National Central Cooling Company PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2016

Deloitte.

Deloitte & Touche (M.E.)
Al Sila Tower
Abu Dhabi Global Market Square
P.O. Box 990
Abu Dhabi
United Arab Emirates

Tel: +971 (0) 2 408 2424
Fax: +971 (0) 2 408 2525
www.deloitte.com/middleeast

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
National Central Cooling Company PJSC
Abu Dhabi, UAE

Report on the audit of the consolidated financial statements of National Central Cooling Company PJSC

Opinion

We have audited the consolidated financial statements of National Central Cooling Company PJSC ("the Company") and its subsidiaries (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We have conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Codes of Ethics for Professional Accountants (IESBA Code) and with the requirements relevant to our audit in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. We have communicated the key audit matters to the Audit Committee but they are not a comprehensive reflection of all matters that were identified by our audit and that were discussed with the Committee. On the following pages, we have described the key audit matters we identified and have included a summary of the audit procedures we performed to address those matters.

The key audit matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Carrying value of property, plant and equipment and intangible assets, including goodwill	
The Group has AED 3,845,225 thousand of property, plant and equipment as disclosed in Note 11 and intangible assets of AED 27,710 thousand as disclosed in Note 14 which represents significant balances recorded in the consolidated statement of financial position. The evaluation of the recoverable amount of these assets requires significant estimates as disclosed in Note 2.5 in determining the key assumptions supporting the expected future cash flows of the business and the utilisation of the relevant assets.	As part of our audit procedures, we have: ▪ Engaged our internal technical specialists and internal valuation specialists; ▪ Evaluated whether the model used by management to calculate the value in use of each CGU complies with IAS 36 Impairment of Assets; ▪ Obtained and analysed the financial impairment assessment provided by management for each subject asset to determine whether they are reasonable and supportable; ▪ Analysed the discount rates and Weighted Average Cost of Capital (WACC) calculated by management to compare and verify management's calculations; ▪ Reviewed the reasonableness of growth rates; ▪ Assessed the reasonableness of key cash flow assumptions; and ▪ Performed sensitivity analysis around the key assumptions used by management to ascertain the extent of change in those assumptions that either individually or collectively would be required for an additional impairment change.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Classification of plant asset as finance lease	
During the year, the Company constructed a new district cooling plant for an existing customer. The Company signed a cooling agreement with this customer for a contract period of 20 years. Since, the Agreement transfers substantially all the risk and rewards incidental to the ownership of the specified plants to the customer, Management has assessed and concluded that the arrangement is a finance lease as disclosed in Note 16 to the consolidated financial statements. Due to the significant judgement involved, the matter is considered to be a key audit matter.	As part of our audit procedures, we have: ▪ Engaged our internal valuation specialists; ▪ Reviewed the Agreement executed with the customer to provide required cooling services; ▪ Reviewed the requirements of IFRIC 4, "Determining whether an arrangement contains a lease"; ▪ Assessed the lease classification in the arrangement by reviewing the terms of the lease and third party valuation report; ▪ Analysed the implicit interest and discount rate calculated by management; ▪ Reviewed the calculation of minimum lease payments; ▪ Assessed the reasonableness of key assumptions used in minimum lease payment calculations; and ▪ Assessed the appropriateness of the gain recognised upon the recognition of finance lease.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
Provision for onerous contract	
The Group has entered into contractual arrangements where they are subject to application of Consumer Price Index (CPI) adjustment which can impact the profitability of such arrangements. Management made an assessment as to whether the impact of such factors has resulted in contracts becoming onerous. Management performs an annual assessment of the impact of CPI on such contracts and records a provision accordingly. Management's disclosures with regards to onerous provision are presented in notes 27 to the consolidated financial statements respectively.	As part of our audit procedures, we have: ▪ Tested the identification and completeness of onerous contracts through discussions with management, examination of board minutes, obtaining and reading new significant contracts and testing management's assumptions for all contracts where the cost exceeds the revenue to determine if the contracts are onerous; ▪ Tested the valuation of the onerous contract provisions by evaluating whether appropriate judgements and assumptions have been applied in determining the unavoidable costs of meeting the obligation and the estimate of the expected benefits to be received under the contract; ▪ Performed audit procedures on the cash flow model prepared by management to assess the accuracy of the provision. We have reviewed and challenged key assumptions used in developing the model; and ▪ Reviewed the pricing mechanism in contracts with customer to further substantiate the input and assumptions used in the cash flow model.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information

The Board of Directors are responsible for the other information. The other information comprises the Board of Directors Report, which we obtained prior to the date of this auditor's report, and the Key Achievements of 2016, Overview of 2016 and the Corporate Governance Report, which are expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we will read the Key Achievements of 2016, Overview of 2016 and the Corporate Governance Report, if we conclude that there is a material misstatement therein, we will be required to communicate the matter to those charged with governance and consider whether a reportable irregularity exists in terms of the auditing standards, which must be reported.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Federal Law No. (2) of 2015, and for such internal control as management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

Other matter

The Group's consolidated financial statements as at 31 December 2015 were audited by another auditor whose report dated 31 January 2016 expressed an unmodified audit opinion.

Report on Other Legal and Regulatory Requirements

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

i. we have obtained all the information we considered necessary for the purposes of our audit;

ii. the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;

iii. the Company has maintained proper books of account;

iv. the financial information included in the report of the Board of Directors are consistent with the books of account and records of the Company;

v. As disclosed in note 9 and 13 to the consolidated financial statements, the Group has further invested in a subsidiary and a joint venture during the financial year ended 31 December 2016;

vi. note 28 reflects the disclosures relating to related party transactions and the terms under which they were conducted; and

vii. based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Company, its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2016.

Deloitte & Touche (M.E.)

Signed by:
Rama Padmanabha Acharya
Registration number 701
Abu Dhabi
29 January 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016

	Notes	***2016*** ***AED '000***	*2015* *AED '000*
Revenue	3 & 4	**1,279,853**	1,204,008
Operating costs	4 & 6.1	**(681,979)**	(643,393)
GROSS PROFIT		**597,874**	560,615
Administrative and other expenses	6.2	**(192,543)**	(177,918)
OPERATING PROFIT		**405,331**	382,697
Finance costs	5	**(155,959)**	(138,987)
Finance income		**394**	1,438
Other gains and losses	14,16,18 & 24	**4,986**	4,203
Share of results of associates and joint ventures	12 & 13	**116,950**	98,660
PROFIT FOR THE YEAR		**371,702**	348,011
Attributable to:			
Ordinary equity holders of the parent		**367,362**	345,345
Non-controlling interests		**4,340**	2,666
		371,702	348,011
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (AED)	7	**0.14**	0.11

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 AED '000	2015 AED '000
PROFIT FOR THE YEAR		**371,702**	348,011
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Board remuneration during the year	8	-	(7,125)
Items that may be reclassified subsequently to profit or loss:			
Net movement in fair value of derivatives in cash flow hedges		**(390)**	25,897
Share of changes in fair value of derivatives of an associate and a joint venture in cash flow hedges	12 & 13	**2,958**	(3,631)
Exchange differences arising on translation of overseas operations		**(142)**	(15)
TOTAL OTHER COMPREHENSIVE INCOME		**2,426**	15,126
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**374,128**	363,137
Attributable to:			
Equity holders of the parent		**369,788**	360,471
Non-controlling interests		**4,340**	2,666
		374,128	363,137

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	2016 AED '000	2015 AED '000
ASSETS			
Non-current assets			
Capital work in progress	10	117,775	304,723
Property, plant and equipment	11	3,845,225	3,498,466
Intangible assets	14	27,710	37,596
Investments in associates and joint ventures	12 & 13	826,096	641,178
Loan to a joint venture	15 & 28	-	72,276
Finance lease receivables	16	2,782,567	2,736,692
		7,599,373	7,290,931
Current assets			
Inventories		32,026	37,813
Accounts receivable and prepayments	17	409,115	409,506
Finance lease receivables	16	230,918	226,404
Cash and term deposits	19	389,961	176,969
		1,062,020	850,692
Disposal group and asset held for sale	18	-	91,201
		1,062,020	941,893
TOTAL ASSETS		8,661,393	8,232,824
EQUITY AND LIABILITIES			
Equity			
Issued capital	20	738,490	738,490
Treasury shares	21	(2,016)	(2,016)
Statutory reserve	22	234,092	197,356
Retained earnings		888,361	720,667
Foreign currency translation reserve		(2,715)	(2,573)
Cumulative changes in fair value of derivatives in cash flow hedges		(29,551)	(32,119)
Mandatory convertible bond – equity component	24	1,772,476	1,772,476
Other reserve	22	768,086	768,086
Equity attributable to the equity holders of the parent		4,367,223	4,160,367
Non – controlling interests		70,868	65,399
Total equity		4,438,091	4,225,766
Non-current liabilities			
Accounts payable, accruals and provisions	27	133,110	128,546
Interest bearing loans and borrowings	23	2,887,187	2,808,286
Obligations under finance lease	25	3,979	10,320
Mandatory convertible bond– liability component	24	97,729	173,908
Employees' end of service benefits	26	22,649	20,625
		3,144,654	3,141,685
Current liabilities			
Accounts payable, accruals and provisions	27	643,663	568,001
Interest bearing loans and borrowings	23	342,712	189,021
Mandatory convertible bond– liability component	24	84,909	84,909
Obligations under finance lease	25	7,364	7,364
		1,078,648	849,295
Liabilities directly associated with the assets held for sale	18	-	16,078
		1,078,648	865,373
Total liabilities		4,223,302	4,007,058
TOTAL EQUITY AND LIABILITIES		8,661,393	8,232,824

Waleed Al Mokarrab Al Muhairi
Chairman

Jasim H. Thabet
Chief Executive Officer

Stephen John Ridlington
Chief Financial Officer

The attached notes 1 to 33 form part of these consolidated financial statements.

tabreed

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the parent										
	Issued capital AED'000	*Treasury shares* AED'000	*Statutory reserve* AED'000	*Retained earnings* AED'000	*Foreign currency translation reserve* AED'000	*Cumulative changes in fair value of derivatives* AED'000	*Mandatory convertible bond- equity component* AED'000	*Other reserve* AED'000	*Total* AED'000	*Non-controlling interests* AED'000	*Total equity* AED'000
Balance at 1 January 2015	738,490	(2,016)	162,822	590,665	(2,558)	(54,385)	2,450,238	977,340	4,860,596	69,997	4,930,593
Profit for the year	-	-	-	345,345	-	-	-	-	345,345	2,666	348,011
Other comprehensive (loss)/ income for the year	-	-	-	(7,125)	(15)	22,266	-	-	15,126	-	15,126
Total comprehensive income/ (loss) for the year	-	-	-	338,220	(15)	22,266	-	-	360,471	2,666	363,137
Transfer to statutory reserve	-	-	34,534	(34,534)	-	-	-	-	-	-	-
Dividends paid to ordinary shareholders (note 8)	-	-	-	(36,925)	-	-	-	-	(36,925)	-	(36,925)
Dividends paid to mandatory convertible bond holders (note 8)	-	-	-	(136,759)	-	-	-	-	(136,759)	-	(136,759)
Repurchase of mandatory convertible bonds (note 24)	-	-	-	-	-	-	(677,762)	(209,254)	(887,016)	-	(887,016)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	(7,264)	(7,264)
Balance at 31 December 2015	738,490	(2,016)	197,356	720,667	(2,573)	(32,119)	1,772,476	768,086	4,160,367	65,399	4,225,766
Balance at 1 January 2016	738,490	(2,016)	197,356	720,667	(2,573)	(32,119)	1,772,476	768,086	4,160,367	65,399	4,225,766
Profit for the year	-	-	-	367,362	-	-	-	-	367,362	4,340	371,702
Other comprehensive (loss) /income for the year	-	-	-	-	(142)	2,568	-	-	2,426	-	2,426
Total comprehensive income/(loss) for the year	-	-	-	367,362	(142)	2,568	-	-	369,788	4,340	374,128
Capital contribution by non-controlling interests	-	-	-	-	-	-	-	-	-	7,588	7,588
Transfer to statutory reserve	-	-	36,736	(36,736)	-	-	-	-	-	-	-
Dividends paid to ordinary shareholders (note 8)	-	-	-	(44,310)	-	-	-	-	(44,310)	-	(44,310)
Dividends paid to mandatory convertible bond holders (note 8)	-	-	-	(118,622)	-	-	-	-	(118,622)	-	(118,622)
Dividends paid to minority interest shareholders	-	-	-	-	-	-	-	-	-	(6,459)	(6,459)
Balance at 31 December 2016	738,490	(2,016)	234,092	888,361	(2,715)	(29,551)	1,772,476	768,086	4,367,223	70,868	4,438,091

The attached notes 1 to 33 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2016

	Notes	2016 AED '000	2015 AED '000
OPERATING ACTIVITIES			
Profit for the year		371,702	348,011
Non-cash adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property, plant and equipment	11	129,423	119,900
Impairment of goodwill		9,886	-
Finance lease income	3&16	(185,587)	(187,994)
Share of results of associates and joint ventures	12&13	(116,950)	(98,660)
Net movement in employees' end of service benefits	26	1,573	(452)
Other gains		(38,297)	(4,203)
Allowance for slow moving inventory		14,200	-
Interest income		(394)	(1,438)
Finance costs	5	155,959	138,987
Working capital adjustments:			
Inventories		(2,534)	(2,111)
Accounts receivable and prepayments		10,800	79,675
Accounts payable, accruals and provisions		(23,150)	(9,728)
Lease rentals received	16	234,002	230,069
Board of Directors' remuneration paid	8	(7,125)	(7,125)
Net cash flows from operating activities		553,508	604,931
INVESTING ACTIVITIES			
Term deposits with original maturity of more than 3 months	19	-	252,674
Purchase of property, plant and equipment	11	(132,598)	(112,957)
Investments in a joint venture	12&13	(91,837)	-
Dividends from a Joint Venture		29,000	-
Dividends from associates	12	47,257	33,476
Payments for capital work in progress		(63,053)	(176,738)
Interest received		345	1,311
Proceed from disposal of assets held for sale	18	11,224	11,429
Net cash flows (used in)/ from investing activities		(199,662)	9,195
FINANCING ACTIVITIES			
Interest bearing loans and borrowings received	23	455,540	1,035,274
Interest bearing loans and borrowings repaid		(232,593)	(209,668)
Repurchase of Mandatory Convertible Bonds 1B	24	-	(1,000,000)
Cash coupon paid on mandatory convertible bonds	24	(86,444)	(103,517)
Payment for obligations under finance lease		(6,341)	(5,762)
Interest paid		(121,469)	(108,688)
Arrangement fees paid		(4,221)	(12,629)
Additional capital by non-controlling parties		7,588	-
Dividends paid to ordinary shareholders	8	(162,932)	(173,684)
Dividends paid to non-controlling interests and Shareholders		(6,459)	(7,264)
Net cash flows used in financing activities		(157,331)	(585,938)
NET INCREASE IN CASH AND CASH EQUIVALENTS		196,515	28,188
Cash and cash equivalents at 1 January		193,446	165,258
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19	389,961	193,446

Non-cash transactions are disclosed in note 28.

The attached notes 1 to 33 form part of these consolidated financial statements.

1 GENERAL INFORMATION

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 Federal Law No. (2) of 2015 and is listed on the Dubai Financial Market. The Company is a subsidiary of the Mubadala Development Company PJSC ("MDC" or the "Parent Company"). The principal activities of the Company and its subsidiaries (the "Group") are supply of chilled water, operation and maintenance of plants, construction of secondary networks, manufacturing of pre-insulated pipes and design and supervision consultancy. Activities of subsidiaries are described in note 9 to the consolidated financial statements.

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

The Company amended its Articles of Association to comply with new UAE Federal Law No. 2 of 2015 ("Companies Law") and best practice regulations issued by Securities and Commodities Authority. The first amendment was approved by the Shareholders in the Annual General Meeting held on 2 March 2016. Subsequent to the year end, Shareholders approved further amendments at a General Meeting held on 15th January, 2017.

The Group has not made any social contributions during the year.

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 29 January 2017.

2.1 BASIS OF PREPARATION

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

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

2.2 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Tabreed and its subsidiaries (the "Group") as at 31 December 2016. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

2.2 BASIS OF CONSOLIDATION (continued)

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

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

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 related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The specific recognition criteria described below must also be met before revenue is recognised.

Rendering of services
Revenue from supervision contracts services is recognised as supervision services are rendered. Revenue in respect of study and design contracts services is recognised by reference to the stage of completion of the contract, when:

1) it is probable that the economic benefits associated with the contract will flow to the Group;
2) the contract costs attributable to the contract can be reliably estimated; and
3) the Group is reasonably confident about the collection of the amount recognised.

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

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

Connection fees
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 statement of profit or loss.

Lease rental
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset to the customers are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned. Where the Group determines that the cooling service agreements to contain an operating lease, capacity payments are recognised as operating lease rentals on a systematic basis to the extent that capacity has been made available to the customers during the year. Rental income arising from operating leases on chilled water plants is accounted for on a straight-line basis over the lease terms and included in revenue due to its operating nature.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies
The consolidated financial statements are presented in AED, which is the parent Company's functional and presentation currency. The functional currency is the currency of the primary economic environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

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 statement of profit or loss are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in the statement of comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated statement of profit or loss.

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

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

2.3 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 and suspended projects or not attributable to qualifying assets are expensed in the period in which they are incurred.

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

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 statement of profit or loss as incurred. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of profit or loss.

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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 statement of profit or loss in the year in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

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

Impairment of non-financial assets

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

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

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

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

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

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

- Financial assets at fair value through profit or loss; The Group did not have any financial assets at fair value through profit and loss during the years ended 31 December 2016 and 2015.
- Loans and receivables; This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation relating to finance lease receivable is included under revenue. The losses arising from impairment are recognised in the consolidated statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables.
- Held-to-maturity investments; The Group did not have any held-to-maturity investments during the years ended 31 December 2016 and 2015.
- Available-for-sale (AFS) investments; The Group did not have any available-for-sale investments during the years ended 31 December 2016 and 2015.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment and other financial assets (continued)

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

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

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and non-collectability of financial assets (continued)

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

Available for sale financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive profit or loss.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, the impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, 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. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories (continued)

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

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

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

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale.

Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

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

Subsequent measurement

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

Accounts payable and accruals

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

Interest bearing loans & borrowings

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

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

Mandatory convertible bond

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Derecognition
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

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

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

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

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

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. Management reviews its contracts annually.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Restructuring provisions

Restructuring provisions are recognised only when the Group has a constructive obligation, which is when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs, and an appropriate timeline, and the employees affected have been notified of the plan's main features.

Decommissioning liability

The Group records a provision for decommissioning costs of a manufacturing facility for the production of fire retardant materials. Decommissioning costs are provided for at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the relevant asset. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated statement of profit or loss as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs, or in the discount rate applied, are added to or deducted from the cost of the asset.

Contingent liabilities recognised in a business combination

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

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.

Derivative financial instruments and hedging

Initial recognition and subsequent measurement

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Initial recognition and subsequent measurement (continued)

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

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

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

Fair value hedges
The change in the fair value of a hedging derivative is recognised in the consolidated statement of profit or loss. 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 statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the consolidated statement of profit or loss.

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

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

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

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

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

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

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

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

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

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

All other assets are classified as non-current.

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

The Group classifies all other liabilities as non-current.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

2.4 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture*: Bearer Plants
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

• Capital management	Note 31
• Financial instruments risk management and policies	Note 31
• Sensitivity analyses disclosures	Note 31

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Judgments

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

IFRIC 4 Determining whether an Arrangement contains a Lease

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

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

Impairment of non-financial assets – Indicators of impairment

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

Contingencies

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

Asset retirement obligation

The Group exercises judgement in evaluating whether an arrangement contains a legal or constructive obligation to remove the plant and equipment and restore the land at the end of the contractual arrangement or end of useful life of the Group's plant and equipment constructed and installed on land leased from the respective customer or third party. The cost estimates relating to asset retirement obligations can vary in response to factors including changes to relevant legal requirements, the emergence of new techniques or experience at sites. The expected timing of expenditure can also change. However, the Group expects the financial impact of any such factors would be negligible.

Provisions relating to contracts

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

Determination of cash-generating unit (CGU)

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Determining CGU require management to analyse the contractual terms and physical features of assets such as inter-connection and sharing of chilled water generation capabilities and requires significant judgement in determining at which level independent cash inflows are generated.

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions

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

Useful lives of property, plant and equipment

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

Fair value of financial instruments

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

Impairment of non-financial assets

Impairment testing requires an estimation of the fair values less cost to sell and value in use of the cash generating units. The recoverable amounts require the 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:

	2016	*2015*
	AED '000	*AED '000*
Capital work in progress (note 10)	**117,775**	304,723
Property, plant and equipment (note 11)	**3,845,225**	3,498,466
Intangible assets (note 14)	**27,710**	37,596

Impairment of accounts receivable, amounts due from related parties, finance lease receivable and loan to a joint venture

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

At the reporting date, gross trade accounts receivable were AED 278.4 million (2015: AED 254.5 million) and impairment loss recognised in the consolidated statement of profit or loss for the year ended 31 December 2016 was AED 5.7 million (2015: AED 4.3 million).

2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Estimates and assumptions (continued)

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 46.2 million (2015: AED 37.8 million). Provision of AED 14.2 million has been made for obsolete inventories during the year ended 31 December 2016 (2015: AED nil). Any difference between the amounts actually realised in future periods and the amounts expected to be realised will be recognised in the consolidated statement of profit or loss.

2.6 NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied
IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 is first applied
Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses	1 January 2017

2.6 NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 *Foreign Currency Transactions and Advance Consideration* The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.	1 January 2018

2.6 NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 *Revenue from Contracts with Customers*	1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

2.6 NEW AND REVISED IFRS IN ISSUE BUT NOT YET EFFECTIVE (continued)

New and revised IFRSs	Effective for annual periods beginning on or after
The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer. • Step 2: Identify the performance obligations in the contract. • Step 3: Determine the transaction price. • Step 4: Allocate the transaction price to the performance obligations in the contract. • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	
IFRS 16 *Leases* IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Group in the period of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2019. The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's financial statements in respect of revenue from contracts with customers and the Group's consolidated financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

3 REVENUE

	2016 AED '000	2015 AED '000
Supply of chilled water and operating revenue (note 30)	982,396	914,761
Finance lease income (note 16)	185,587	187,994
Value chain business	111,870	101,253
	1,279,853	1,204,008

4 OPERATING SEGMENTS

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

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

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

	2016				2015			
	Chilled water AED'000	*Value chain business AED'000*	*Eliminations AED'000*	*Total AED'000*	*Chilled water AED'000*	*Value chain business AED'000*	*Eliminations AED'000*	*Total AED'000*
Revenue								
External Revenue	1,167,983	111,870	-	1,279,853	1,102,755	101,253	-	1,204,008
Inter-segment revenue	-	20,185	(20,185)	-	-	18,597	(18,597)	-
Total revenue	1,167,983	132,055	(20,185)	1,279,853	1,102,755	119,850	(18,597)	1,204,008
Operating costs	(616,593)	(83,609)	18,223	(681,979)	(577,028)	(84,499)	18,134	(643,393)
Gross profit	551,390	48,446	(1,962)	597,874	525,727	35,351	(463)	560,615
Administrative and other expenses	(164,073)	(31,527)	3,057	(192,543)	(155,299)	(23,456)	837	(177,918)
Operating profit	387,317	16,919	1,095	405,331	370,428	11,895	374	382,697
Finance costs	-	-	-	(155,959)	-	-	-	(138,987)
Finance income	-	-	-	394	-	-	-	1,438
Other gains and losses	-	-	-	4,986	-	-	-	4,203
Share of results of associates and joint ventures	116,950	-	-	116,950	98,660	-	-	98,660
				371,702				348,011

4 OPERATING SEGMENTS continued

Inter-segment revenues are eliminated on consolidation.

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

	2016 Chilled water AED'000	2016 Value chain business AED'000	2016 Total AED'000	2015 Chilled water AED'000	2015 Value chain business AED'000	2015 Total AED'000
Depreciation	122,437	6,986	129,423	116,824	3,076	119,900
Finance lease amortisation	48,415	-	48,415	42,075	-	42,075

Segment assets and liabilities are as follows:

	2016 Chilled water AED'000	2016 Value chain business AED'000	2016 Unallocated AED'000	2016 Total AED'000	2015 Chilled water AED'000	2015 Value chain business AED'000	2015 Unallocated AED'000	2015 Total AED'000
Segment assets	7,634,562	187,615	-	7,822,177	7,348,701	129,744	-	7,478,445
Disposal group and asset held for sale	-	-	-	-	21,055	70,146	-	91,201
Investments in associates	640,516	-	-	640,516	590,178	-	-	590,178
Investment in joint ventures	185,580	-	-	185,580	51,000	-	-	51,000
Unallocated assets	-	-	13,120	13,120	-	-	22,000	22,000
Total assets	8,460,658	187,615	13,120	8,661,393	8,010,934	199,890	22,000	8,232,824
Segment liabilities	753,314	46,108	-	799,422	673,838	43,334	-	717,172
Liabilities directly associated with asset held for sale	-	-	-	-	-	16,078	-	16,078
Unallocated liabilities	-	-	3,423,880	3,423,880	-	-	3,273,808	3,273,808
Total Liabilities	753,314	46,108	3,423,880	4,223,302	673,838	59,412	3,273,808	4,007,058

Unallocated assets represent bank deposits of AED 13.1million (2015: AED 22.0 million) as these assets are managed on a group basis.

Unallocated liabilities represent interest bearing loans and borrowings of AED 3,229.9 million (2015: AED 2,997.3 million), obligations under finance lease of AED 11.3 million (2015: AED 17.7 million) and mandatory convertible bond – liability component of AED 182.6 million (2015: AED 258.8 million)

Other segment disclosures :

	2016 Chilled water AED'000	2016 Value chain business AED'000	2016 Total AED'000	2015 Chilled water AED'000	2015 Value chain business AED'000	2015 Total AED'000
Capital expenditure:						
Property, plant and equipment	122,519	4,306	126,825	109,291	3,666	112,957
Capital work in progress	198,750	-	198,750	191,702	-	191,702
Investment in an associate and a joint venture	91,837	-	91,837	-	-	-

4 OPERATING SEGMENTS continued

Geographic information

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

	Revenue		*Non-current assets*	
	2016	*2015*	*2016*	*2015*
	AED '000	*AED '000*	*AED '000*	*AED '000*
United Arab Emirates	1,208,003	1,160,345	6,339,296	6,116,684
Others	71,850	43,663	433,981	460,793
	1,279,853	1,204,008	6,773,277	6,577,477

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 in 2016 or 2015.

	2016	*2015*
	AED'000	*AED'000*
Chilled water segment:		
Customer 1	305,821	302,077
Customer 2	260,445	249,647
Customer 3	118,191	112,315
	684,457	664,039

5 FINANCE COSTS

	2016	*2015*
	AED '000	*AED '000*
Gross interest charge for the year	157,356	138,987
Less: interest capitalised during the year	(1,397)	-
Interest charged to consolidated statement of profit or loss during the year	155,959	138,987
Interest charged to consolidated statement of profit or loss comprises of:		
Interest on interest bearing loans and borrowings	123,027	100,848
Accretion expense on mandatory convertible bonds (note 24)	9,214	14,735
Interest element of obligations under finance lease	1,412	1,990
Amortisation of transaction costs	15,768	14,036
Other finance costs	6,538	7,378
	155,959	138,987

6 PROFIT FROM OPERATIONS

6.1 Operating costs

	2016	2015
	AED '000	AED '000
Costs of inventories recognised as an expense	48,554	53,974
Depreciation (note 11)	123,880	115,193
Utility costs	338,077	313,518
Purchase of chilled water from a related party (note 28)	101,001	99,260
Staff and Others	70,467	61,448
	681,979	643,393

6.2 Administrative and other expenses

	2016	2015
	AED '000	AED '000
Staff costs	125,059	120,088
Depreciation (note 11)	5,543	4,707
Provision for impairment of trade receivables (note 17)	5,694	4,331
Other administrative and general expenses	56,247	48,792
	192,543	177,918

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

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of mandatory convertible bond (note 20).

Diluted earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares used to calculate basic earnings per share, plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

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

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

	2016	*2015*
Profit for the year attributable to ordinary equity holders of the parent for basic earnings (*AED '000*)	367,362	345,345
Weighted average number of ordinary shares (excluding treasury shares) outstanding during the year ('000)	736,474	736,474
Effect of mandatory convertible bond ('000)	1,977,039	2,352,999
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of mandatory convertible bond ('000)	2,713,513	3,089,473
Basic and diluted earnings per share (*AED*)	0.14	0.11

Basic earnings per share has been calculated on the basis of maximum number of shares that may be issued for mandatory convertible bond (note 24). The Company does not have any instruments which would have a dilutive impact on earnings per share when exercised.

On 30 June 2015, 758,150,113 potential ordinary shares were retired as a result of repurchase of a portion of mandatory convertible bond (MCB-1B).

8 DIVIDENDS AND BOARD REMUNERATION

On 29 January 2017, the Board of Directors resolved to recommend to the shareholders at the upcoming Annual General Assembly meeting, the distribution to shareholders and mandatory convertible bond holder of dividend of 6.5 fils per share in respect of the fiscal year ended 31 December 2016.

A cash dividend of 6 fils per share pertaining to both common shareholders and mandatory convertible bond holder in respect of the fiscal year ended 31 December 2015 was approved by the shareholders at the Annual General Meeting held on 2 March 2016. The dividend comprised of AED 44.3 million to the common shareholders and AED 118.6 million to the mandatory convertible bond holder and was paid in April 2016.

In 2015, the Board of Directors proposed a dividend of 5 fils per share in respect of the fiscal year ended 31 December 2014. This dividend was approved by the shareholders at the Annual General Meeting held on 11 March 2015. The dividend comprised of AED 36.9 million to the common shareholders and AED 136.7 million to the mandatory convertible bond holder and was paid in April 2015.

During the year, management reassessed the accounting policy on Board of Director's remuneration and determined that it should be reflected in the statement of profit or loss. Accordingly, Board of Director's remuneration is accrued and expensed in the current year. The opening balance of the retained earning has not been restated to reflect the Board of Director's remuneration for 2015 of AED 7.1 million as the amount is considered immaterial.

9 SUBSIDIARIES AND MATERIAL PARTLY-OWNED SUBSIDIARIES

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

	Country of incorporation	*Percentage of holding 2016*	*2015*	*Principal activities*
Chilled water segment				
National Central Cooling Company Ras Al Khaimah LLC	UAE	100	100	Selling of chilled water
Summit District Cooling Company	UAE	100	100	Selling of chilled water
Bahrain District Cooling Company	Bahrain	90	90	Selling of chilled water
Tabreed Oman SAOC	Oman	60	60	Selling of chilled water
Tabreed LLC Oman	Oman	100	100	Selling of chilled water
Tabreed Operation & Maintenance Zones Cooling Stations Company LLC	UAE	100	100	Operation and maintenance of plants
Tabreed Parks Investment LLC	UAE	100	100	Selling of chilled water
Prime District Cooling company LLC (i)	UAE	75	-	Selling of chilled water
Value chain business segment				
Gulf Energy Systems LLC	UAE	100	100	Construction of secondary networks
Emirates Preinsulated Pipes Industries LLC	UAE	60	60	Manufacturing of pre-insulated pipes
Installation Integrity 2000 LLC	UAE	100	100	Commissioning and engineering services
CoolTech Energy Water Treatment LLC	UAE	100	100	Water treatment services and selling chilled water related products
Ian Banham and Associates	UAE	70	70	Design and supervision consultancy
Sahara Cooling and Air Conditioning LLC	UAE	51	51	Act as the commercial representative of Sahara Cooling Limited, an associate (note 12)
Tasleem Metering and Payment LLC	UAE	100	100	Billing and collection of chilled water charges from residential and retail
Others - Unallocated				
Tabreed Holdings WLL	Bahrain	100	100	Act as a holding company
Tabreed Al Maryah District Cooling Investment LLC	UAE	100	100	Act as a holding company

None of the subsidiaries have material non-controlling interests.

(i) During the year, the Company incorporated a 75% owned subsidiary, Prime District Cooling Company LLC, in the Emirate of Abu Dhabi with a share capital of AED 5 million. The Company is incorporated to acquire a new plant and the principal activity of the subsidiary is to supply chilled water to customers.

10 CAPITAL WORK IN PROGRESS

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

	2016 AED '000	2015 AED '000
Balance at 1 January	**292,795**	140,121
Additions during the year	**198,750**	191,702
Transfer to property, plant and equipment (note 11)	**(319,689)**	(16,132)
Transfer to finance lease (note 16)	**(62,115)**	(22,896)
	109,741	292,795
Advances to contractors	**8,034**	11,928
Balance at 31 December	**117,775**	304,723

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

11 PROPERTY, PLANT AND EQUIPMENT

	Land, plant and buildings *AED'000*	*Distribution network* *AED'000*	*Furniture and fixtures* *AED'000*	*Office equipment and instruments* *AED'000*	*Motor vehicles* *AED'000*	*Total* *AED'000*
2016						
Cost:						
At 1 January 2016	3,201,558	2,001,335	11,507	41,185	523	5,256,108
Additions	97,964	20,349	869	7,540	103	126,825
Transfer from capital work in progress (note 10)	139,037	180,652	-	-	-	319,689
Transfer from assets held for sale (note 18)	69,678	-	438	4,684	536	75,336
Disposals	(2,138)	-	(4,865)	(10,494)	(85)	(17,582)
At 31 December 2016	3,506,099	2,202,336	7,949	42,915	1,077	5,760,376
Depreciation:						
At 1 January 2016	520,876	218,492	10,074	31,465	484	781,391
Depreciation for the year	80,821	43,522	557	4,472	51	129,423
Transfer to assets held for sale (note 18)	40,480	-	438	4,228	522	45,668
Depreciation relating to disposals	(2,138)	-	(4,865)	(10,494)	(85)	(17,582)
At 31 December 2016	640,039	262,014	6,204	29,671	972	938,900
Net carrying amount before accumulated impairment:						
At 31 December 2016	2,866,060	1,940,322	1,745	13,244	105	4,821,476
Impairment:						
At 1 January 2016	514,931	461,320	-	-	-	976,251
Impairment during the year	-	-	-	-	-	-
At 31 December 2016	514,931	461,320	-	-	-	976,251
Net carrying amount after accumulated impairment:						
At 31 December 2016	2,351,129	1,479,002	1,745	13,244	105	3,845,225

	Land, plant and buildings *AED'000*	*Distribution network* *AED'000*	*Furniture and fixtures* *AED'000*	*Office equipment and instruments* *AED'000*	*Motor vehicles* *AED'000*	*Total* *AED'000*
2015						
Cost:						
At 1 January 2015	3,287,947	1,883,476	10,748	40,180	1,059	5,223,410
Additions	813	108,273	997	2,874	-	112,957
Transfer from capital work in progress (note 10)	3,531	9,586	200	2,815	-	16,132
Transfer to assets held for sale (note 18)	(90,733)	-	(438)	(4,684)	(536)	(96,391)
At 31 December 2015	3,201,558	2,001,335	11,507	41,185	523	5,256,108
Depreciation:						
At 1 January 2015	486,448	176,635	10,245	32,840	991	707,159
Depreciation for the year	74,908	41,857	267	2,853	15	119,900
Transfer to assets held for sale (note 18)	(40,480)	-	(438)	(4,228)	(522)	(45,668)
At 31 December 2015	520,876	218,492	10,074	31,465	484	781,391
Net carrying amount before accumulated impairment:						
At 31 December 2015	2,680,682	1,782,843	1,433	9,720	39	4,474,717
Impairment:						
At 1 January 2015	514,931	461,320	-	-	-	976,251
Impairment during the year	-	-	-	-	-	-
At 31 December 2015	514,931	461,320	-	-	-	976,251
Net carrying amount after accumulated impairment:						
At 31 December 2015	2,165,751	1,321,523	1,433	9,720	39	3,498,466

11 PROPERTY, PLANT AND EQUIPMENT continued

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

	2016	*2015*
	AED '000	*AED '000*
Included in operating costs (note 6.1)	**123,880**	115,193
Included in administrative and other expenses (note 6.2)	**5,543**	4,707
	129,423	119,900

Property, plant and equipment together with the customer receivables associated with these plants of AED 4,427 million (2015: AED 4,411 million) have been pledged as security for the interest bearing loans (note 23).

Net book value of plant amounting to AED 35 million (2015: AED 36.6 million) are held under finance lease. The leased assets are pledged as security for the related finance lease liability (note 25).

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

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

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

- Identification of cash generating units;
- Estimated use of the plant measured by its Equivalent Full Load Hours (EFLH) defined as annual ton-hours of cooling actually supplied divided by the supplying chiller's design capacity in tons;
- Amount and timing of revenue relating to capacity of the plant,
    a. contracted but not connected at year end; and
    b. not connected at year end;
- Inflation rate (3%) used to extrapolate cash flows beyond the period of the initial agreement with the respective customer;
- Cost of construction relating to plant and equipment under construction based on contracts signed to date and estimate of cost required to complete;
- Discount rate based on the Group's weighted average cost of capital (WACC) of 8.5% - 9.2% (2015: 8.5% - 9.2%); and
- Terminal value of distribution assets and buildings.

Revenue estimates are based on discussions with existing and potential customers and expected future loads. Cash inflows are based on the term of the existing contracts with the respective customers extended to the period of expected usage of the plant.

12 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

	Country of incorporation	*Ownership* **2016**	*2015*
Industrial City Cooling Company	United Arab Emirates	**20%**	20%
Qatar Central Cooling Company PJSC	Qatar	**44%**	44%
Tabreed District Cooling Company (Saudi)	Kingdom of Saudi Arabia	**25%**	25%
Sahara Cooling Limited	United Arab Emirates	**40%**	40%

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

	2016 ***AED '000***	*2015* *AED '000*
At 1 January	**590,178**	529,430
Share of results for the year (i)	**95,227**	89,581
Dividends received	**(47,257)**	(33,476)
Share of changes in fair value of effective cash flow hedges	**2,368**	4,643
At 31 December	**640,516**	590,178

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

(i) Adjusted by profit resulting from transactions between the Company and the associates amounting to AED 1.9 million (2015: AED 1.3 million).

12 INVESTMENTS IN ASSOCIATES continued

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

	Qatar Central Cooling Company PJSC AED 000'	*Tabreed District Cooling Company (Saudi) AED 000'*	*Others AED 000'*	*Total AED 000'*
2016				
Current assets	**333,995**	**380,735**	**94,635**	**809,365**
Non-current assets	**1,533,916**	**1,614,732**	**407,763**	**3,556,411**
Current liabilities	**(289,011)**	**(225,347)**	**(39,416)**	**(553,774)**
Non-current liabilities	**(697,259)**	**(1,055,123)**	**(266,166)**	**(2,018,548)**
Net assets	**881,641**	**714,997**	**196,816**	**1,793,454**
Tabreed's share of net assets	**387,922**	**178,749**	**73,845**	**640,516**
2015				
Current assets	292,640	490,234	100,834	883,708
Non-current assets	1,299,391	1,328,691	423,903	3,051,985
Current liabilities	(264,531)	(256,986)	(51,898)	(573,415)
Non-current liabilities	(509,223)	(913,371)	(290,194)	(1,712,788)
Net assets	818,277	648,568	182,645	1,649,490
Tabreed's share of net assets	360,042	162,142	67,994	590,178
2016				
Revenue	**344,228**	**220,713**	**113,701**	**678,642**
Cost of sales	**(144,396)**	**(77,514)**	**(52,065)**	**(273,975)**
Administrative and other expenses	**(86,493)**	**(23,877)**	**(3,060)**	**(113,430)**
Other Income	**-**	**61,589**	**340**	**61,929**
Net finance cost	**(8,688)**	**(41,723)**	**(12,510)**	**(62,921)**
Other Charges	**(2,620)**	**-**	**-**	**(2,620)**
Profit for the year	**102,031**	**139,188**	**46,406**	**287,625**
Tabreed's share of results for the year	**44,894**	**34,797**	**17,465**	**97,156**
2015				
Revenue	352,822	181,888	114,598	649,308
Cost of sales	(149,215)	(66,370)	(57,630)	(273,215)
Administrative and other expenses	(88,717)	(26,211)	(1,585)	(116,513)
Other Income	-	72,982	-	72,982
Net finance cost	(10,573)	(29,273)	(13,454)	(53,300)
Other Charges	-	(20,000)	-	(20,000)
Profit for the year	104,317	113,016	41,929	259,262
Tabreed's share of results for the year	45,900	28,254	16,736	90,890

Net assets of associates include the Company's share of negative fair value of derivatives of associates amounting to AED 4.5 million (2015: AED 6.8 million). Summarised financial information of the Group's investments in associates is adjusted for intercompany transactions.

13 INVESTMENTS IN JOINT VENTURES

The Company has the following investments in joint ventures:

	Country of incorporation	*Ownership* **2016**	*2015*
SNC Lavalin Gulf Contractors LLC	United Arab Emirates	51%	51%
S&T Cool District Cooling Company LLC	United Arab Emirates	50%	50%
Business District Cooling Investment LLC	United Arab Emirates	50%	50%

SNC Lavalin Gulf Contractors LLC (SLGC), a limited liability company is involved in engineering, procurement, construction and construction management in the field of District Cooling. The Group's interest in SLGC is accounted for using the equity method in the consolidated financial statements as both the shareholders jointly control and have equal rights to the net assets.

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

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

Movement in investments in joint ventures is as follows:

	2016 *AED '000*	*2015* *AED '000*
At 1 January	51,000	49,233
Addition contribution to a joint venture (i)	91,837	-
Transfer of loan to investment (note 15)	72,276	-
Share of results for the year	19,794	7,770
Dividend	(29,000)	-
Share of changes in fair value of effective cash flow hedges	593	(8,274)
Adjustments for inter group transactions	(20,920)	2,271
At 31 December	185,580	51,000
Share of the joint ventures' revenues and profits:		
Revenues	79,278	104,789
Profit for the year	19,794	7,770

(i) In 2016, the Company made an additional investment of AED 91.8 million in Business District Cooling Investment LLC. The investment had been accounted for as a joint venture under the equity method of accounting as both the shareholders jointly control and have equal rights to the net assets.

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

	2016 *AED '000*	*2015* *AED '000*
Revenue	158,093	203,537
Cost of sales	(88,154)	(168,820)
Administrative and other expenses	(10,431)	(8,151)
Other Income	216	222
Net finance cost	(20,006)	(11,275)
Profit for the year	39,718	15,513
Tabreed's share of results for the year	19,794	7,770

13 INVESTMENTS IN JOINT VENTURES *continued*

	2016	*2015*
	AED '000	*AED '000*
Current assets	142,674	284,660
Non-current assets	1,276,807	1,246,040
Current liabilities	(142,027)	(225,437)
Non-current liabilities	(906,875)	(1,130,989)
Loan from shareholders (note 15)	-	(72,276)
Total net assets	370,579	101,998
Tabreed's share of net assets	185,580	51,000

Net assets of joint ventures include the Company's share of negative fair value of derivatives of a joint venture amounting to AED 21.8 million (2015: AED 22.4 million). Summarised financial information of the Group's investments in joint ventures is adjusted for intercompany transactions.

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

14 INTANGIBLE ASSETS

	Goodwill	
	2016	*2015*
	AED '000	*AED '000*
At 1 January	37,596	37,596
Accumulated impairment losses	(9,886)	-
	27,710	37,596

Impairment testing of goodwill

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

	2016	*2015*
	AED '000	*AED '000*
Ian Banham & Associates	27,710	27,711
UAE Armed Forces	-	9,712
Other	-	173
Total	27,710	37,596

14 INTANGIBLE ASSETS *continued*

Impairment testing of goodwill continued

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

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

Ian Banham & Associates
The recoverable amount of the Ian Banham & Associates unit has been determined based on a value in use calculation using revenue and cost cash flow projections approved by the board of directors covering a five-year period ending 31 December 2021. The discount rate applied to the cash flow projections is 25% (2015: 25%). Revenue is earned from project supervision and study and design contracts. The revenue in the five year cash flow model reflects management estimates of projected revenue on a conservative basis. Contract costs primarily represent salaries and related benefits of technical staff such as engineers and other administrative costs. Such costs are included in the model based on current expected market trend. The cash flow projections include an estimate of terminal value based on inflation related growth rate of 3% (2015: 3%).

UAE Armed Forces cash generating unit
Since Gulf Energy Systems is not actively engaged in any major business activities, management has decided to impair the goodwill in full amounting to AED 9.9 million and recorded under other gains and losses in the consolidated statement of profit or loss.

15 LOAN TO A JOINT VENTURE

	2016	*2015*
	AED '000	*AED '000*
Loan to a joint venture	-	72,276

During the year, the Company reached to an agreement with its joint partner to treat a loan amounting to AED 72 million previously provided to S&T District Cooling Company LLC as an additional capital contribution (note 12).

16 FINANCE LEASE RECEIVABLES

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

	2016	*2015*
	AED '000	*AED '000*
At 1 January	**2,963,096**	2,982,275
Initial recognition of new finance lease receivables during the year (i)	**98,804**	22,896
Finance lease income (note 3)	**185,587**	187,994
Lease rentals received	**(234,002)**	(230,069)
At 31 December	**3,013,485**	2,963,096

Analysed in the consolidated statement of financial position as follows:

	2016	*2015*
Current assets	**230,918**	226,404
Non-current assets	**2,782,567**	2,736,692
	3,013,485	2,963,096

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

	2016		*2015*	
	Minimum lease receivables	***Present value of minimum lease***	*Minimum lease receivables*	*Present value of minimum lease*
	AED '000	***AED '000***	*AED '000*	*AED '000*
Within one year	**243,899**	**230,918**	234,003	226,404
After one but no more than five years	**1,034,542**	**842,428**	981,812	813,471
More than five years	**4,058,418**	**1,940,139**	4,187,306	1,923,221
	5,336,859	**3,013,485**	5,403,121	2,963,096
Unearned revenue	**(2,323,374)**	**-**	(2,440,025)	-
	3,013,485	**3,013,485**	2,963,096	2,963,096

Movement in unearned revenue is as follows:

	2016	*2015*
	AED '000	*AED '000*
At 1 January	**2,440,025**	2,609,335
Relating to new finance leases	**68,936**	18,684
Recognised during the year (note 3)	**(185,587)**	(187,994)
At 31 December	**2,323,374**	2,440,025

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

16 FINANCE LEASE RECEIVABLES continued

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

The carrying amount of the plant and related distribution network amounting to AED 62.1 million has been transferred from capital work in progress and finance lease receivable has been recorded at fair value at the inception of the Agreement amounting to AED 98.8 million, resulting in a gain of AED 36.7 million, recorded under other gains and losses in consolidated statement of profit or loss.

During 2015, Tabreed Oman, a subsidiary, signed a Master Cooling Agreement (the "Agreement") with a customer for a contract period of 15 years. Management has carried out an assessment of the arrangement to provide cooling services to the customer through the specified plants in accordance with the terms of the Agreement and the requirements of the relevant IFRSs, and concluded that the arrangement contains a finance lease with respect to the specified plants and related distribution network as it transfers substantially all the risk and rewards incidental to the ownership of the specified plants to the customer.

The plant had been transferred from contract work in progress and finance lease receivable had been recorded at fair value of AED 22.8 million.

17 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2016 *AED '000*	*2015* *AED '000*
Trade receivables, net	**262,128**	238,404
Amounts due from related parties (note 28)	**46,427**	53,869
Advances to contractors and employees	**13,493**	19,117
Contract work in progress	**16,183**	40,058
Deposits and other receivables	**54,997**	47,981
Prepayments	**15,887**	10,077
	409,115	409,506

17 ACCOUNTS RECEIVABLE AND PREPAYMENTS continued

As at 31 December 2016, trade receivables with a nominal value of AED 16.2 million (2015: AED 16.1 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	2016 AED '000	*2015* AED '000
At 1 January	**16,135**	11,932
Charge for the year (note 6.2)	**5,694**	4,331
Amounts written off	**(5,585)**	(128)
At 31 December	**16,244**	16,135

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

			Past due but not impaired					
	Total *AED'000*	*Neither past due nor impaired* *AED'000*	*< 30 days* *AED'000*	*30 – 60 days* *AED'000*	*60 – 90 days* *AED'000*	*90 – 120 days* *AED'000*	*120 – 365 days* *AED'000*	*>365 days* *AED'000*
2016	**308,555**	**181,613**	**44,861**	**9,872**	**8,512**	**8,614**	**27,505**	**27,578**
2015	292,273	191,338	20,177	9,942	9,743	6,752	28,109	26,212

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 28.

18 DISPOSAL GROUP AND ASSET HELD FOR SALE

(i) Disposal group held for sale

During the year, due to a change in market conditions, the Group has changed its intention to sell one of its subsidiaries. Accordingly, the assets and liabilities that were previously classified as 'disposal group held for sale' has been represented under the applicable assets and liabilities captions as at 31 December 2016 and are measured at their carrying value in accordance with requirements of IFRS 5 Non-current assets held for sale and discontinued operations. Similarly, comparative amounts for "disposal group and assets held for sale" in the consolidated statement of profit or loss for prior year are represented to reflect the classification in the consolidated statement of profit or loss for the current year presented.

18 DISPOSAL GROUP AND ASSET HELD FOR SALE (continued)

The major classes of assets and liabilities of the subsidiary that were previously classified as 'disposal group held for sale' as at 31 December 2015 and represented in the current year as follows:

	AED '000
Assets	
Property, plant and equipment	29,668
Trade and other receivables	18,122
Inventories	5,879
Bank balances and cash associated with assets held for sale (note 19)	16,477
Assets held for sale	**70,146**
Liabilities	
Employees' end of service benefits	(451)
Accounts payables, advances and accruals	(15,627)
Liabilities directly associated with assets held for sale	**(16,078)**
Net assets held for sale	**54,068**

(ii) Asset held for sale

During the year, the Group sold a plot of land which was previously classified as held for sale. The carrying amount of the land was AED 21 million and the Group recognised a gain of AED 1.6 million on sale and is recognised under other gains and losses in the consolidated statement of profit or loss during the year.

19 CASH AND TERM DEPOSITS

Bank balances and cash included in the consolidated statement of financial position:

	2016 *AED '000*	*2015* *AED '000*
Bank balances and cash	**376,841**	154,969
Bank deposits	**13,120**	22,000
	389,961	176,969

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

	2016 *AED '000*	*2015* *AED '000*
Bank balances and cash	**376,841**	154,969
Bank deposits with original maturity of less than 3 months	**13,120**	22,000
Bank balance and cash attributable to disposal group (note 18)	**-**	16,477
Cash and cash equivalents as at 31 December	**389,961**	193,446

Bank deposits attract a fixed rate of interest ranging from 1.3 to 2.5% per annum (2015: 1.0% to 1.6% per annum).

19 CASH AND TERM DEPOSITS continued

Geographical concentration of cash and term deposits is as follows:

	2016 *AED '000*	*2015* *AED '000*
Within UAE	**371,159**	179,813
Outside UAE	**18,802**	13,633
	389,961	193,446

20 ISSUED CAPITAL

	2016 AED '000	*2015* AED '000
Authorised, issued and fully paid up share capital		
Shares 738,489,648 (2015: 738,489,648) ordinary shares of AED 1 each	**738,490**	738,490

21 TREASURY SHARES

The Company set up an employee incentive scheme in accordance with the Board of Directors resolution dated 17 December 2000, and contributed to a separate account 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.

22 RESERVES

Statutory reserve

As required by the UAE Federal Law No. (2) of 2015 and the articles of association of the Company, 10% of the profit for the year is transferred to the statutory reserve. The Company may resolve to discontinue such transfers when the reserve equals 50% of the issued capital. The reserve is not available for distribution.

Other reserve

This represents amounts transferred on repurchase of Mandatory Convertible Bonds (MCB) 08 on 19 May 2011 through delivery of 415,683,447 shares. AED 1,145.2 million represents difference between the total of liability and equity components extinguished and shares issued. The reserve also includes an amount of AED 8.671 million created on settlement of subordinated loan facility - Tranche B into mandatory convertible bonds in 2012.

During the year 2014, the Company's Board of Directors resolved to transfer an amount of AED 137.8 million from the other reserve to retained earnings (note 24).

Following the conversion of a tranche of mandatory convertible bond ("MCB-4"), during 2014 an amount of AED 54.4 million was transferred to other reserve which represents the difference between the carrying of MCB-4 and the amount attributable to share capital.

Further, during 2015, the Company repurchased a portion of MCB-1B (note 24) that resulted in a one off charge to the other reserves amounting to AED 209.3 million.

23 INTEREST BEARING LOANS AND BORROWINGS

	Effective interest rate %	*2016 AED '000*	*2015 AED '000*
Term loan 1- Facility A (note i)	EIBOR + margin	**298,573**	473,168
Term loan 1- Facility B (note i)	EIBOR + margin	**1,424,511**	1,358,882
Term loan 1- Facility C (note i)	EIBOR + margin	**938,194**	997,828
Revolving credit facility (note i)	EIBOR + margin	**132,090**	-
Term loan 2 (note ii)	LIBOR + margin	**124,707**	133,744
Term loan 3 (note iii)	4.5%	**49,964**	33,685
Term loan 4 (note iv)	EIBOR + margin	**185,517**	-
Term loan 5 (note v)	EIBOR + margin	**76,343**	-
		3,229,899	2,997,307

Analysed in the consolidated statement of financial position as follows:

	2016 AED '000	*2015 AED '000*
Current portion	**342,712**	189,021
Non-current portion	**2,887,187**	2,808,286
	3,229,899	2,997,307

(i) Term loan 1 – facility (A, B and C)

Facility A

The facility A is repayable in 9 equal semi-annual instalments of AED 76.9 million each commencing from 31 December 2015 with the last instalment due on 31 December 2018. The facility carries interest rate of EIBOR plus a margin.

Facility B

Facility B is repayable in 4 equal semi-annual instalments of AED 76.9 million each commencing from 30 June 2019 and the remainder in a bullet payment on 31 March 2021. The facility carries interest rate of EIBOR plus a margin.

A revolving facility of AED 450 million is also extended to the Group which is to be utilised in the form of issuance of documentary credits and drawing cash advances. The revolving facility carries interest at EIBOR plus a margin and is repayable on 31 March 2021. As of 31 December 2016, the Company has utilised AED 140 million from the revolving facility.

Facility C

In 2015, the Company obtained a new term loan facility – Facility C, under its existing financing arrangement with a syndicate of commercial banks amounting to AED 1,000 million to finance the repurchase of Mandatory Convertible Bond 1B (note 24). The facility carries interest rate of EIBOR plus a margin.

Facility C is repayable in 11 equal semi-annual instalments of AED 18.2 million commencing on 31 December 2015 with a bullet payment of AED 800 million on 31 March 2021. All other terms of the new facility are the same as the existing facilities.

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

23 INTEREST BEARING LOANS AND BORROWINGS continued

(ii) Term loan 2
Term loan 2 relating to a subsidiary borrowing is repayable in 22 semi-annual instalments starting 2008.

(iii) Term loan 3
Term loan 3 relating to a subsidiary borrowing with a local commercial bank, the loan is repayable in quarterly instalments and carries fixed interest of 4.5% per annum. The loan is secured by pari passu charge over plant and machinery.

(iv) Term loan 4
During the year, the Group obtained a new term loan facility from a local commercial bank amounting to AED 192.5 million which was obtained to finance the construction of a new plant. The facility carries interest rate of EIBOR plus a margin, payable in cash on a quarterly basis and is secured against the plant for which facility is obtained. The facility is repayable in 23 semi-annual instalments commencing on March 2017 with a bullet payment of AED 48.1 million in March 2028.

(v) Term loan 5
During the year, the Group obtained a new term loan facility from a local commercial bank amounting to AED 77.9 million which was obtained to finance the acquisition of a new plant. The facility carries interest rate of EIBOR plus a margin, payable in cash on a quarterly basis and is secured against the plant for which facility is obtained. The facility is repayable in 60 quarterly instalments with the last instalment due on 30 June 2031.

24 MANDATORY CONVERTIBLE BONDS (MCB)

	Mandatory convertible bond (MCB)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
At 31 December 2016:			
MCB 1A (representing 989,944,912 shares at AED 1 each)	**94,925**	**870,575**	**965,500**
MCB 1B (representing 289,626,849 shares at AED 1 each)	**27,298**	**244,850**	**272,148**
MCB 1C (representing 639,862,459 shares at AED 1 each)	**60,415**	**559,951**	**620,366**
MCB 4 (representing 57,605,736 shares at AED 1 each)	**-**	**97,100**	**97,100**
Total 1,977,039,956 shares @ AED 1 each	**182,638**	**1,772,476**	**1,955,114**

24 MANDATORY CONVERTIBLE BONDS (MCB) *continued*

	Mandatory convertible bond (MCB)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
At 31 December 2015:			
MCB 1A (representing 989,944,912 shares at AED 1 each)	134,428	870,575	1,005,003
MCB 1B (representing 289,626,849 shares at AED 1 each)	38,403	244,850	283,253
MCB 1C (representing 639,862,459 shares at AED 1 each)	85,986	559,951	645,937
MCB 4 (representing 57,605,736 shares at AED 1 each)	-	97,100	97,100
Total 1,977,039,956 shares @ AED 1 each	258,817	1,772,476	2,031,293

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

	At 31 December 2016 AED '000	*At 31 December 2015 AED '000*
Current	**84,909**	84,909
Non-current	**97,729**	173,908
	182,638	258,817

The Group has four series of MCBs in issue.

Mandatory convertible bond MCB-1A

The Group has two MCB1A bonds in issue:

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

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

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

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

The liability component of MCB-1A amounting to AED 95 million (2015: AED 134 million) net of transaction costs, represents present value of cash coupon payable till maturity, discounted at a market rate of 4% on inception, which is determined on the basis of a bond with similar terms and conditions, but without the condition of mandatory conversion into ordinary shares at the redemption.

The remainder of the proceeds, at inception, from MCB-1A amounting to AED 871 million (2015: AED 871 million) net of transaction costs, have been recognised as the equity component of MCB-1A.

24 MANDATORY CONVERTIBLE BONDS (MCB) *continued*

Mandatory convertible bond MCB-1B

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

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

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

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

The liability component of MCB-1B amounting to AED 27 million (2015: AED 38 million) net of transaction costs, represents present value of cash coupon payable during the period from 1 January 2013 till maturity, discounted at a market rate of 4% at inception, which is determined on the basis of a bond with similar terms and conditions, but without the condition of mandatory conversion into ordinary shares at the redemption.

The remainder of the proceeds, at inception, from MCB-1B amounting to AED 245 million (2015: AED 245 million) net of transaction cost, have been recognised as the equity component of MCB-1B and adjusted for the settlement in kind of the coupon amounting to AED 144.8 million (2015: AED 144.8 million) relating to the period from inception to 31 December 2012.

On 7 June 2015, the Shareholders of the Company, at an Ordinary General Assembly, resolved to repurchase a portion of mandatory convertible bonds (MCB-1B) with a carrying amount of AED 795.9 million at a repurchase price of AED 1,000 million. The sale and repurchase agreement with the mandatory convertible bond holder was finalised on 30 June 2015 and consideration was subsequently transferred on 1 July 2015.

In line with the requirement of IFRS, the repurchase price of AED 113 million allocated to the liability component is determined as the fair value at the date of repurchase based on the present value of coupons payable till maturity discounted at current market rate of 6.3% per annum. The resulting gain of AED 5.1 million is recorded within other gains and losses in the consolidated statement of profit or loss.

The remainder of the repurchase price of AED 887 million is allocated to the equity component resulting in an adjustment of AED 209.3 million in equity under other reserves.

	Carrying amount AED '000	*Price allocation AED '000*	*Difference AED '000*
MCB 1B – Liability component	118,099	112,984	5,115
MCB 1B – Equity Component	677,762	887,016	(209,254)
	795,861	**1,000,000**	**(204,139)**

24 MANDATORY CONVERTIBLE BONDS (MCB) *continued*

Mandatory convertible bond MCB-1C

During 2012, the Group issued mandatory convertible bond ("MCB-1C") in the form of trust certificates for a total value of AED 720 million, maturing in March 2019.

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

The liability component of MCB-1C amounting to AED 60 million (2015: AED 86 million) represents present value of cash coupon payable during the period from 1 January 2013 till maturity, discounted at a market rate of 4% at inception, which is determined on the basis of a bond with similar terms and conditions, but without the condition of mandatory conversion into ordinary shares at the redemption.

The remainder of the proceeds, at inception, from MCB-1C amounting to AED 560 million (2015: AED 560 million) have been recognised as the equity component of MCB-1C.

Mandatory convertible bond MCB-4

A mandatory convertible bond ("MCB-4") was issued on 22 May 2013 in the form of trust certificates for a total value of AED 133.9 million maturing in April 2019.

MCB-4 does not carry a coupon. The instrument is convertible any time from now until maturity in 2019 into ordinary shares of the Company based on a fixed exchange ratio of 1.6856. The bond is subordinated in right of payment to the claims of creditors of the Company. MCB-4 has therefore been fully recognised as an equity instrument.

In the Annual General Meeting held on 24 March 2014, the shareholders approved a new tranche of MCB 4 to be issued in the form of trust certificates maturing in April 2019. The value of the new tranche amounting to AED 97.1 million has been estimated based on a fixed exchange ratio calculated using 1-week value weighted average share price as on 1 May 2014. All other terms of the new tranche are similar to those of MCB 4 already in issue.

In July 2014, a tranche of mandatory convertible bond ("MCB-4") with a carrying amount of AED 133.9 million was converted into 79,426,201 ordinary shares of AED 1 each.

The mandatory convertible bonds MCB 1A, 1B, 1C and MCB 4 have been issued without any pledge or security.

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

	Mandatory convertible bond (MCB 1A)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Balance at 1 January 2016	134,428	870,575	1,005,003
Accretion expense	4,753	-	4,753
Amortisation of transaction costs	327	-	327
Cash coupons paid	(44,583)	-	(44,583)
Balance at 31 December 2016	**94,925**	**870,575**	**965,500**

24 MANDATORY CONVERTIBLE BOND (MCB) *continued*

	Mandatory convertible bond (MCB 1B)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Balance at 1 January 2016	38,403	244,850	283,253
Accretion expense	1,390	-	1,390
Amortisation of transaction costs	549	-	549
Cash coupons paid	(13,044)	-	(13,044)
Balance at 31 December 2016	**27,298**	**244,850**	**272,148**

	Mandatory convertible bond (MCB 1C)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Balance at 1 January 2016	85,986	559,951	645,937
Accretion expense	3,071	-	3,071
Amortisation of transaction costs	175	-	175
Cash coupons paid	(28,817)	-	(28,817)
Balance at 31 December 2016	**60,415**	**559,951**	**620,366**

	Mandatory convertible bond (MCB 4)		
	Liability component AED '000	*Equity component AED '000*	*Total AED '000*
Balance at 1 January and 31 December	**-**	**97,100**	**97,100**
Total balance of MCBs at 31 December 2016	**182,638**	**1,772,476**	**1,955,114**
Total balance of MCBs at 31 December 2015	258,817	1,772,476	2,031,293

25 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:

	2016		*2015*	
	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	**4,536**	**3,979**	12,254	10,320
	12,285	**11,343**	20,003	17,684
Less: amounts representing finance charges	**(942)**	**-**	(2,319)	-
Present value of minimum lease payments	**11,343**	**11,343**	17,684	17,684

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

	2016 AED '000	*2015 AED '000*
Current	**7,364**	7,364
Non-current	**3,979**	10,320
	11,343	17,684

26 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:

	2016 AED '000	*2015 AED '000*
Balance at 1 January	**20,625**	21,528
Reclassified from/(to) disposal group held for sale (note 18)	**451**	(451)
Net movement during the year	**1,573**	(452)
Balance at 31 December	**22,649**	20,625

27 ACCOUNTS PAYABLE AND ACCRUALS

	2016 AED '000	2015 AED '000
Non-current liabilities		
Relating to capital expenditure:		
Contractor payable and retentions	15,120	10,154
Others:		
Other payables and provisions	117,990	118,392
	133,110	128,546
Current liabilities		
Relating to capital expenditure:		
Contractor payable and retentions	59,955	66,360
Due to a non-controlling interest	100,000	-
Accrued expenses	48,776	53,444
	208,731	119,804
Others:		
Accounts payable	22,115	42,251
Due to related parties – associates (note 28)	40,584	52,363
Accrued expenses	202,141	182,985
Other payables and provisions	170,092	170,598
	434,932	448,197
	643,663	568,001

In 2014, the Company has recognised a provision of AED 102 million on an onerous contract with an associate for the purchase of chilled water related to plants covered under a cooling agreement with a customer. During the year, the Company has released an amount of AED 0.8 million (2015: AED 5.5 million)

Terms and conditions of the 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 28.

28 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the Government of Abu Dhabi and related departments and institutions (owner of the majority shareholder), associated companies, joint ventures, majority shareholder, directors and key management personnel of the Company, management entities engaged by 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 statement of profit or loss are as follows:

	2016				2015			
	Revenue AED'000	*Operating costs AED'000*	*Interest expense AED'000*	*Other income AED'000*	*Revenue AED'000*	*Operating costs AED'000*	*Interest expense AED'000*	*Other income AED'000*
Associated companies	-	101,001	-	4,929	-	99,260		4,704
Majority shareholder	-	-	9,214	-	-	-	14,735	-
Associate of a majority shareholder	118,651	-	-	-	112,795	-	-	-
Government related departments and institutions	45,446	145,789	44,923	-	44,879	144,897	25,250	-

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

	2016					
	Loan receivable AED'000	*Mandatory convertible bond AED'000*	*Accounts receivable AED'000*	*Bank balances AED'000*	*Accounts payables and advances AED'000*	*Interest bearing loans AED'000*
Associated companies	-	-	23,315	-	32,360	-
Joint venture	-	-	5,329	-	-	-
Majority shareholder (note 24)	-	1,955,114	-	-	-	-
Associate of a majority shareholder	-	-	13,815	-	-	-
Other related party	-	-	-	-	100,000	-
Government related departments and institutions	-	-	3,968	141,003	7,953	1,136,426
	-	1,955,114	46,427	141,003	140,313	1,136,426

	2015					
	Loan receivable AED'000	*Mandatory convertible bond AED'000*	*Accounts receivable AED'000*	*Bank Balances AED'000*	*Accounts payables and advances AED'000*	*Interest bearing loans AED'000*
Associated companies	-	-	22,266	-	36,673	-
Joint venture	72,276		15,548	-	-	-
Majority shareholder (note 24)	-	2,031,293	-	-	-	-
Associate of a majority shareholder	-	-	8,004	-	-	-
Government related departments and institutions	-	-	8,051	73,534	15,690	1,158,027
	72,276	2,031,293	53,869	73,534	52,363	1,158,027

28 RELATED PARTY TRANSACTIONS AND BALANCES *continued*

Terms and conditions of transactions with related parties

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

	Terms and conditions	*2016 AED '000*	*2015 AED '000*
Loan to a joint venture	Interest free, unsecured, settlement in cash	**-**	72,276
Mandatory convertible bond 1A	Interest bearing, unsecured, cash coupon	**965,500**	1,005,003
Mandatory convertible bond 1B	Interest bearing, unsecured, cash coupon	**272,148**	283,253
Mandatory convertible bond 1C	Interest bearing, unsecured, cash coupon	**620,366**	645,937
Mandatory convertible bond 4	Unsecured	**97,100**	97,100
Accounts receivable	Interest free, unsecured, settled over agreed payment terms	**46,427**	53,869
Accounts receivable from associate of a majority shareholder	Interest free, unsecured, payment terms as per agreed payment terms	**13,815**	8,004
Accounts payable	Interest free, unsecured, settled over normal credit period	**32,360**	36,673
Advance from a related party	Interest free, unsecured, settled on net basis	**-**	-
Interest bearing arrangements and Government related institutions	Interest bearing, secured, settled as per terms of the loan agreement	**1,136,426**	1,158,027
Accounts receivables with Government related departments and institutions	Interest free, unsecured, settled over normal credit period	**3,968**	8,051
Accounts payables with Government related departments and institutions	Interest free, unsecured, settled over normal credit period.	**7,953**	15,690

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2016, amounts owed by related parties with a nominal value of AED 1.7 million (2015: AED 6.2 million) were impaired and fully provided for. 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.

Other transactions:

(i) In 2015, the Company entered into a sale and repurchase agreement with MDC for the repurchase of a portion of mandatory convertible bonds (MCB-1B) with a carrying amount of AED 795.9 million at a repurchase price of AED 1,000 million (note 24).

Non-cash transactions:

(i) During the year, capital expenditure incurred by an associate of the majority shareholder on behalf of the Group was transferred to the Group amounting to AED 39.1 million and settled against the receivables

(ii) During the year, the Company transferred a loan amounting to AED 72 million previously provided to S&T District Cooling Company LLC as an additional capital contribution (note 13 and note 15).

28 RELATED PARTY TRANSACTIONS AND BALANCES *continued*

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

	2016 *AED '000*	*2015* *AED '000*
Short-term benefits	**6,363**	6,204
Employees' end of service benefits	**131**	103
	6,494	6,307
Number of key management personnel	**4**	4

29 CONTINGENCIES

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

	2016 *AED '000*	*2015* *AED '000*
Performance guarantees	**108,418**	125,850
Advance payment guarantees	**673**	1,923
Financial guarantees	**2,586**	2,586
	111,677	130,359

The Company's share of contingencies of associates and joint ventures as of 31 December 2016 amounted AED 10.8 million (2015: AED 8.3 million). The Company expects no outflow of economic resources and accordingly no provision has been made in the consolidated financial statements.

30 COMMITMENTS

Capital commitments
The authorised capital expenditure contracted for at 31 December 2016 but not provided for amounted to AED 174 million (2015: AED 302 million). The Company's share of authorised future capital expenditure of associates and joint ventures at 31 December 2016 amounted to AED 16 million (2015: AED 114.9 million).

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

30 COMMITMENTS continued

Operating lease commitments – lessor continued

These non-cancellable leases have remaining terms of between 15 and 30 years. All leases include a clause to enable upward revision of the rental charge on a periodic basis according to prevailing market conditions.

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

	2016	*2015*
	AED '000	*AED '000*
Within one year	**149,008**	132,366
After one year but not more than five years	**793,772**	698,655
More than five years	**3,540,423**	3,386,098
	4,483,203	4,217,119

Included in revenue is an amount of AED 138.1 million (2015: 134.2 million) related to operating lease income recognised during the year.

Included in operating lease commitments is an amount of AED 3,208 million relating to an associate of a majority shareholder, a related party (2015: AED 3,170 million).

31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest bearing loans and borrowings, obligations under finance lease, mandatory convertible bond - liability component, trade payables and due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations and construction activity. The Group has various financial assets such as finance lease receivables, trade receivables, due from related parties and cash and 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 2016 and 2015 the Group's policy that no trading in derivatives shall be undertaken.

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

Market risk

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

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

The sensitivity analysis in the following sections relate to the position as at 31 December 2016 and 2015.

The sensitivity analysis have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2016 and 2015.

31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market risk continued

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 statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2016 and 2015 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 cash flow exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations and deposits with floating interest rates.

To manage the cash flow risk relating to its variable interest borrowings, the 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 2016, after taking into account the effect of interest rate swaps, approximately 34% of the Group's borrowings are at a fixed rate of interest (2015: 37%).

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 term deposits and un hedged portion of loans and borrowings).

	Effect on profit *AED '000*
2016	
+100 increase in basis points	(16,427)
-100 decrease in basis points	16,427
2015	
+100 increase in basis points	(14,387)
-100 decrease in basis points	14,387

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

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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

31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk

Credit risk is the risk that 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 receivables) 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 relating to trade receivables and finance lease receivables is the carrying amount as disclosed in notes 17 and 16. The Group's three largest customers, including a related party, account for approximately 41% of outstanding trade and related party receivable balances at 31 December 2016 (2015: 3 customers 46%). Amounts due in respect of finance lease receivables are from four customers (2015: three customers).

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

Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016 based on undiscounted payments and current market interest rates.

	On demand AED'000	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 Years AED'000*	*>5 years AED'000*	*Total AED'000*
At 31 December 2016						
Mandatory convertible bond	-	21,610	64,833	108,047	-	194,490
Interest bearing loans and borrowings	-	36,833	317,954	3,290,287	305,302	3,950,376
Obligations under finance leases	-	1,937	5,812	4,519	-	12,268
Accounts and retention payable, due to related parties and other financial liabilities	-	217,699	301,284	15,120	-	534,103
	-	278,079	689,883	3,417,973	305,302	4,691,237
At 31 December 2015						
Mandatory convertible bond	-	21,610	64,833	194,498	-	280,941
Interest bearing loans and borrowings	-	30,827	304,273	1,434,454	1,958,035	3,727,589
Obligations under finance leases	-	1,937	5,812	12,254	-	20,003
Accounts and retention payable, due to related parties and other financial liabilities	-	160,064	225,546	-	-	385,610
	-	214,438	600,464	1,641,206	1,958,035	4,414,143

31 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Capital management

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

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

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

	2016 *AED '000*	*2015* *AED '000*
Interest bearing loans and borrowings	**3,229,899**	2,997,307
Mandatory convertible bond and – liability component	**182,638**	258,817
Obligation under finance lease	**11,343**	17,684
	3,423,880	3,273,808
Less: cash and term deposits	**(389,961)**	(176,969)
Net debt	**3,033,919**	3,096,839
Equity attributable to equity holders of the parent	**4,367,223**	4,160,367
Adjustment for cumulative changes in fair values of derivatives	**29,551**	32,119
Total capital	**4,396,774**	4,192,486
Capital and net debt	**7,430,693**	7,289,325
Gearing ratio	**41%**	42%

32 FAIR VALUE MEASUREMENT

32.1 Fair values of financial instruments

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

	Carrying Amount		*Fair Value*	
	2016 *AED '000*	*2015* *AED '000*	*2016* *AED '000*	*2015* *AED '000*
Financial assets				
Finance lease receivables	**3,013,485**	2,963,096	**3,305,998**	3,273,998
Financial liabilities				
Obligations under finance lease	**11,343**	17,684	**12,385**	19,999
Mandatory convertible bond – liability component	**182,638**	258,817	**187,073**	262,311

32 FAIR VALUE MEASUREMENT *continued*

32.2 Fair value hierarchy

As at 31 December 2016 and 2015, the fair value measurement hierarchy of the Group's assets and liabilities is as follows:

	Date of valuation	*2016* *31 December 2016 AED'000*	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*2015* *31 December 2015 AED'000*	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*
Liabilities measured at fair value									
Interest rate swaps		3,286	-	3,286	-	2,894	-	2,894	-
Assets for which fair values are disclosed									
Finance lease receivables		3,305,998	-	-	3,305,998	3,273,998	-	-	3,273,998
Liabilities for which fair values are disclosed									
Obligations under finance lease		12,385	-	-	12,385	19,999	-	-	19,999
Mandatory convertible bond – liability component		187,073	-	-	187,073	262,311	-	-	262,311
		199,458	-	-	199,458	282,310	-	-	282,310

During the reporting years ended 31 December 2016 and 31 December 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

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

- Asset held for sale (land) were valued based on an evaluation performed by an accredited external, independent valuer, applying a valuation model, recommended by the International Valuation Standards Committee.

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

32.3 Hedging activities

Cash flow hedges

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

32 FAIR VALUE MEASUREMENT *continued*

32.3 Hedging activities continued

In order to reduce its exposure to interest rate fluctuations on the interest bearing loans and borrowings the Company has entered into interest rate swaps with counter-party banks designated as effective cash flow hedges for notional amounts that mirror the drawdown and repayment schedule of the loans. The notional amount of the interest rate swaps was AED 1,819 million as at 31 December 2016 (2015: AED 1,546 million).

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

	Within 1 year AED '000	*1-3 years AED '000*	*Total AED '000*
2016			
Cash inflows (assets)	**30,288**	**33,390**	**63,678**
Cash outflows (liabilities)	**(41,328)**	**(36,211)**	**(77,539)**
Net cash outflow	**(11,040)**	**(2,821)**	**(13,861)**
2015:			
Cash inflows (assets)	26,095	35,074	61,169
Cash outflows (liabilities)	(33,448)	(34,602)	(68,050)
Net cash outflow	(7,353)	472	(6,881)

All derivative contracts are with counterparty banks in UAE.

33 Comparative information

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