - |
| Relating to new finance leases | 51,103 | 1,800,312 |
| Recognised during the year (note 3) | <u>(67,070)</u> | <u>-</u> |
| At 31 December | <u>1,784,345</u> | <u>1,800,312</u> |

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

The accumulated allowance for uncollectible minimum lease payments receivable at 31 December 2010 is AED nil (2009: AED nil).

18 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2010 | 2009 |
|--|-----------------|-----------------|
| | <i>AED '000</i> | <i>AED '000</i> |
| | | <i>Restated</i> |
| Trade receivables | 568,331 | 456,524 |
| Amounts due from related parties (note 34) | 80,604 | 48,905 |
| Advances to contractors and employees | 33,781 | 16,867 |
| Deposits and other receivables | 32,397 | 15,328 |
| Prepayments | <u>8,781</u> | <u>4,601</u> |
| | <u>723,894</u> | <u>542,225</u> |

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18 ACCOUNTS RECEIVABLE AND PREPAYMENTS continued

As at 31 December 2010, trade receivables at nominal value of AED 29.1 million (2009: AED 27.5 million) were fully provided for. Movements in the provision for impairment of trade receivables were as follows:

| | 2010 AED '000 | 2009 AED '000 |
|---------------------|------------------|------------------|
| At 1 January | 27,528 | 5,229 |
| Charge for the year | 2,730 | 34,777 |
| Amounts written off | <u>(1,156)</u> | <u>(12,478)</u> |
| At 31 December | <u>29,102</u> | <u>27,528</u> |

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

| | | Past due but not impaired | | | | | | |
|----------------|----------|---------------------------|---------|---------|----------|-----------|---------|---------|
| Neither past | | | | | | | | |
| | due nor | | 30 – 60 | 60 – 90 | 90 – 120 | 120 – 365 | >365 | |
| Total | impaired | < 30 days | days | days | days | days | days | |
| AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | |
| 2010 | 648,935 | 141,710 | 77,333 | 73,402 | 56,187 | 27,074 | 161,933 | 111,296 |
| 2009(Restated) | 505,429 | 124,892 | 62,382 | 40,076 | 36,837 | 35,931 | 162,570 | 42,741 |

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

Trade receivables are non-interest bearing and are generally on 30 – 60 days terms.

For terms and conditions relating to related party receivables, refer to note 34.

19 AVAILABLE FOR SALE INVESTMENTS

During the year, the Company sold its available for sale investments consisting of investment in a listed equity with a carrying amount of AED 1.8 million (2009: AED 3.5 million) and investment in a managed fund with a carrying amount of AED 65 million (2009: AED 65 million) resulting in a net loss of AED 2.1 million (2009: AED nil) recognised in the consolidated income statement.

During the year, the Company recognised an impairment loss of AED nil (2009: AED 4.8 million) relating to available for sale investments.

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20 CONTRACT WORK IN PROGRESS

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> <i>Restated</i> |
|-------------------------------|--------------------------------|---|
| Cost plus attributable profit | 126,880 | 384,553 |
| Less: progress billings | <u>(86,176)</u> | <u>(363,161)</u> |
| | <u>40,704</u> | <u>21,392</u> |

21 CASH AND CASH EQUIVALENTS

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

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> <i>Restated</i> |
|------------------------|--------------------------------|---|
| Bank balances and cash | 341,497 | 256,841 |
| Bank deposits | <u>20,318</u> | <u>47,748</u> |
| | 361,815 | 304,589 |
| Bank overdraft | <u>(53,717)</u> | <u>(52,007)</u> |
| | <u>308,098</u> | <u>252,582</u> |

Bank deposits attract a fixed rate of interest ranging from 1.00% to 3.00% per annum (2009: 1.00% to 3.25% per annum).

The bank overdraft facility is secured against corporate guarantee and letter of awareness from the Company and pledge over short term deposits.

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

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> <i>Restated</i> |
|-------------|--------------------------------|---|
| Within UAE | 313,349 | 224,593 |
| Outside UAE | <u>48,466</u> | <u>79,996</u> |
| | <u>361,815</u> | <u>304,589</u> |

22 ASSETS CLASSIFIED AS HELD FOR SALE

On 23 November 2009, the Board of Directors resolved to sell the Company's 50% equity interest in Jordanian Company for Central Energy (PLS), an associate (note 12). The sale transaction was completed in March 2010 for a value of AED 33.8 million resulting in no gain or loss.

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23 ISSUED CAPITAL

| | 2010 AED '000 | 2009 AED '000 |
|--|------------------|------------------|
| <i>Authorised, issued and fully paid up share capital</i> | | |
| Ordinary shares of 243,380,000 (2009: 1,213,380,000) at AED 1 each | <u>243,380</u> | <u>1,213,380</u> |

On 30 May 2010, at an Extraordinary General Assembly meeting of the Company, the shareholders of the Company resolved by unanimous approval of those attending the meeting to grant the Board of Directors full authority to effect a cancellation of up to 970,000,000 ordinary shares of AED 1 each in the Company (the Capital Reduction) on a pro rata basis pursuant to Article 210(3) of the UAE Commercial Companies Law No. 8 for the year of 1984 and to grant full authority to the Board of Directors of the Company (in its absolute discretion) to determine the final terms, timing and implementation of the Capital Reduction, including whether to effectuate the Capital Reduction in whole or in part.

On 9 August 2010, the Board of Directors of the Company resolved to effect the Capital Reduction by way of cancellation of 970,000,000 ordinary shares of AED 1 each in the Company, such that the share capital of the Company is reduced from AED 1,213,380,000 to AED 243,380,000. The Capital reduction has been approved by the Securities and Commodities Authority (by Ministerial Resolution No. (553) of 9 December 2010), and communicated to the shareholders and recorded in the Company's share register on 12 December 2010.

24 TREASURY SHARES AND SHARE-BASED PAYMENTS

Treasury shares

The Company set up an employee incentive scheme in accordance with the Board of Directors resolution dated 17 December 2000. The Company subsequently contributed an amount of AED 10.05 million to a shareholder for the purchase of the Company's ordinary shares and to act as a custodian for such shares. The Company retains the significant risks and rewards associated with those shares.

A portion of the treasury shares have been cancelled during the year to reflect the capital reduction (note 23) such that the treasury shares amount has been reduced from AED 10,050 thousand to AED 2,016 thousand. (note 26).

Share based payments

The employee incentive scheme ("the scheme"), which is now closed, grants notional units of the Company's ordinary shares to qualifying employees, at nil consideration, on recommendation of the remuneration committee of the Company. These notional units of the Company's ordinary shares are exercised in cash in accordance with the terms of the scheme, and accordingly the arrangement is classified as cash settled share based payment transactions.

At 31 December the employee incentive scheme had outstanding notional units of the Company's ordinary shares analysed as follows:

| | No. of shares 2010 | 2009 |
|----------------------------|-----------------------|------------------|
| At 1 January | 1,087,304 | 1,722,139 |
| Exercised during the year | (398,859) | (634,835) |
| Reduction in share capital | <u>(550,356)</u> | <u>-</u> |
| At 31 December | <u>138,089</u> | <u>1,087,304</u> |

The employee incentive scheme liability is re-measured at each reporting date up to and including the settlement date with changes in fair value recognised in the consolidated income statement or capital work in progress, as applicable (refer below). The carrying amount of the liability as at 31 December 2010 was AED 1.8 million (2009: AED 2.8 million).

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24 TREASURY SHARES AND SHARE-BASED PAYMENTS continued

The movement in the carrying amount of the liability during the year reflects the exercise of notional units during the year.

The portion of gain (loss) arising from the re-measurement at each reporting date and new shares granted during the year are included in the consolidated financial statements as follows:

| | <i>2010</i> <i>AED '000</i> | <i>2009</i> <i>AED '000</i> |
|---|--------------------------------|--------------------------------|
| Charge to administrative and other expenses | - | (706) |
| Charge to capital work in progress | - | (1,230) |

No amounts charged during the year as the Company's share price as at 31 December 2010 is below the minimum guaranteed price under the employee incentive scheme.

The amount charged under capital work in progress relates to employees who are directly attributable to the construction activity of the Company's property, plant and equipment.

25 STATUTORY AND OTHER RESERVES*Statutory reserve*

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

Other reserves

| | <i>Cumulative changes in fair value of derivatives AED '000</i> | <i>Cumulative changes in fair value of available for sale investments AED '000</i> | <i>Total AED '000</i> |
|---|---|--|---------------------------|
| Balance at 1 January 2009 | (99,476) | (12,713) | (112,189) |
| Net movement in fair value of derivatives | 10,863 | - | 10,863 |
| Share of net changes in fair value of derivatives of associate | 9,378 | - | 9,378 |
| Impairment loss on of available for sale investments recognised in income statement | - | 4,797 | 4,797 |
| Net movement in fair value of available for sale investments | - | 9,448 | 9,448 |
| Balance at 31 December 2009 | (79,235) | 1,532 | (77,703) |
| Net movement in fair value of derivatives | 11,795 | - | 11,795 |
| Share of net changes in fair value of derivatives of associate | (3,836) | - | (3,836) |
| Net movement in fair value of available for sale investments | - | (1,532) | (1,532) |
| Balance at 31 December 2010 | (71,276) | - | (71,276) |

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26 CAPITAL REDUCTION RESERVE

On 30 May 2010, at an Extraordinary General Assembly meeting of the Company, the shareholders of the Company resolved by unanimous approval of those attending the meeting to grant the Board of Directors full authority to effect a cancellation of up to 970,000,000 ordinary shares of AED 1 each in the Company on a pro rata basis. The Board of Directors in their meeting held on 9 August 2010 resolved to affect the capital reduction by way of cancellation of 970,000,000 ordinary shares of AED 1 each in the Company, such that the share capital of the Company is reduced from AED 1,213,380 thousand to AED 243,380 thousand.

A portion of treasury shares held by the Company have also been cancelled to reflect the effect of the capital reduction from AED 10,050 thousand to AED 2,016 thousand.

| | 2010 AED '000 | 2009 AED '000 |
|--|------------------|------------------|
| Share capital cancelled (970,000,000 shares of AED 1 each) | 970,000 | - |
| Treasury shares cancelled (8,034,000 shares of AED 1 each) | <u>(8,034)</u> | <u>-</u> |
| | <u>961,966</u> | <u>-</u> |

27 INTEREST BEARING LOANS AND BORROWINGS

| | <i>Effective interest rate %</i> | 2010 AED '000 | 2009 AED '000 |
|----------------------|--------------------------------------|------------------|------------------|
| Current | | | |
| Term loan 1 | EIBOR + margin | 6,000 | 9,000 |
| Term loan 2 | LIBOR + margin | 170,809 | 176,895 |
| Term loan 3 | EIBOR + margin | 91,500 | 91,500 |
| Term loan 4 | LIBOR + margin | 128,520 | 125,664 |
| Term loan 5 | LIBOR + margin | - | 29,378 |
| Term loan 6 | 3% | 6,919 | - |
| Term loan 7 (note i) | EIBOR + margin | 1,255,000 | - |
| Term loan 8 | EIBOR + margin | <u>747,343</u> | <u>742,007</u> |
| | | <u>2,406,091</u> | <u>1,174,444</u> |

Term loan 1 amounting to AED 3 million and term loan 2 amounting to AED 160.4 million, have been reclassified to current liability as at 31 December 2010 as a result of technical breach of financial covenants (note 2.1).

- (i) In February 2010, the Board of Directors of the Company approved short term funding from a shareholder amounting to AED 1.3 billion. As of 31 December 2010, an amount of AED 1,255 million has been drawn from this facility. The loan is repayable in June 2011.

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28 ISLAMIC FINANCING ARRANGEMENTS

| | <i>Profit charge %</i> | <i>2010 AED '000</i> | <i>2009 AED '000</i> |
|---------------------------------|----------------------------|--------------------------|--------------------------|
| Current | | | |
| Islamic financing arrangement 1 | EIBOR + margin | 923,356 | 941,761 |
| Islamic financing arrangement 2 | LIBOR + margin | 733,095 | 730,256 |
| Islamic financing arrangement 3 | EIBOR + margin | 366,932 | 362,660 |
| Islamic financing arrangement 4 | EIBOR + margin | <u>297,300</u> | <u>295,650</u> |
| | | <u>2,320,683</u> | <u>2,330,327</u> |

Islamic financing arrangement 1 amounting to AED 859.2 million (net of prepaid finance costs) and Islamic financing arrangement 4 amounting to AED 297.3 million (net of prepaid finance costs), have been reclassified to current liability as at 31 December 2010 as a result of technical breach of financial covenants (note 2.1).

29 MANDATORY CONVERTIBLE BOND

In May 2008, the Company issued a mandatory convertible bond in the form of trust certificates for a total value of AED 1,700 million, maturing in May 2011. The bond bears interest at a fixed rate of 7.25% per annum, payable annually in arrears, commencing on 19 May 2009. Transaction costs in connection with the issuance of the bond amounted to AED 43.8 million.

The bond shall be converted into ordinary shares of the Company based on a specified minimum and maximum exchange ratio. The bond is subordinated in right of payment to the claims of creditors of the Company.

The liability component of the bond of AED 262.3 million (2009: AED 278.7 million) represents present value of annual coupon payments due at the rate of 7.25%, payable in arrears annually. At inception, the present value was calculated using a market interest rate for a bond with similar characteristics, but without the condition of mandatory conversion into ordinary shares of the Company at the redemption date. Also included in the liability component of mandatory convertible bond is fair value of a derivative liability of AED 18.6 million (2009: AED 43.9 million), representing the element of variation in the number of shares that will be issued at the conversion date, based on the market price of Company's shares. Total liability in the consolidated statement of financial position has been presented, net of allocated transaction costs of AED 1.5 million (2009: AED 4.4 million).

At inception, the bond's proceeds after allocation to liability component were allocated to an equity component, recognised and included in shareholders' equity amounting to AED 1,302 million, net of allocated transaction costs of AED 34.6 million.

A reconciliation between the amounts presented in the consolidated statement of financial position is as follows:

| | <i>Convertible bond- liability component AED '000</i> | <i>2010 Convertible bond- equity component AED '000</i> | <i>Total AED '000</i> | <i>Convertible bond- liability component AED '000</i> | <i>2009 Convertible bond- equity component AED '000</i> | <i>Total AED '000</i> |
|--|---|---|---------------------------|---|---|---------------------------|
| At 1 January | 278,723 | 1,301,679 | 1,580,402 | 375,060 | 1,301,679 | 1,676,739 |
| Changes in fair value of derivative liability (note 1) | (25,300) | - | (25,300) | 14,400 | - | 14,400 |
| Accretion expense | 5,906 | - | 5,906 | 9,386 | - | 9,386 |
| Amortisation of transactions costs | 2,926 | - | 2,926 | 3,127 | - | 3,127 |
| Coupon payment during the year | - | - | - | (123,250) | - | (123,250) |
| Balance at 31 December | <u>262,255</u> | <u>1,301,679</u> | <u>1,563,934</u> | <u>278,723</u> | <u>1,301,679</u> | <u>1,580,402</u> |

Note 1 – Amount shown on the face of the consolidated income statement for the year ended 31 December 2009 includes an amount of AED 1.8 million relating to interest rate swaps not designated as effective cash flow hedges.

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29 MANDATORY CONVERTIBLE BOND continued

The Company is currently in discussion with the bond holders regarding the terms of the bond that is maturing in May 2011. Pending conclusion of such discussions, the coupon obligation of AED 123,250 thousand due in May 2010 has not been settled.

Convertible bond liability component is analysed on the consolidated statement of financial position as follows:

| | 2010 AED '000 | 2009 AED '000 |
|-------------|------------------|------------------|
| Current | 262,255 | 117,876 |
| Non-current | - | 160,847 |
| | <u>262,255</u> | <u>278,723</u> |

The accretion expense is included in the consolidated financial statements as follows:

| | | |
|--|--------------|--------------|
| Charged to consolidated income statement | 2,438 | 774 |
| Charged to capital work in progress | <u>3,468</u> | <u>8,612</u> |
| | <u>5,906</u> | <u>9,386</u> |

30 OBLIGATIONS UNDER FINANCE LEASE

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

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

| | 2010 | | 2009 | |
|---|---------------------------------------|--|---------------------------------------|--|
| | Minimum lease payments AED '000 | Present value of payments AED '000 | Minimum lease payments AED '000 | Present value of payments AED '000 |
| Within one year | 7,749 | 7,364 | 7,749 | 7,364 |
| After one year but not more than five years | 30,994 | 23,384 | 30,994 | 23,384 |
| After five years | <u>20,000</u> | <u>11,019</u> | <u>27,765</u> | <u>14,620</u> |
| | 58,743 | 41,767 | 66,508 | 45,368 |
| Less: amounts representing finance charges | <u>(16,976)</u> | - | <u>(21,140)</u> | - |
| Present value of minimum lease payments | <u>41,767</u> | <u>41,767</u> | <u>45,368</u> | <u>45,368</u> |

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

| | 2010 AED '000 | 2009 AED '000 |
|-------------|------------------|------------------|
| Current | 7,364 | 7,364 |
| Non-current | <u>34,403</u> | <u>38,004</u> |
| | <u>41,767</u> | <u>45,368</u> |

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31 EMPLOYEES' END OF SERVICE BENEFITS

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

| | 2010 AED '000 | 2009 AED '000 <i>Restated</i> |
|------------------------------|------------------|-------------------------------------|
| Balance at 1 January | 13,923 | 15,415 |
| Net movement during the year | <u>1,048</u> | <u>(1,492)</u> |
| Balance at 31 December | <u>14,971</u> | <u>13,923</u> |

32 ACCOUNTS PAYABLE AND ACCRUALS

| | 2010 AED '000 | 2009 AED '000 <i>Restated</i> |
|--|------------------|-------------------------------------|
| Non-current liabilities | | |
| Retentions payable for capital expenditure | <u>33,605</u> | <u>31,192</u> |
| Retentions payable for non capital expenditure | 8,641 | 21,076 |
| Other payables and deferred income | <u>23,378</u> | <u>24,340</u> |
| | <u>32,019</u> | <u>45,416</u> |
| | <u>65,624</u> | <u>76,608</u> |
| Current liabilities | | |
| <i>Relating to capital expenditure:</i> | | |
| Contractor payable and retentions | 28,394 | 334,839 |
| Due to a related party – joint venture | 172,012 | 114,898 |
| Accrued expenses and provisions | <u>301,152</u> | <u>832,779</u> |
| | <u>501,558</u> | <u>1,282,516</u> |
| <i>Others:</i> | | |
| Accounts payable | 91,800 | 166,318 |
| Due to related parties - associates | 35,285 | 29,042 |
| Accrued expenses | 233,809 | 75,299 |
| Other payables | <u>183,244</u> | <u>189,081</u> |
| | <u>544,138</u> | <u>459,740</u> |
| | <u>1,045,696</u> | <u>1,742,256</u> |

Terms and conditions of the above financial liabilities:

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

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

For terms and conditions relating to related parties, refer to note 34.

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33 ADVANCES

This represents advance received from a customer relating to funding support for the construction of property, plant and equipment. The advance is expected to be repaid / settled in 2011.

34 RELATED PARTY TRANSACTIONS

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

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

| | 2010 | | | | 2009 | | | |
|----------------------|---------------------|--------------------------------|---------------------------------|-----------------------------|--|--------------------------------|---------------------------------|-----------------------------|
| | Revenue AED '000 | Operating costs AED '000 | Interest revenue AED '000 | Other income AED '000 | Revenue AED '000 <i>Restated</i> | Operating costs AED '000 | Interest revenue AED '000 | Other income AED '000 |
| Associated companies | <u>---</u> | <u>89,834</u> | <u>4,104</u> | <u>228</u> | <u>---</u> | <u>85,074</u> | <u>3,956</u> | <u>701</u> |
| Joint venture | <u>8,401</u> | <u>---</u> | <u>---</u> | <u>385</u> | <u>40,107</u> | <u>---</u> | <u>---</u> | <u>---</u> |

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

| | 2010 | | | | 2009 | | | |
|-----------------------|--------------------------------|--|----------------------------------|-------------------------------|---|--|---|--|
| | Loan receivable AED '000 | Interest bearing loans and borrowings AED '000 | Other receivables AED '000 | Other payables AED '000 | Loan receivable AED '000 <i>Restated</i> | Interest bearing loans and borrowings AED '000 | Other receivables AED '000 <i>Restated</i> | Other payables AED '000 <i>Restated</i> |
| Associated companies | 25,444 | - | 9,951 | 35,285 | 30,865 | - | 12,862 | 29,042 |
| Joint venture | 56,544 | - | 70,653 | 172,012 | 56,544 | - | 34,754 | 114,898 |
| Major shareholder | - | 1,255,000 | - | - | - | - | - | - |
| Other related parties | <u>---</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>---</u> | <u>1,289</u> | <u>---</u> |
| | <u>81,988</u> | <u>1,255,000</u> | <u>80,604</u> | <u>207,297</u> | <u>87,409</u> | <u>---</u> | <u>48,905</u> | <u>143,940</u> |

Terms and conditions of transactions with related parties

Transactions with related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free, except for loan to an associate (note 16) and loan from a shareholder (note 27), and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2010, no impairment was recorded (2009: AED 11.8 million) relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel

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

| | 2010 AED '000 | 2009 AED '000 |
|------------------------------------|------------------|------------------|
| Short-term benefits | 20,117 | 17,129 |
| Employees' end of service benefits | <u>881</u> | <u>642</u> |
| | <u>20,998</u> | <u>17,771</u> |
| Number of key management personnel | <u>21</u> | <u>20</u> |

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35 CONTINGENCIES

Operating lease commitments - lessor

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

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

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

| | 2010 AED '000 | 2009 AED '000 |
|---|------------------|------------------|
| Within one year | 224,972 | 200,400 |
| After one year but not more than five years | 1,288,734 | 1,172,367 |
| More than five years | <u>4,024,355</u> | <u>4,365,695</u> |
| | <u>5,538,061</u> | <u>5,738,462</u> |

Contingencies

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

| | 2010 AED '000 | 2009 AED '000 |
|----------------------------|------------------|------------------|
| Performance guarantees | 112,182 | 64,462 |
| Advance payment guarantees | 13,705 | 20,471 |
| Financial guarantees | <u>9,982</u> | <u>9,248</u> |
| | <u>135,869</u> | <u>94,181</u> |

The Company's share of contingencies of joint ventures and associates as of 31 December 2010 impacting the consolidated income statement amounted to AED 0.4 million (2009: AED 0.4 million) and AED 7.3 million (2009: AED 2.3 million) respectively.

36 CAPITAL COMMITMENTS

The authorised future capital expenditure contracted for at 31 December 2010 but not provided for amounted to AED 606 million (2009: AED 1,108 million).

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

It is, and has been throughout 2010 and 2009 the Group's policy that no trading in derivatives shall be undertaken.

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37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

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

Market risk

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

Financial instruments affected by market risk include loans and borrowings, deposits, and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2010 and 2009.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2010.

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

- The statement of financial position sensitivity relates to derivatives instruments.
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2010 and 2009 including the effect of hedge accounting.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations and deposits with floating interest rates.

To manage the risk relating to its variable interest borrowings, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2010, after taking into account the effect of interest rate swaps, approximately 35% of the Group's borrowings are at a fixed rate of interest (2009: 38%).

Interest rate sensitivity

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

| | <i>Effect on profit</i> <i>AED '000</i> |
|-------------------------------|--|
| 2010 | |
| +100 increase in basis points | (20,891) |
| -100 decrease in basis points | 20,891 |
| 2009 | |
| +100 increase in basis points | (8,654) |
| -100 decrease in basis points | 8,654 |

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

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.

Management considers that the Company is not exposed to significant foreign currency risk. The majority of transactions and balances are in either UAE Dirhams or US Dollars. As the UAE Dirham is pegged to the US Dollar, balances in US Dollars are not considered to represent significant foreign currency risk.

Credit risk

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

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The maximum exposure is the carrying amount as disclosed in notes 17 and 18. The Group's three largest customers account for approximately 57% of outstanding trade receivable balance at 31 December 2010 (2009: 3 customers - 67%). Amounts due in respect of finance lease receivable are from two customers (2009: one customer).

With respect to credit risk arising from other financial assets of the Group, which comprise cash and short term deposits and certain derivative instruments, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group seeks to limit its credit risk to banks by only dealing with reputable banks.

Liquidity risk

The Group monitors its risk to a shortage of funds using a cash flow model. This tool considers the maturity of both its financial investments and financial assets (eg, accounts receivable and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans, bonds and finance leases. As at 31 December 2010, as a result of the technical breach of covenants, all the Company's interest bearing loans and borrowings and Islamic financial arrangements have become payable on demand and accordingly, reclassified under the heading of "on demand" for the purpose of the maturity profile analysed below.

The management is currently engaged in discussions with the lenders to secure amendments to address the resulting short term maturity profile. Management is confident that the outcome of the discussions with the lenders and the implementation of the recapitalisation plan launched by the Company's Board of Directors on 7 March 2010 (note 2.1) will address the liquidity risk of the Company. As of the date of approval of the consolidated financial statements of the Company, no lender has requested accelerated repayment of its loans and borrowings.

At 31 December 2010, the Group has no unutilised interest bearing loans and borrowings facilities and Islamic financial arrangements (2009: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on undiscounted payments and current market interest rates.

| | <i>On demand</i> <i>AED '000</i> | <i>Less than 3</i> <i>months</i> <i>AED '000</i> | <i>3 to 12</i> <i>months</i> <i>AED '000</i> | <i>1 to 5</i> <i>years</i> <i>AED '000</i> | <i>> 5</i> <i>years</i> <i>AED '000</i> | <i>Total</i> <i>AED '000</i> |
|---|-------------------------------------|--|--|--|--|---------------------------------|
| At 31 December 2010 | | | | | | |
| Derivative financial instruments | - | 10,058 | 52,659 | 31,883 | - | 94,600 |
| Convertible bond -- liability component | 123,250 | - | 123,250 | - | - | 246,500 |
| Interest bearing loans and borrowings | 2,408,783 | 12,049 | 122,772 | 62,599 | 31,263 | 2,637,466 |
| Obligations under finance leases | - | 1,937 | 5,812 | 30,994 | 20,000 | 58,743 |
| Islamic financing arrangements | 2,342,600 | 35,853 | 38,023 | 148,263 | 108,549 | 2,673,288 |
| Accounts and retention payable, due to related parties and other financial liabilities | - | 391,015 | 483,616 | 42,246 | - | 916,877 |
| Bank overdraft | 53,717 | - | - | - | - | 53,717 |
| | <u>4,928,350</u> | <u>450,912</u> | <u>826,132</u> | <u>315,985</u> | <u>159,812</u> | <u>6,681,191</u> |
| At 31 December 2009 | | | | | | |
| Derivative financial instruments | - | - | 15,663 | 96,690 | 5,444 | 117,797 |
| Convertible bond -- liability component | - | - | 123,250 | 123,250 | - | 246,500 |
| Interest bearing loans and borrowings | 1,186,969 | 21,641 | 38,775 | 41,117 | 21,624 | 1,310,126 |
| Obligations under finance leases | - | 1,937 | 5,812 | 30,994 | 27,765 | 66,508 |
| Islamic financing arrangements | 2,362,600 | 36,399 | 61,145 | 157,903 | 83,237 | 2,701,284 |
| Accounts and retention payable, due to related parties and other financial liabilities (restated) | - | 547,444 | 1,085,298 | 52,268 | - | 1,685,010 |
| Bank overdraft | 52,007 | - | - | - | - | 52,007 |
| | <u>3,601,576</u> | <u>607,421</u> | <u>1,329,943</u> | <u>502,222</u> | <u>138,070</u> | <u>6,179,232</u> |

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

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

The Company's Board of Directors has launched a comprehensive recapitalisation plan on 7 March 2010 (Note 2.1) which is expected to result in further changes to its capital structure during the year ending 31 December 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

37 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Capital management continued

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

| | 2010 AED '000 | 2009 AED '000 |
|--|------------------|------------------|
| Interest bearing loans and borrowings | 2,406,091 | 1,174,444 |
| Islamic financing arrangements | 2,320,683 | 2,330,327 |
| Mandatory convertible bond – liability component | 262,255 | 278,723 |
| Obligation under finance lease | <u>41,767</u> | <u>45,368</u> |
| | 5,030,796 | 3,828,862 |
| Less: cash and cash equivalents | <u>(308,098)</u> | <u>(252,582)</u> |
| Net debt | <u>4,722,698</u> | <u>3,576,280</u> |
| Equity | 1,487,730 | 1,428,281 |
| Adjustment for cumulative changes in fair values of derivatives and available for sale investments | <u>71,276</u> | <u>77,703</u> |
| Total capital | <u>1,559,006</u> | <u>1,505,984</u> |
| Capital and net debt | <u>6,281,704</u> | <u>5,082,264</u> |
| Gearing ratio | <u>75%</u> | <u>70%</u> |

The increase in the gearing ratio is mainly attributable to increase in net debt due to new borrowings from a related party during the year.

38 FINANCIAL INSTRUMENTS

Fair values

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

| | Carrying amount | | Fair value | |
|--|------------------|------------------|------------------|------------------|
| | 2010 AED '000 | 2009 AED '000 | 2010 AED '000 | 2009 AED '000 |
| Obligations under finance lease | 41,767 | 45,368 | 40,395 | 39,000 |
| Convertible bond – liability component | 262,255 | 278,723 | 262,255 | 234,823 |
| Finance lease receivable | 1,276,495 | 1,169,624 | 1,500,321 | 946,894 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

38 FINANCIAL INSTRUMENTS continued

Fair value hierarchy

As at 31 December 2010, the Group held the following financial instruments measured at fair value.

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

| | 2010 | | | | 2009 | | | |
|---|---------------------------|--------------------|--------------------|--------------------|---------------------------|--------------------|--------------------|--------------------|
| | 31 Dec 2010 AED'000 | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | 31 Dec 2009 AED'000 | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 |
| Assets measured at fair value | | | | | | | | |
| Available for sale investments | — | — | — | — | 68,421 | 3,450 | 64,971 | — |
| Interest rate swaps | 2,282 | — | 2,282 | — | 2,898 | — | 2,898 | — |
| Liabilities measured at fair value | | | | | | | | |
| Derivatives - Mandatory convertible bonds | 18,600 | — | 18,600 | — | 43,900 | — | 43,900 | — |
| Interest rate swaps | 76,000 | — | 76,000 | — | 73,897 | — | 73,897 | — |

During the reporting periods ending 31 December 2010 and 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Hedging activities*Cash flow hedges*

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

In order to reduce its exposure to interest rate fluctuations on the interest bearing loans and borrowings and Islamic financing arrangements, the Company has entered into interest rate swaps with counter-party banks designated as effective cash flow hedges for notional amounts that mirror the drawdown and repayment schedule of the loans.

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

| | Within 1 year AED '000 | 1–3 years AED '000 | 3–8 years AED '000 | Total AED '000 |
|-----------------------------|---------------------------|-----------------------|-----------------------|-------------------|
| 2010: | | | | |
| Cash inflows (assets) | 912 | 1,370 | — | 2,282 |
| Cash outflows (liabilities) | (44,117) | (31,353) | (530) | (76,000) |
| Net cash inflow (outflow) | (43,205) | (29,983) | (530) | (73,718) |
| 2009: | | | | |
| Cash inflows (assets) | 692 | 466 | 1,740 | 2,898 |
| Cash outflows (liabilities) | (15,663) | (43,572) | (14,662) | (73,897) |
| Net cash inflow (outflow) | (14,971) | (43,106) | (12,922) | (70,999) |

All derivative contracts are with counterparty banks in UAE.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

38 FINANCIAL INSTRUMENTS continued

Hedging activities continued*Cash flow hedges continued*

The table below shows certain information relating to derivative financial instruments designated as cash flow hedges.

| | 2010 | | | 2009 | | |
|---------------------|-----------------|--------------------|------------------------|-----------------|--------------------|------------------------|
| | <i>Assets</i> | <i>Liabilities</i> | <i>Notional amount</i> | <i>Assets</i> | <i>Liabilities</i> | <i>Notional amount</i> |
| | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> | <i>AED '000</i> |
| Interest rate swaps | <u>2,282</u> | <u>76,000</u> | <u>1,783,280</u> | <u>2,898</u> | <u>73,897</u> | <u>1,777,213</u> |

39 EVENTS AFTER THE BALANCE SHEET DATE

Refer to Note 2.1 for details of recapitalisation. Subsequent to year end all the major existing lenders of the Group have approved the principal terms of an agreement to refinance AED 2.6 billion of existing liabilities and to extend a new AED 150 million revolving facility to the Group.

The Company announced it has reached an agreement-in-principle with Mubadala Development Company PJSC to provide up to 3.1 billion in new long-term capital.

Tabreed invited holders of its mandatorily exchangeable sukuk to tender their certificates for early repurchase by Tabreed. Subject to completion of its recapitalisation programme, Tabreed accepted for repurchase all valid tenders of certificates in the offer on 16 March. Tabreed separately invited holders to approve an extraordinary resolution for the redemption of any certificates remaining on completion of the offer. On 28 March Tabreed announced and gave notice to certificateholders that the extraordinary resolution was duly passed at a meeting of certificateholders. The implementation of the extraordinary resolution is also conditional on completion of the recapitalisation programme.

40 COMPARATIVE INFORMATION

Certain comparative figures were reclassified to conform with the current year presentation. Such reclassifications as discussed below have no effect on the results or the equity of the Group.

Consolidated income statement

- Revenues of AED 77 million and corresponding operating costs of AED 85 million for the year ended 31 December 2009 relating to cooling service agreement with Sahara Cooling Limited which was previously reported on net basis under 'administrative and other expenses' have been reclassified and are now shown separately in revenues and operating costs respectively.

Consolidated statement of financial position

- Loan to joint venture amounting to AED 56 million as at 31 December 2009 has now been reclassified from amounts due to related parties.
- Prepayments amounting to AED 4.6 million as of 31 December 2009 have now been grouped within accounts receivable and prepayments and disclosed in note 18 to the consolidated financial statements.

Also refer to note 2.3 for changes made to comparative numbers arising from change in accounting policy during the year.