



# 2017 Annual Report

19 Years of providing  
sustainable cooling  
to landmark projects  
across the region







**H.H. Sheikh Khalifa bin Zayed Al Nahyan**  
The President of the United Arab Emirates,  
Ruler of Abu Dhabi



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



**H.H. Sheikh Mohamed bin Zayed Al Nahyan**  
Crown Prince of Abu Dhabi, and Deputy Supreme  
Commander of the UAE Armed Forces, Chairman  
of the Executive Council

# VISION

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“To be the leading cooling provider by utilizing sustainable, reliable and cost efficient energy solutions”

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# MISSION

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“Creating value through optimizing, innovating and striving for operational excellence to exceed stakeholder expectations, whilst protecting people, assets and the environment”

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# CORE VALUES

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Inspire with Positive Energy



Dedicated to Excellence



Stronger Together



Resilient in the Face of Challenges



Committed to Health, Safety and the Environment

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# TABLE OF CONTENTS

4	At a Glance
6	Key Achievements 2017
8	Overview - Historical Highlights
10	Chairman's Message
11	CEO's Message
12	Board of Directors
14	Board of Directors' Report
16	Corporate Governance Report
20	Independent Auditors' Report
25	Financial Statements

# AT A GLANCE OUR 19 YEAR JOURNEY

Established in the UAE in

# 1998

to provide innovative cooling solutions that support the nation's sustainable development

Today we operate **72**  
district cooling plants  
across the **GCC**



UAE: **63**  
Rest of GCC: **9**



We deliver  
**1.1 million** tons of  
cooling to clients



Equivalent to cooling  
**110 Burj Khalifa**  
towers





In 2017, our **energy-efficient** and environmentally friendly cooling services reduced energy consumption in the GCC by more than **1.53 billion kWh**

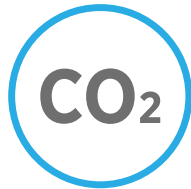


This is enough energy for up to **51,000** homes in the UAE annually



Leading to the elimination of

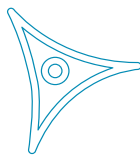
Over **768,000** tons of



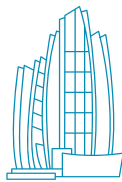
The equivalent of removing **153,600** cars from our streets annually



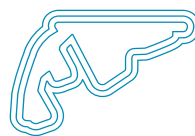
Tabreed now proudly delivers its cooling services to many of the region's iconic projects and landmarks such as:



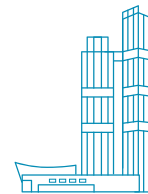
FERRARI WORLD



ETIHAD TOWERS



YAS MARINA CIRCUIT



NATION TOWERS



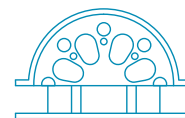
SHEIKH ZAYED GRAND MOSQUE



DUBAI METRO



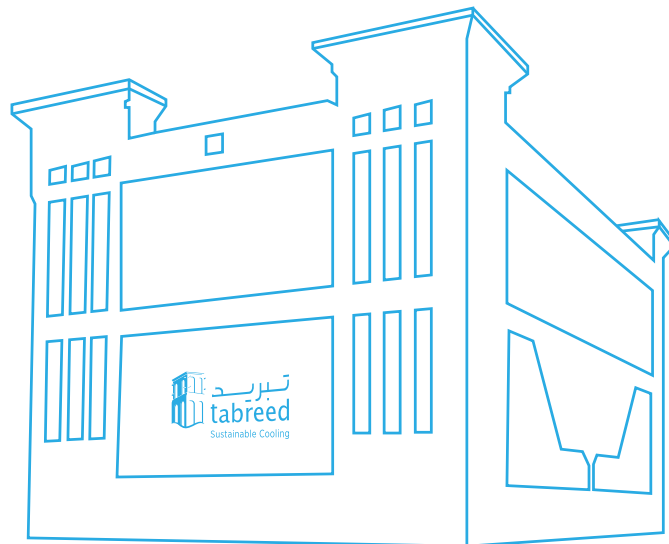
JABAL OMAR PROJECT



DUBAI PARKS AND RESORTS

Through our district cooling solutions, we play an important role in enabling economic and social development while helping GCC countries reduce energy consumption, and thereby lowering their carbon footprint.

# KEY ACHIEVEMENTS



**72** Plants across the GCC  
Connected Capacity of  
**1.1 million** RT



Tabreed stock achieved  
Shari'a compliance following  
completion of **AED 1.5 billion**  
Islamic Term Loan

**AED 400.1 million**

Net profit - an increase  
of 9% from 2016



**AED 427.2 million**

Core chilled water profit  
from operations - an increase  
of 10% from 2016

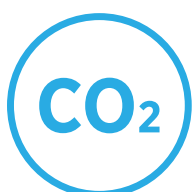
**43,900 RT**

New customer  
connections



**Over  
5.9 million  
hours**

Without any Lost  
Time Incidents



**768,000  
tons**

CO<sub>2</sub> emissions  
eliminated

**1.53 billion  
kWh**

Reduction  
in energy  
consumed



# OVERVIEW

## HISTORICAL HIGHLIGHTS

2017 was a significant year in Tabreed's history. During the year, Mubadala converted all its Mandatory Convertible Bonds (MCBs) into equity shares. Simultaneously, ENGIE – the global energy leader – acquired a 40% stake in Tabreed. Mubadala retained 42% and continues to be the largest shareholder in the company.

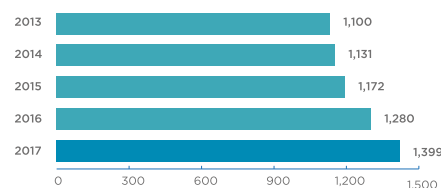
Tabreed has a strong shareholder base with Mubadala and ENGIE providing support to operations and growth. Early conversion of the MCBs leads to significant cash flow savings and a simplified capital structure. Furthermore, Tabreed aims to leverage ENGIE's global business development and operations expertise to further accelerate growth and development beyond the GCC.

The company continues to report strong top line and bottom line performance led by the core chilled water business growth. Total revenue increased by 9% led by a 13% growth in chilled water revenue. Tabreed Net Income increased by 9% to reach AED 400 million. This performance was driven by 43,900 RTs of new connected capacity additions in 2017, higher consumption volumes and CPI indexation. Our chilled water business model continues to deliver predictable and sustainable returns based on our long-term, price-certain, contracts.

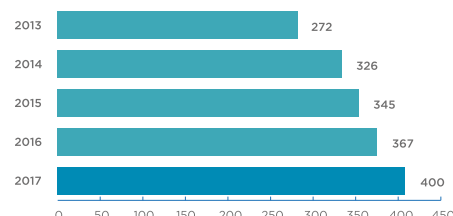
Based on its commitment to increasing shareholder returns through profitably managing its current portfolio and connecting new customers, Tabreed continued to focus on running the business efficiently and leveraging one of our main competitive advantages - economies of scale. Our 2017 revenues and profit are both the highest ever in Tabreed's 19-year history.

In line with the company's commitment to adding value to its shareholders, the Board of Directors has recommended a dividend of 8.0 fils compared to 6.5 fils paid for 2016. This is 23% higher than the last year and in part reflects the cash savings on the MCB coupon payments.

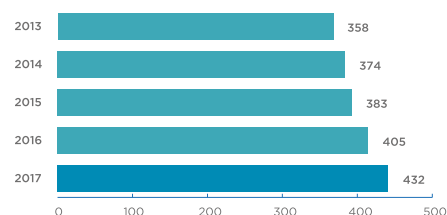
### GROUP REVENUE (AED M)



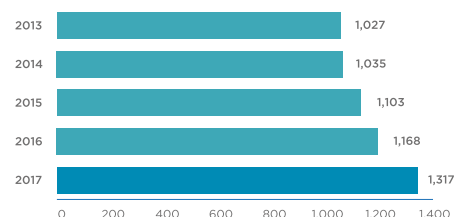
### NET PROFIT (AED M)



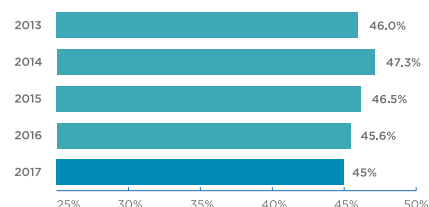
### PROFIT FROM OPERATIONS (AED M)



### CHILLED WATER REVENUE (AED M)



### GROUP EBITDA MARGIN (%)





Tabreed's core chilled water business revenue, which underscores the Company's strong financial performance and provides stable and predictable long-term returns, grew by AED 149.3 million in 2017 or 13% compared to last year. This represents an annualized growth rate of 6% since 2013. Profit from operations from chilled water was AED 427.2 million, 10% higher than 2016 and driven by new connected capacity additions, higher consumption volumes, and continued focus on cost control and efficient operations.

The chilled water business also drives cash generation ability of the business with operational cash flow reaching AED 555.1 million in 2017.

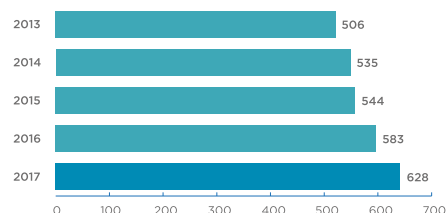
Finally, Group Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) has also continued to rise steadily over the past four years. In 2013, Group EBITDA stood at AED 506.4 million. By 2017, EBITDA reached AED 628.4 million representing a compounded annual growth rate of 6%.

Tabreed's operations and performance in 2017 build on a consistent upward trend over the last five years, where the company has evolved from a business in development to a mature, utility infrastructure organization.

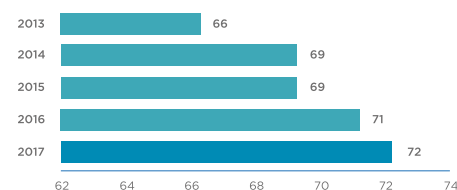
Since 2013, we added six new plants to our portfolio, contributing to an annual average growth of connected capacity across the GCC of 7%. Today, we have an industry-leading 72 district cooling plants located in the UAE (63 plants), and the rest of the GCC (9 plants).

Our connected capacity has likewise continued to increase significantly reaching 1,092,318 RT by year end. Our earnings and cash flows come from long term (typically 25 years) price certain contracts with our customers across the GCC, many of whom are established government entities. By the end of 2017, around 50% of our UAE connected capacity was contracted to UAE government clients, and backed by long-term (typically 25 years) price certain contracts.

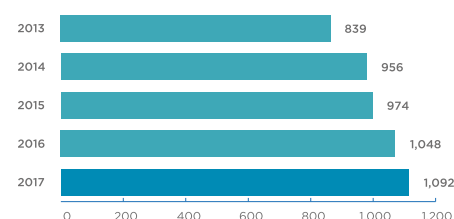
#### GROUP EBITDA



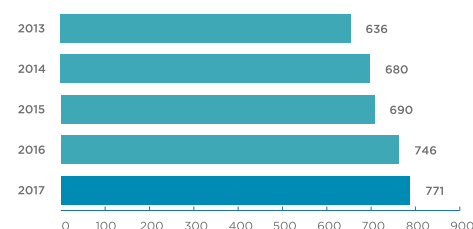
#### NUMBER OF PLANTS



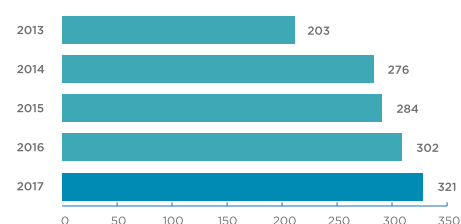
#### CONNECTED CAPACITY (KRT)



#### UAE CONNECTED CAPACITY (KRT)



#### GCC CONNECTED CAPACITY (KRT)



# CHAIRMAN'S MESSAGE



On behalf of the Board of Directors, I would like to thank you for your continued trust, which has enabled Tabreed to deliver a solid performance in 2017. Your confidence in us is vital, as we forge ahead with our ambitious strategy to support the region's growing cooling needs and our commitment to create long-term value for all our stakeholders.

Building on two decades of experience and backed by a sound financial strategy, our business and financial fundamentals remain robust and healthy. In 2017, we delivered net profit growth of AED 400.1 million, 9% higher than the previous year. Our core chilled water profit from operations increased by 10% to AED 427.2 million and our EBITDA increased by 8% to AED 628.4 million.

Our business model, built around long-term contracts, underpins the stability of earnings and returns for shareholders, enabling us to continue achieving EBITDA margins of around 45%, which has been sustained over the last few years.

Tabreed's financial strength, and leading market position internationally, received a major vote of confidence in 2017 with the investment of global energy leader, ENGIE, as a 40% shareholder. I am confident that Tabreed will benefit greatly from the global industry-leading experience of ENGIE, as well as the valuable and ongoing support of Mubadala Investment Company, as it enters a new phase of expansion.

At the same time, as the largest district cooling company in the GCC, including being the largest in Saudi Arabia, with plans to further expand our footprint in Oman and Bahrain, we remain firmly committed to support the region in meeting its energy strategy targets. To this end, we achieved 1.53 billion kWh of reduction in energy consumption in the GCC through our operations in 2017 - enough energy to power approximately 51,000 homes every year, reducing the burden on power grids and contributing to the region's energy efficiency goals. Our work does not stop here, as we continue to find ways to further enhance our operations and to look at opportunities beyond our current markets.

As we look to 2018, I am confident that we will pursue our path to growth, enabling our customers to adopt energy-efficient cooling systems, while delivering strong returns for our shareholders. In this respect, we are proud that we have been able to extend Tabreed's offering to a wider potential shareholder base in 2017, following the certification of Tabreed's stock as Shari'a compliant.

I would like to end by thanking you again for your trust and I look forward to achieving continued success together in 2018 and beyond.

**Khaled Abdulla Al Qubaisi**

# CHIEF EXECUTIVE OFFICER'S MESSAGE



2017 marked another year of strong growth and solid execution for Tabreed, while we progressed forward along our journey towards achieving the company's full potential.

Our financial performance reflects the competitive strengths embedded in our businesses and brand. Our Total Group revenues of AED 1,399.4 million represent an increase of 9% from last year. These results allowed for a proposed full-year dividend of 8 fils per share, an increase of 23% over last year.

Fulfilling our commitment as the preferred partner for district cooling in the region, we continued to deliver superior value to our customers and shareholders, while taking actions in 2017 that have made us stronger as a company.

In response to the region's growing demand for cooling, we delivered 43,900 RT in new customer connections across the GCC, taking our total delivered capacity up to nearly 1.1 million RT, while maintaining an excellent safety record and a relentless drive for plant operational efficiency.

Sustainability remains a core promise and commitment. In 2017, our operations saved enough energy to power approximately 51,000 homes annually and prevent the release of almost 768,000 tons of carbon dioxide, which is equivalent to eliminating the emissions of 153,600 vehicles annually.

We are entering 2018 with renewed optimism and confidence. Over the last year, we improved operating efficiency and today remain well capitalized. Our partnership with global energy leader ENGIE, which became a major investor in Tabreed in 2017, will enable us to harness their global strength in operations, project financing and business development to fulfill our ambitions.

While we remain fully invested in meeting our regional partners' cooling needs with reliable, high quality and cost-efficient solutions, we are also well poised to capture growth in new geographies, leveraging our 19-year successful track record, coupled with the support of our major shareholders.

I would like to thank our partners and shareholders for their continued trust in Tabreed as well as our employees for their tireless dedication and hard work.

On behalf of all at Tabreed, I would also like to express my deepest gratitude to the leadership and Chairman, the Board of Directors for their guidance, commitment and support, as we chart our path towards sustained growth and contribution to sustainable development.

**Jasim Husain Thabet**

# BOARD OF DIRECTORS



## **Khaled Abdulla Al Qubaisi | Chairman**

Khaled Abdulla Al Qubaisi is the Chief Executive Officer, Aerospace, Renewables & Information Communications Technology (ICT) for Mubadala Investment Company. He oversees the company's Aerospace, Renewables, ICT, Utilities and Defense Services portfolio. Before joining Mubadala Investment Company, he worked as Chief Investment Officer at International Capital and was the Head of Corporate Finance & Business Development at the National Bank of Abu Dhabi, where he focused on developing the bank's investment banking capabilities. He is a board member of the following companies: Injazat Data Systems (Injazat), Abu Dhabi Future Energy Company (Masdar), Cleveland Clinic Abu Dhabi, Emirates Global Aluminium, GLOBALFOUNDRIES and Mubadala Petroleum.



## **Paulo Almirante | Vice Chairman**

Paulo Almirante is currently the Executive Vice President of global energy leader ENGIE and is a member of ENGIE's Executive Committee and is responsible for the following business units: Brazil; Middle East, South and Central Asia and Turkey; North, South and Eastern Europe and Generation Europe. He is a board member of numerous ENGIE group companies. He holds a Master of Science degree in Mechanical Engineering Production Management and a Master of Science degree in Mechanical Engineering Thermodynamics from the Instituto Superior Técnico in Lisbon, Portugal.



## **H.E. Dr Ahmad Bin Abdullah Humaid Belhoul Al Falasi | Board Member**

H.E. Dr. Ahmad Belhoul Al Falasi is the Minister of State for Higher Education and Advanced Skills where he supervises the development of higher education and scientific research in the UAE. In addition, H.E. is currently the Chairman of the Federal Authority for Human Resources and the Chairman of the UAE Space Agency. H.E. previously held positions as Chief Executive Officer of Masdar, Executive Director of Strategy and Tourism Sector Development at Dubai's Department of Tourism and Commerce Marketing and Vice President at Mubadala. H.E. holds a Ph.D. from Sir John Monash University in Australia, a Master of Science from the University of Melbourne and a Bachelor in Telecommunications Engineering from KUSTAR, UAE.



## **Mohammed Al Huraimel Al Shamsi | Board Member**

Mohammed Al Huraimel Al Shamsi is the Director of Utilities Investments in Mubadala, where he is responsible for the asset management function of Mubadala's Utilities portfolio, which includes thermal power, water, and district cooling assets. Prior to Mubadala, He was the Director of Strategy & Policy at the UAE Prime Minister's Office. He has also held roles at McKinsey & Company, Dubai International Capital, and General Motors. He has an MBA from the HEC School of Management – Paris and a Bachelor's Degree in Finance from the American University of Sharjah, UAE.



### **Mohamed Jameel Al Ramahi | Board Member**

Mohamed Jameel Al Ramahi is the Chief Executive Officer of Abu Dhabi Future Energy Company (Masdar), where he spearheads the company's development and strategic direction as it plays a prominent role in the renewable energy and clean technology sector. He is Chairman of Masdar's Investment Committee and Board Member of Shuaa Energy 2 PJSC (the company developing phase 3 of Mohammed Bin Rashid Al Maktoum Solar Park in Dubai). He holds a Bachelor of Business Administration and Finance degree from the University of Evansville in the USA.



### **Sébastien Arbola | Board Member**

Sébastien Arbola is the Chief Executive Officer of the Middle East, South and Central Asia and Turkey region for global energy leader ENGIE. He leads ENGIE's operations and growth across the region, ranging from large scale power generation and water desalination to gas retail & distribution. Prior to that, he was the Chief Financial Officer and Senior Vice President of Suez Environment Asia, in charge of Finance, Tax, Legal, Internal Control, IT and Procurement for the Business Unit. He has held roles of increasing seniority in Finance and Management over his 11-year tenure with ENGIE. He is a graduate of the Ecole Supérieure de Commerce de Paris.



### **Frédérique Dufresnoy | Board Member**

Frédérique Dufresnoy is the Deputy Director of Decentralized Solutions for Cities at global energy leader ENGIE. Prior to that, she was the Director of Finance, Risks and International Development at ENGIE and Chief Financial Officer of the company's European operations. Ms. Dufresnoy holds a Master's degree in Business from Emlyon Business School and an MBA degree from the University of Texas at Austin.



### **Frédéric Claux | Board Member**

Frédéric Claux is currently the Head of GCC and Pakistan Acquisitions, Investments and Financial Advisory for global energy leader ENGIE, with over 17 years of experience at the company. He also serves as a non-executive Board member of Les Eoliennes en Mer (offshore wind). He graduated from French civil engineering school Ecole Nationale des Ponts et Chaussées and holds an MBA from HEC business school in Paris.



### **Saeed Ali Khalfan Al Dhaheri | Board Member**

Saeed Ali Khalfan Al Dhaheri, is the Director of Investments at Ali & Sons Holding LLC. His current role at Ali & Sons Holding includes active management of the company's securities portfolio, whilst overseeing the company's real estate & hospitality division, as well as risk management of Ali & Sons and its subsidiaries. He holds a Bachelor of Finance degree from the American University of Dubai, UAE.



# BOARD OF DIRECTORS' REPORT

We are pleased to report on the financial results and operational performance of National Central Cooling Company PJSC (Tabreed) for the year ended 31 December 2017.

Tabreed's strong performance continues to be underpinned by a robust utility infrastructure business model, which delivers consistent and sustainable results year-on-year. Operationally, we have continued to connect customers (many of whom are large government and private entities) to our 72 plants located throughout the GCC, and increase our contracted capacity to 1.1 million RT.

## FINANCIAL HIGHLIGHTS

In 2017, Tabreed continued to improve on the strong financial performance of recent years.

### Highlights Include:

- Net profit attributable to the parent increased by 9 percent to AED 400.1 million (2016: AED 367.4 million)
- Earnings per share increased by 9 percent to AED 0.15 in line with the growth in net profits
- Share of results of associates and joint ventures increased by 10 percent to AED 128.8 million (2016: AED 117.0 million)
- Core chilled water profit from operations increased by 10 percent to AED 427.2 million (2016: AED 387.3 million)
- Group revenue increased by 9 percent to AED 1,399.4 million (2016: AED 1,279.9 million)
- EBITDA increased by 8 percent to AED 628.4 million (2016: AED 583.2 million)

## OPERATIONAL PERFORMANCE

2017 saw total connected capacity increase by 43,907 RT to 1,092,318 RT – a growth rate of approaching 4% through the year.

Major capacity additions included:

- 24,285 RT in the United Arab Emirates
- 3,000 RT in Bahrain
- 16,622 RT in other GCC countries

Tabreed's total number of plants increased to 72 at the end of 2017.

During 2017, our operations reduced the amount of energy utilized for cooling in the GCC by 1.53 billion kilowatt hours (enough electricity to power approximately 51,000 homes in the UAE annually).

This reduction in energy consumption, achieved by employing district cooling instead of conventional air conditioning, has prevented the release into the atmosphere of over 768,000 tons of carbon dioxide emissions, the equivalent of eliminating the emissions of 153,600 vehicles annually.

2017 also saw Tabreed enter into a 3 year service agreement to operate Masdar City's first district cooling plant. Under the agreement, Tabreed will manage the plant on behalf of Masdar, providing expert operational and regular maintenance services.

## CORPORATE DEVELOPMENTS

In April 2017, the company distributed a 6.5 fils dividend for the FY 2016, an increase of 8% on the 6 fils dividend distributed a year earlier.

Recognizing that some earnings fluctuations are to be expected, the annual dividend will continue to reflect the Board's view of the earnings prospects over the entirety of the investment cycle and after providing for business investment and meeting Tabreed's debt service obligations.

In setting the annual dividend and the overall financial strategy, the Board's aim is to continue to strike a balance between the interests of the business, financial creditors and shareholders.

In August 2017, Tabreed announced the investment by ENGIE, the global energy company, by acquiring 40% of the shares in Tabreed for approximately AED 2.8 billion. This followed the decision of the bondholder to convert all of the outstanding mandatory convertible bonds (MCBs) into ordinary shares. As a result of these transactions, Mubadala's shareholding in Tabreed was 42%.

Headquartered in France, ENGIE is a multinational energy leader and expert operator in the business of electricity, natural gas and energy services with a successful heritage spanning over a century.

Further to this, four new Board Members were elected by Tabreed's shareholders, who are all senior executives at ENGIE: Paulo Almirante, Executive Vice President, ENGIE Group; Sébastien Arbola, CEO, ENGIE Middle East, South & Central Asia and Turkey; Frédérique Dufresnoy, Deputy Director Métier Business to Territories and Frederic Claux, Head of Acquisitions, Investments and Financial Advisory.

During 2017, Tabreed secured a AED1.5bn 10 year corporate loan facility, enabling the company to diversify its funding base, extend its debt maturity profile and lower its financing costs. The new Shari'a-compliant facility also served the dual purpose of opening the company up to Shari'a-compliant equity investors. The innovative Islamic structure, based on the sale and purchase of refrigeration capacity, with Tabreed selling that capacity to generate revenue to service the financing and pay the principal amount, is a first for the sector.

## LOOKING AHEAD

The Tabreed of today is a solid and financially stable company, underpinned by long-term contracts with blue-chip organizations. We have a diversified portfolio of customers across the GCC region, including government and private entities, and we deliver our services to projects that are critical to economic development in the countries in which we operate. As such, we feel confident that in spite of the challenges that lie ahead, we remain in a very strong position to build on our recent performance and maintain steady growth.

# CORPORATE GOVERNANCE REPORT

## COMPLIANCE WITH REGULATIONS

Tabreed's corporate governance system is well developed, adopts local and international best practice and meets all relevant requirements of UAE legislation on corporate governance, including the Commercial Companies Law No. 2 of 2015 and Resolution 7/2016. Resolution 7/2016 applies to Tabreed's listing on the Dubai Financial Market ("DFM"). SCA supervises, controls and verifies Tabreed's compliance with Resolution 7/2016.

## CORPORATE GOVERNANCE STRUCTURE

The General Assembly Meeting is the highest decision-making body in the Company and is the forum in which shareholders exercise their right to decide on the Company's direction. The Annual General Assembly Meeting "AGA" is convened once a year to carry out tasks such as adopting the Board of Directors' report and the annual and consolidated accounts, discharging the members of the Board of Directors and the auditors from liability and deciding how the profit of the past financial year is to be allocated.

The shareholders are the ultimate decision-makers in respect of the direction of the Company as the shareholders are responsible for appointing the Board of Directors at the Annual General Assembly Meeting of the Company, each such appointment being for a term of three years. The shareholders present at the AGA also elect the auditors who in turn report on their scrutiny to the AGA.

The following sections summarize how the Company has applied the principles of Resolution 7/2016 and its compliance with these principles.

## BOARD OF DIRECTORS

### (ART. 3, RESOLUTION 7/2016)

The appointment, roles and responsibilities of the Board of Directors of Tabreed (the "Board" or "Board of Directors") are outlined in Tabreed's Articles of Association ("AoA").

Throughout the year, the membership balance criteria set down by Resolution 7/2016 in relation to executive, non-executive and independent members of the Board was maintained by Tabreed together with an appropriate level of skills, experience and capabilities across the membership.

## CHAIRMAN OF THE BOARD

### (ART. 4 AND 42, RESOLUTION 7/2016)

From 1 January 2017 to 6 March 2017, Waleed Al Mokarrab Al Muhairi chaired Tabreed's Board of Directors until the expiry of the 3 year term of his Board membership in the Company and was a non-executive and independent director throughout his term. From 8 May 2017, Khaled Abdulla Al Qubaisi presided as the Chairman of the Board and is a non-executive and independent director. Each Chairman possesses extensive and prominent experience in the finance and energy sectors both regionally and internationally.

Throughout the year, each Chairman ensured that the Board participated effectively at Board meetings and that each member of the Board acted in the best interests of Tabreed and its shareholders. Each Chairman developed the structure of, and agenda for, meetings of the Board, overseeing communication between Board members and shareholders, and encouraged constructive relations between the Board members.

## MEMBERS OF THE BOARD

### (ART. 11, 40, 43, 44, AND 45 RESOLUTION 7/2016)

The members of the Board have a diverse set of skills and experience. Each member's duty is to act in the best



interests of Tabreed and its shareholders. Each member of the Board ensures that Tabreed's management maintains systems and processes to ensure adherence to laws, regulations and Tabreed's operational requirements.

The Board ensures that Tabreed's management provides them with sufficient information, in a timely manner, to make informed decisions that affect the direction of the Company. The Board members participate in Board meetings, giving independent opinions on strategic issues, policy, accounting, resources and principles of required behaviour. The Board tracks the Company's performance against strategic objectives.

Each year, all Board members disclose to Tabreed an assessment of their independence, confirmation of confidentiality, details of any share trading and details of their significant positions in public companies or other institutions.

## **REMUNERATION OF THE CHAIRMAN AND THE BOARD MEMBERS**

(ART. 21, RESOLUTION 7/2016)

The Chairman and the Board members are entitled to be remunerated by a percentage of up to a maximum of 10% of the net profits of the Company in respect of each fiscal year, subject to approval by the shareholders at the Company's AGA and subject to setting aside a statutory reserve of 10% of the net profits of the Company.

## **BOARD COMMITTEES**

(ART. 46, RESOLUTION 7/2016)

The Board has formed four Committees that have adopted procedures which define their obligations, duration and authority and these Committees are regularly monitored by the Board regarding their performance and commitment.

These Committees are as follows:

1. Audit Committee;
2. Nomination and Remuneration Committee;
3. Finance Committee; and
4. Project Committee.

The Audit Committee and the Nomination and Remuneration Committee are mandated by Resolution 7/2016.

The Finance Committee reviews and endorses all matters that have a significant impact on the Company's finances before submission for Board approval. This includes borrowings, hedging arrangements, business cases for major initiatives, financial reporting and budgeting.

The Project Committee investigates the viability of each potential new project and ensures that it is subjected to the highest levels of scrutiny before presentation to the Board for approval.

## **NOMINATION AND REMUNERATION COMMITTEE**

(ART. 47, RESOLUTION 7/2016)

The Nomination and Remuneration Committee assists the Board in discharging its responsibilities in relation to qualifications, compensation, appointment and succession of the Company's Directors and key management personnel. The Committee oversees the Company's nomination process for the Board of Directors and continuously monitors the independency of the independent members of the Board.

## **AUDIT COMMITTEE**

(ART. 48, RESOLUTION 7/2016)

The Board maintains an Audit Committee that monitors financial statements, renews and recommends changes to Tabreed's financial and control systems, and appoints and maintains an appropriate relationship with the Company's external auditors. The Audit Committee also oversees the Internal Control function and is responsible for approving recommendations for internal control improvements.

## **INTERNAL CONTROL**

(ART. 50, RESOLUTION 7/2016)

Tabreed's Internal Control function is maintained by the Board. It provides independent, objective and authoritative advice as well as assurance over the Internal Control environment to the Board, Audit Committee and management, to assist them in discharging their functions and duties conferred and imposed on them.

The Board ensures that the internal controls are effective by reviewing the work of the Audit Committee, effectively dealing with risk and control issues at Board meetings and requiring that risk and internal control issues are discussed at each Board meeting. The Board also ensures that an internal control review is conducted by the Internal Control function each year.

## **EXTERNAL AUDITOR**

(ART. 36, RESOLUTION 7/2016)

On the recommendation of the Audit Committee, the Board appointed Deloitte & Touche M.E. as Tabreed's external auditor at the 2017 AGA. The Board ensures that the external auditor remains independent from the Company. The external auditor has broad powers to provide reports to the General Assembly Meeting and to regulatory bodies.

## **DELEGATION TO MANAGEMENT**

(ART.9, RESOLUTION 7/2016)

The Board of Tabreed provides guidance and direction to Tabreed's management towards achieving the strategic objectives of Tabreed.

The Board is responsible for the direction and oversight of the Company on behalf of the shareholders. The day to day activities of Tabreed are delegated to management through the Board approved Delegation of Authority as amended and approved by the Board on 7 November 2017. The Delegation of Authority will be valid for a duration of 3 years and subject to regular review and amendment (if required) by the Board and the Audit Committee.

The Delegation of Authority delegates authority from the Board to executive management to execute certain:

1. Contractual or other commitments;
2. Expenditure, Purchases; and
3. Investments,

in each case below a specified maximum limit amount (in AED), beyond which approval of the Board is required. To give effect to the Delegation of Authority, the Board has granted a general Power of Attorney to the Chief Executive Officer, subject to the above mentioned maximum limit amount and which shall remain in force for the same duration of the Delegation of Authority. All other powers, authorities and responsibilities in respect of the management of the Company are vested in the Board in accordance with the AoA of the Company, subject to those matters reserved under such AoA and/or applicable laws and regulations for the exclusive decision by the shareholders of the Company at the General Assembly of the Company.

## **SHAREHOLDERS' RIGHTS**

(ART. 33, 34 AND 35 OF RESOLUTION 7/2016)

The Board is committed to maintaining the highest standards in relation to recognition of shareholders' rights. This commitment is outlined in the Charter of the Board of Directors. To that end, Tabreed maintains an appropriately resourced shareholder communications function and has engaged the Dubai Financial Market ("DFM") and First Abu Dhabi bank ("FAB") to assist with engagement of shareholders.

The purpose of each of the investor relations and shareholder communications function as well as FAB's and the DFM's role is to ensure that shareholders receive all required financial reports and relevant information, that shareholders are notified of and attend General Assembly meetings, and that dividend payments, when approved, are provided to each shareholder on a timely basis.

The AoA sets out the shareholders' rights to information, voting, participation at meetings and information on candidates for Board positions.

## **CODE OF CONDUCT**

(ART. 43 (11), RESOLUTION 7/2016)

The manner in which the Company expects the Board, its employees, the auditors and the persons to whom specific duties are assigned, to behave with respect to each other, the law, customers, suppliers, stakeholders and the community is articulated in the Tabreed Code of Conduct.

# INDEPENDENT AUDITORS' REPORT

Attention to the Shareholders of National Central Cooling Company PJSC,  
Abu Dhabi, United Arab Emirates

## 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 of 31 December 2017 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 2017, 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) together with the other ethical requirements that are relevant to our audit of the Group’s consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 Audit 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.

## **CARRYING VALUE OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS, INCLUDING GOODWILL**

The Group has AED 3,745,386 thousand of property, plant and equipment as disclosed in Note 11 and goodwill 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 utilization of the relevant assets.

Our audit procedures included the assessment of controls over impairment analysis and calculations. We tested the design and operating effectiveness of relevant controls to determine the completeness of provision for impairment.

This included testing:

- Manual controls over the timely recognition of impairments;
- Controls over the accuracy and completeness of the impairment calculation models; and
- Governance controls, including reviewing key meetings that form part of the approval process for provision for impairment.

In addition, we also performed the following substantive audit procedures:

- Engaged our internal accounting technical specialists and internal valuation specialists to assess compliance with accounting standards and assess the valuation of the assets;
- Evaluated whether the model used by management to calculate the value in use of each cash-generating unit complies with IAS 36 Impairment of Assets;
- Obtained and analysed the financial impairment assessments 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;
- Challenged the reasonableness of growth rates and other 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.

## **CONVERSION OF MANDATORY CONVERTIBLE BONDS**

During the year, Mubadala Investment Company ("the Bond Holder") converted all of its Mandatory Convertible Bonds (MCBs) into ordinary shares (note 23). A total of 1,977,039,475 ordinary shares of AED 1 each has been issued upon conversion.

Due to the significance of the transaction and its impact on the share capital, other reserves and liability component of the consolidated financial statements, the matter has been considered to be a key audit matter. As part of our audit procedures, we have:

- Engaged our internal technical specialists to assess compliance with relevant accounting standards;
- Examined the agreements executed with the Bond Holder;
- Inspected the MCBs conversion request from the Bond Holder;
- Assessed the appropriateness of the number of shares issued upon conversion;
- Verified the accuracy of the calculation of interest accretion up to the conversion notice from the Bond Holder; and
- Assessed the appropriateness of the amount transferred to share capital and other reserves upon conversion of MCBs.

## **PROVISION FOR ONEROUS CONTRACT**

The Group has entered into contractual arrangements that are subject to application of Consumer Price Index (CPI) adjustments 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 provisions accordingly.

Management's disclosures with regards to onerous provision are presented in notes 26 to the consolidated financial statements.

Our audit procedures included the assessment of controls over management's identification of the onerous contracts. We tested the design and operating effectiveness of relevant controls to determine completeness of provision for onerous contract.

This included testing:

- Manual controls over the assessment, identification, and accuracy of the provision for onerous contracts; and
- Controls over the completeness of management's assessment of onerous contracts.

In addition, we also performed the following audit procedures:

- 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 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
- Verified the pricing mechanism in contracts with customer to further substantiate the input and assumptions used in the cash flow model.

## **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 2017, Overview of Historical Highlights, Chairman's Message, CEO's Message, 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 2017, Overview of Historical Highlights, Chairman's Message, CEO's Message, 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.

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's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our 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.

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.

## **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.** the Group has not purchased or invested in shares during the financial year ended 31 December 2017;
- vi.** note 27 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 2017 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 2017.

**Signed by**  
**Rama Padmanabha Acharya**  
**Deloitte & Touche (M.E.)**  
**Registration number 701**

30 January 2018 | Abu Dhabi



## National Central Cooling Company PJSC

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 AED '000	2016 AED '000
<b>Revenue</b>	3 & 4	<b>1,399,428</b>	1,279,853
Operating costs	4 & 6.1	<u>(771,764)</u>	<u>(681,979)</u>
<b>GROSS PROFIT</b>		<b>627,664</b>	597,874
Administrative and other expenses	6.2	<u>(195,557)</u>	<u>(192,543)</u>
<b>OPERATING PROFIT</b>		<b>432,107</b>	405,331
Finance costs	5	<b>(162,318)</b>	(155,959)
Finance income		<b>840</b>	394
Other gains and losses		<b>2,351</b>	4,986
Share of results of associates and joint ventures	12 & 13	<u><b>128,790</b></u>	<u>116,950</u>
<b>PROFIT FOR THE YEAR</b>		<u><b>401,770</b></u>	<u>371,702</u>
Attributable to:			
Equity holders of the parent		<b>400,113</b>	367,362
Non-controlling interests		<u><b>1,657</b></u>	<u>4,340</u>
		<u><b>401,770</b></u>	<u>371,702</u>
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (AED)	7	<u><b>0.15</b></u>	<u>0.14</u>

The attached notes 1 to 31 form part of these consolidated financial statements.

# National Central Cooling Company PJSC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 AED '000	2016 AED '000
<b>PROFIT FOR THE YEAR</b>		<b>401,770</b>	371,702
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net movement in fair value of derivatives in cash flow hedges		(7,485)	(390)
Share of changes in fair value of derivatives of an associate and a joint venture in cash flow hedges	12 & 13	(738)	2,958
Exchange differences arising on translation of overseas operations		(65)	(142)
<b>TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME</b>		<b>(8,288)</b>	2,426
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>393,482</b>	374,128
Attributable to:			
Equity holders of the parent		391,825	369,788
Non-controlling interests		1,657	4,340
		<b>393,482</b>	374,128

The attached notes 1 to 31 form part of these consolidated financial statements.

# National Central Cooling Company PJSC

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

		2017 AED '000	2016 AED '000
<b>ASSETS</b>	<i>Notes</i>		
<b>Non-current assets</b>			
Capital work in progress	10	170,831	117,775
Property, plant and equipment	11	3,745,386	3,845,225
Goodwill	14	27,710	27,710
Investments in associates and joint ventures	12 & 13	826,199	826,096
Finance lease receivables	15	2,715,106	2,782,567
		<u>7,485,232</u>	<u>7,599,373</u>
<b>Current assets</b>			
Inventories		32,648	32,026
Accounts receivable and prepayments	16	516,819	409,115
Finance lease receivables	15	242,638	230,918
Cash and bank deposits	17	418,280	389,961
		<u>1,210,385</u>	<u>1,062,020</u>
<b>TOTAL ASSETS</b>		<u>8,695,617</u>	<u>8,661,393</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	18	2,715,529	738,490
Treasury shares	19	(2,016)	(2,016)
Statutory reserve	20	274,104	234,092
Retained earnings		1,071,952	888,361
Foreign currency translation reserve		(2,780)	(2,715)
Cumulative changes in fair value of derivatives in cash flow hedges		(37,774)	(29,551)
Mandatory convertible bond – equity component	23	-	1,772,476
Other reserve	20	706,920	768,086
<b>Equity attributable to the equity holders of the parent</b>		<u>4,725,935</u>	<u>4,367,223</u>
Non – controlling interests		71,085	70,868
<b>Total equity</b>		<u>4,797,020</u>	<u>4,438,091</u>
<b>Non-current liabilities</b>			
Accounts payable, accruals and provisions	26	128,444	133,110
Interest bearing loans and borrowings	21	1,844,622	2,887,187
Islamic financing arrangements	22	1,089,880	-
Obligations under finance lease	24	-	3,979
Mandatory convertible bond – liability component	23	-	97,729
Employees' end of service benefits	25	25,976	22,649
		<u>3,088,922</u>	<u>3,144,654</u>
<b>Current liabilities</b>			
Accounts payable, accruals and provisions	26	575,552	643,663
Interest bearing loans and borrowings	21	164,457	342,712
Islamic financing arrangements	22	65,292	-
Mandatory convertible bond – liability component	23	-	84,909
Obligations under finance lease	24	4,374	7,364
		<u>809,675</u>	<u>1,078,648</u>
<b>Total liabilities</b>		<u>3,898,597</u>	<u>4,223,302</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>8,695,617</u>	<u>8,661,393</u>

Khaled Abdulla Al Qubaisi  
Chairman

Jasim H. Thabet  
Chief Executive Officer

Stephen John Ridlington  
Chief Financial Officer

The attached notes 1 to 31 form part of these consolidated financial statements.

## National Central Cooling Company PJSC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to equity holders of the parent								Non-controlling interests	Total equity
	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		
Balance at 1 January 2016	738,490	(2,016)	197,356	720,667	(2,573)	(32,119)	1,772,476	768,086	65,399	4,225,766
Profit for the year	-	-	-	367,362	-	-	-	-	4,340	371,702
Other comprehensive (loss) / income for the year	-	-	-	-	(142)	2,568	-	-	-	2,426
Total comprehensive income/(loss) for the year	-	-	-	367,362	(142)	2,568	-	-	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)
Dividends paid to mandatory convertible bond holders (note 8)	-	-	-	(118,622)	-	-	-	-	-	(118,622)
Dividends paid to non-controlling interests holders	-	-	-	-	-	-	-	-	(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	70,868	4,438,091
Balance at 1 January 2017	738,490	(2,016)	234,092	888,361	(2,715)	(29,551)	1,772,476	768,086	70,868	4,438,091
Profit for the year	-	-	-	400,113	-	-	-	-	1,657	401,770
Other comprehensive loss for the year	-	-	-	-	(65)	(8,223)	-	-	-	(8,288)
Total comprehensive income/(loss) for the year	-	-	-	400,113	(65)	(8,223)	-	-	1,657	393,482
Transfer to statutory reserve	-	-	40,012	(40,012)	-	-	-	-	-	-
Dividends paid to ordinary shareholders (note 8)	-	-	-	(48,002)	-	-	-	-	-	(48,002)
Dividends paid to mandatory convertible bond holders (note 8)	-	-	-	(128,508)	-	-	-	-	-	(128,508)
Conversion of mandatory convertible bonds	1,977,039	-	-	-	-	-	(1,772,476)	(61,166)	143,397	143,397
Additional contribution by non-controlling interests	-	-	-	-	-	-	-	-	905	905
Dividends paid to non-controlling interests holders	-	-	-	-	-	-	-	-	(2,345)	(2,345)
Balance at 31 December 2017	2,715,529	(2,016)	274,104	1,071,952	(2,780)	(37,774)	-	706,920	71,085	4,797,020

The attached notes 1 to 31 form part of these consolidated financial statements.

# National Central Cooling Company PJSC

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

		2017 AED '000	2016 AED '000
	Notes		
<b>OPERATING ACTIVITIES</b>			
Profit for the year		<b>401,770</b>	371,702
Non-cash adjustments to reconcile profit for the year to net cash flows:			
Depreciation of property, plant and equipment	11	<b>140,188</b>	129,423
Impairment of goodwill		-	9,886
Finance lease income	3&15	<b>(188,158)</b>	(185,587)
Share of results of associates and joint ventures	12&13	<b>(128,790)</b>	(116,950)
Net movement in employees' end of service benefits	25	<b>3,327</b>	1,573
Other gains		<b>(2,351)</b>	(38,297)
Allowance for slow moving inventory		-	14,200
Interest income		<b>(840)</b>	(394)
Finance costs	5	<b>162,318</b>	155,959
Working capital adjustments:			
Inventories		<b>(622)</b>	(2,534)
Accounts receivable and prepayments		<b>(107,729)</b>	10,800
Accounts payable, accruals and provisions		<b>32,080</b>	(30,275)
Lease rentals received	15	<b>243,899</b>	234,002
Net cash flows from operating activities		<b>555,092</b>	553,508
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		<b>(114,055)</b>	(132,598)
Investments in a joint venture	13	-	(91,837)
Dividends from a joint venture	13	<b>82,769</b>	29,000
Dividends from associates	12	<b>39,708</b>	47,257
Payments for capital work in progress		<b>(83,506)</b>	(63,053)
Interest received		<b>865</b>	345
Proceed from disposal of assets held for sale		-	11,224
Net cash flows used in investing activities		<b>(74,219)</b>	(199,662)
<b>FINANCING ACTIVITIES</b>			
Interest bearing loans and borrowings received	21	<b>119,961</b>	455,540
Interest bearing loans and borrowings repaid	21	<b>(1,361,031)</b>	(232,593)
Cash coupon paid on mandatory convertible bonds	23	<b>(43,222)</b>	(86,444)
Islamic financing arrangement received	22	<b>1,220,000</b>	-
Islamic financing arrangement repaid	22	<b>(38,785)</b>	-
Payment for obligations under finance lease		<b>(6,969)</b>	(6,341)
Interest paid		<b>(143,562)</b>	(121,469)
Arrangement fees paid		<b>(20,996)</b>	(4,221)
Additional capital by non-controlling parties		<b>905</b>	7,588
Dividends paid to shareholders	8	<b>(176,510)</b>	(162,932)
Dividends paid to non-controlling interests holders		<b>(2,345)</b>	(6,459)
Net cash flows used in financing activities		<b>(452,554)</b>	(157,331)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>28,319</b>	196,515
Cash and cash equivalents at 1 January		<b>389,961</b>	193,446
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	17	<b>418,280</b>	389,961

Non-cash transactions are disclosed in note 27.

The attached notes 1 to 31 form part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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 principal activities of the Company and its subsidiaries (the "Group") are supply of chilled water, operation and maintenance of plants, construction of secondary networks, manufacturing of pre-insulated pipes and design and supervision consultancy. Activities of subsidiaries are described in note 9 to the consolidated financial statements.

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

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 30 January 2018.

### 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 2017. 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.

#### **Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

#### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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 Group 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 2017 and 2016.
- 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 2017 and 2016.
- Available-for-sale (AFS) investments; The Group did not have any available-for-sale investments during the years ended 31 December 2017 and 2016.

#### *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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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. |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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 shareholder, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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 31.

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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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 31.

#### **Current versus non-current classification**

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

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

All other assets are classified as non-current.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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 2017, have been adopted in these consolidated 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.

- Amendments to IAS 12 Income Taxes relating to the recognition of deferred tax assets for unrealised losses
- 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
- Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12

### 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 30 |
| • Financial instruments risk management and policies | Note 30 |
| • Sensitivity analyses disclosures                   | Note 30 |

#### 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### **Judgments (continued)**

##### *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.

#### **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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**2.5 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)****Estimates and assumptions (continued)***Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of 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:

	<b>2017</b>	2016
	<b>AED '000</b>	AED '000
Capital work in progress (note 10)	170,831	117,775
Property, plant and equipment (note 11)	3,745,386	3,845,225
Goodwill (note 14)	27,710	27,710

*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 an allowance is applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade accounts receivable were AED 372.2 million (2016: AED 278.4 million) and impairment loss recognised in the consolidated statement of profit or loss for the year ended 31 December 2017 was AED 5.1 million (2016: AED 5.7 million).

*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 46.8 million (2016: AED 46.2 million). Allowance of AED 14.2 million was recognised as at 31 December 2017 (2016: AED 14.2 million). 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28	1 January 2018
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
The interpretation addresses foreign currency transactions or parts of transactions where:	
<ul style="list-style-type: none"> <li>• there is consideration that is denominated or priced in a foreign currency;</li> <li>• 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</li> <li>• the prepayment asset or deferred income liability is non-monetary.</li> </ul>	
Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IAS 40 <i>Investment Property</i> : 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. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied
IFRS 7 <i>Financial Instruments: Disclosures</i> 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

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

#### New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018
<p>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.</p> <p>A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> <li>• <b>Classification and measurement:</b> 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.</li> <li>• <b>Impairment:</b> 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</li> <li>• <b>Hedge accounting:</b> 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.</li> <li>• <b>Derecognition:</b> The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.</li> </ul>	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 2.6 Summary of significant accounting policies (continued)

#### New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
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##### *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.

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.

##### Impact assessment of IFRS 15 Revenue from Contracts with Customers

The application of IFRS 15 from the annual period beginning 1 January 2018 will have an impact on the Group's consolidated financial statements in respect of revenue from contracts with customers. Based on management assessment of the Group's revenues from contracts with customers as at 31 December 2017, the impact of IFRS 15 on the Group's consolidated financial statements as follows:

Management has preliminarily assessed that sale of goods and rendering of services represents multiple performance obligations and accordingly, revenue will be recognised for each of these performance obligations when control over the corresponding goods and services is transferred to the customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

2.6 Summary of significant accounting policies (continued)

New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
<u>Impact assessment of IFRS 15 <i>Revenue from Contracts with Customers</i> (continued)</u>	1 January 2018
<p>The transaction price will be allocated to the different performance obligations on a relative stand-alone selling price basis. The timing of revenue recognition of each of these performance obligations will be at a point in time for sale of goods when the goods are delivered to the customer, and over the period when services are performed. No impact will be observed on revenue recognition for the Company in 2018, but an associate will be impacted significantly due to the application of IFRS 15.</p> <p>In the case of this associate, the application of IFRS 15 will result in revenue recognised on connection fees and upfront capacity charges in prior years being recognised over the remaining life of the relevant contracts. The cumulative impact on the investment in associate and the retained earnings on the group's consolidated financial statements will be AED 195 million in 2018.</p> <p>Management intend to use the modified transition approach of transition to IFRS 15.</p>	
<p>Amendments to IFRS 15 <i>Revenue from Contracts with Customers</i> to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.</p>	1 January 2018
IFRS 16 Leases	
<p>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.</p>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

2.6 Summary of significant accounting policies (continued)

New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
<u>Impact assessment of IFRS 16 Leases</u>	1 January 2019
<p>As at 31 December 2017, the Group has non-cancellable operating lease commitments. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is not expected to have a significant impact on the amounts recognised in the Group's financial statements</p> <p>In contrast, in cases where the Group is a lessor, management do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognised in the Group's consolidated financial statements (note 29).</p>	
<p>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.</p>	<p>Effective date deferred indefinitely. Adoption is still permitted.</p>
<p>IFRIC 23 Uncertainty over Income Tax Treatments</p> <p>The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:</p> <ul style="list-style-type: none"> <li>• Whether tax treatments should be considered collectively;</li> <li>• Assumptions for taxation authorities' examinations;</li> <li>• The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and</li> <li>• The effect of changes in facts and circumstances.</li> </ul>	1 January 2019
<p>Amendments to IFRS 9 Financial Instruments: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.</p>	1 January 2019
<p>Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.</p>	1 January 2019



# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 3 REVENUE

	2017 AED '000	2016 AED '000
Supply of chilled water and operating revenue (note 29)	1,129,138	982,396
Finance lease income (note 15)	188,158	185,587
Value chain business	82,132	111,870
	<u>1,399,428</u>	<u>1,279,853</u>

### 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.

	2017				2016			
	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
<b>Revenue</b>								
External revenue	1,317,296	82,132	-	1,399,428	1,167,983	111,870	-	1,279,853
Inter-segment revenue	-	23,786	(23,786)	-	-	20,185	(20,185)	-
<b>Total revenue</b>	<u>1,317,296</u>	<u>105,918</u>	<u>(23,786)</u>	<u>1,399,428</u>	<u>1,167,983</u>	<u>132,055</u>	<u>(20,185)</u>	<u>1,279,853</u>
Operating costs	(721,943)	(64,815)	14,994	(771,764)	(616,593)	(83,609)	18,223	(681,979)
<b>Gross profit</b>	<u>595,353</u>	<u>41,103</u>	<u>(8,792)</u>	<u>627,664</u>	<u>551,390</u>	<u>48,446</u>	<u>(1,962)</u>	<u>597,874</u>
<b>Administrative and other expenses</b>	<u>(168,131)</u>	<u>(32,133)</u>	<u>4,707</u>	<u>(195,557)</u>	<u>(164,073)</u>	<u>(31,527)</u>	<u>3,057</u>	<u>(192,543)</u>
<b>Operating profit</b>	<u>427,222</u>	<u>8,970</u>	<u>(4,085)</u>	<u>432,107</u>	<u>387,317</u>	<u>16,919</u>	<u>1,095</u>	<u>405,331</u>
Finance costs	-	-	-	(162,318)	-	-	-	(155,959)
Finance income	-	-	-	840	-	-	-	394
Other gains and losses	-	-	-	2,351	-	-	-	4,986
Share of results of associates and joint ventures	128,790	-	-	128,790	116,950	-	-	116,950
				<u>401,770</u>				<u>371,702</u>



# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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:

	<i>Chilled water AED'000</i>	<i>2017 Value chain business AED'000</i>	<i>Total AED'000</i>	<i>Chilled water AED'000</i>	<i>2016 Value chain business AED'000</i>	<i>Total AED'000</i>
Depreciation	133,144	7,044	140,188	122,437	6,986	129,423
Finance lease amortisation	55,741	-	55,741	48,415	-	48,415

Segment assets and liabilities are as follows:

	<i>Chilled water AED'000</i>	<i>2017 Value chain business AED'000</i>	<i>Unallocated AED'000</i>	<i>Total AED'000</i>	<i>Chilled water AED'000</i>	<i>2016 Value chain business AED'000</i>	<i>Unallocated AED'000</i>	<i>Total AED'000</i>
Segment assets	7,660,143	160,047	-	7,820,190	7,634,562	187,615	-	7,822,177
Investments in associates	702,318	-	-	702,318	640,516	-	-	640,516
Investment in joint ventures	123,881	-	-	123,881	185,580	-	-	185,580
Unallocated assets	-	-	49,228	49,228	-	-	13,120	13,120
<b>Total assets</b>	<b>8,486,342</b>	<b>160,047</b>	<b>49,228</b>	<b>8,695,617</b>	<b>8,460,658</b>	<b>187,615</b>	<b>13,120</b>	<b>8,661,393</b>
Segment liabilities	674,989	54,980	-	729,969	753,314	46,108	-	799,422
Unallocated liabilities	-	-	3,168,624	3,168,624	-	-	3,423,880	3,423,880
<b>Total Liabilities</b>	<b>674,989</b>	<b>54,980</b>	<b>3,168,624</b>	<b>3,898,593</b>	<b>753,314</b>	<b>46,108</b>	<b>3,423,880</b>	<b>4,223,302</b>

Unallocated assets represent bank deposits of AED 49.2 million (2016: AED 13.1 million) as these assets are managed on a group basis.

Unallocated liabilities represent interest bearing loans and borrowings of AED 2,009.1 million (2016: AED 3,229.9 million), Islamic financing arrangement of AED 1,155.2 million (2016: nil), obligations under finance lease of AED 4.4 million (2016: AED 11.3 million) and mandatory convertible bond – liability component of nil (2016: AED 182.6 million)

Other segment disclosures :

	<i>Chilled water AED'000</i>	<i>2017 Value chain business AED'000</i>	<i>Total AED'000</i>	<i>Chilled water AED'000</i>	<i>2016 Value chain business AED'000</i>	<i>Total AED'000</i>
<i>Capital expenditure:</i>						
Property, plant and equipment	18,467	2,218	20,685	122,519	4,306	126,825
Capital work in progress	74,987	-	74,987	198,750	-	198,750
Investment in an associate and a joint venture	-	-	-	91,837	-	91,837

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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:

	<b>Revenue</b>		<b>Non-current assets</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>AED '000</b>	<b>AED '000</b>	<b>AED '000</b>	<b>AED '000</b>
United Arab Emirates	<b>1,339,268</b>	1,208,003	<b>6,156,686</b>	6,339,296
Others	<b>60,160</b>	71,850	<b>502,347</b>	433,981
	<b><u>1,399,428</u></b>	<b><u>1,279,853</u></b>	<b><u>6,659,033</u></b>	<b><u>6,773,277</u></b>

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

#### 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 2017 or 2016.

	<b>2017</b>	<b>2016</b>
	<b>AED'000</b>	<b>AED'000</b>
<b>Chilled water segment:</b>		
Customer 1	<b>357,386</b>	305,821
Customer 2	<b>263,936</b>	260,445
Customer 3	<b>131,111</b>	118,191
	<b><u>752,433</u></b>	<b><u>684,457</u></b>

### 5 FINANCE COSTS

	<b>2017</b>	<b>2016</b>
	<b>AED '000</b>	<b>AED '000</b>
Gross interest charge for the year	<b>162,318</b>	157,356
Less: interest capitalised during the year	<b>-</b>	(1,397)
Interest charged to consolidated statement of profit or loss during the year	<b><u>162,318</u></b>	<b><u>155,959</u></b>
<i>Interest charged to consolidated statement of profit or loss comprises of:</i>		
Interest on interest bearing loans and borrowings	<b>114,261</b>	123,027
Profit on Islamic financing arrangements	<b>22,883</b>	-
Accretion expense on mandatory convertible bonds (note 23)	<b>3,456</b>	9,214
Interest element of obligations under finance lease	<b>780</b>	1,412
Amortisation of transaction costs	<b>15,728</b>	15,768
Other finance costs	<b>5,210</b>	6,538
	<b><u>162,318</u></b>	<b><u>155,959</u></b>

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 6 PROFIT FROM OPERATIONS

#### 6.1 Operating costs

	2017	2016
	AED '000	AED '000
Costs of inventories recognised as an expense	32,292	48,554
Depreciation (note 11)	133,430	123,880
Utility costs	435,213	338,077
Purchase of chilled water from a related party (note 27)	99,359	101,001
Staff and Others	71,470	70,467
	<u>771,764</u>	<u>681,979</u>

#### 6.2 Administrative and other expenses

	2017	2016
	AED '000	AED '000
Staff costs	129,191	125,059
Depreciation (note 11)	6,758	5,543
Allowance for impairment of trade receivables (note 16)	11,972	5,694
Other administrative and general expenses	47,636	56,247
	<u>195,557</u>	<u>192,543</u>

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

Basic earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on the conversion of mandatory convertible bond (note 23).

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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:

	2017	2016
Profit for the year attributable to ordinary equity holders of the parent for basic earnings (AED '000)	<b>400,113</b>	367,362
Weighted average number of ordinary shares (excluding treasury shares) outstanding during the year ('000)	<b>1,483,957</b>	736,474
Effect of mandatory convertible bond ('000)	<b>1,229,556</b>	1,977,039
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of mandatory convertible bond ('000)	<b>2,713,513</b>	2,713,513
Basic and diluted earnings per share (AED)	<b>0.15</b>	0.14

Basic earnings per share has been calculated on the basis of maximum number of shares that may be issued for mandatory convertible bond (note 23). The Company does not have any instruments which would have a dilutive impact on earnings per share when exercised.

### 8 DIVIDENDS AND BOARD REMUNERATION

On 30 January 2018, the Board of Directors resolved to recommend to the shareholders at the upcoming Annual General Assembly meeting, the distribution to shareholders of dividend of 8.0 fils per share in respect of the fiscal year ended 31 December 2017.

The Board of Directors proposed a cash dividend of 6.5 fils per share pertaining to both common shareholders and mandatory convertible bond holder in respect of the fiscal year ended 31 December 2016. The dividend was approved by the shareholders at the Annual General Meeting held on 6 March 2017.

The dividend comprised of AED 48.0 million to the common shareholders and AED 128.5 million to the mandatory convertible bond holder and was paid in April 2017.

In 2016, the Board of Directors proposed a dividend of 6.0 fils per share in respect of the fiscal year ended 31 December 2015. This dividend was approved by the shareholders at the Annual General Meeting held on 3 March 2016 and was paid in April 2016.

Furthermore, Board of Directors' remuneration of AED 7.1 million for the year ended 31 December 2016 was also approved at the Annual General Meeting held on 6 March 2017. Board remuneration of AED 7.1 million for the year ended 31 December 2015 was approved at the previous Annual General Meeting on 3 March 2016.

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 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		Principal activities
		2017	2016	
<i>Chilled water segment</i>				
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	UAE	75	75	Selling of chilled water
<i>Value chain business segment</i>				
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
<i>Others - Unallocated</i>				
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.

### 10 CAPITAL WORK IN PROGRESS

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

	2017 AED '000	2016 AED '000
Balance at 1 January	109,741	292,795
Additions during the year	74,986	198,750
Transfer to property, plant and equipment (note 11)	(19,664)	(319,689)
Transfer to finance lease (note 15)	-	(62,115)
	<u>165,063</u>	<u>109,741</u>
Advances to contractors	5,768	8,034
	<u>170,831</u>	<u>117,775</u>

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

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 11 PROPERTY, PLANT AND EQUIPMENT

	<i>Land, plant and buildings AED'000</i>	<i>Distribution network AED'000</i>	<i>Furniture and fixtures AED'000</i>	<i>Office equipment and instruments AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Total AED'000</i>
<b>2017</b>						
<b>Cost:</b>						
At 1 January 2017	3,506,099	2,202,336	7,949	42,915	1,077	5,760,376
Additions	3,799	13,365	159	3,261	101	20,685
Transfer from capital work in progress (note 10)	16,331	3,293	-	40	-	19,664
At 31 December 2017	3,526,229	2,218,994	8,108	46,216	1,178	5,800,725
<b>Depreciation:</b>						
At 1 January 2017	640,039	262,014	6,204	29,671	972	938,900
Depreciation for the year	87,822	47,658	775	3,896	37	140,188
At 31 December 2017	727,861	309,672	6,979	33,567	1,009	1,079,088
Net carrying amount before accumulated impairment:						
At 31 December 2017	2,798,368	1,909,322	1,129	12,649	169	4,721,637
<b>Impairment:</b>						
At 1 January 2017 and at 31 December 2017	514,931	461,320	-	-	-	976,251
Net carrying amount after accumulated impairment:						
At 31 December 2017	2,283,437	1,448,002	1,129	12,649	169	3,745,386
	<i>Land, plant and buildings AED'000</i>	<i>Distribution network AED'000</i>	<i>Furniture and fixtures AED'000</i>	<i>Office equipment and instruments AED'000</i>	<i>Motor vehicles AED'000</i>	<i>Total AED'000</i>
<b>2016</b>						
<b>Cost:</b>						
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	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
<b>Depreciation:</b>						
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	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
<b>Impairment:</b>						
At 1 January 2016 and 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**11 PROPERTY, PLANT AND EQUIPMENT** (continued)

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

	<b>2017</b> <b>AED '000</b>	<b>2016</b> <b>AED '000</b>
Included in operating costs (note 6.1)	<b>133,430</b>	123,880
Included in administrative and other expenses (note 6.2)	<b>6,758</b>	5,543
	<b><u>140,188</u></b>	<b><u>129,423</u></b>

Property, plant and equipment of AED 4,540 million (2016: AED 4,427 million) have been pledged as security for the interest bearing loans and Islamic financing arrangements (note 21 & note 22).

Net book value of plant amounting to AED 32.7 million (2016: AED 35.0 million) are held under finance lease. The leased assets are pledged as security for the related finance lease liability (note 24).

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 7.5% - 8.5% (2016: 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.



## National Central Cooling Company PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

#### 12 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

	<i>Country of incorporation</i>	<b>2017</b>	<i>Ownership</i> <b>2016</b>
Industrial City Cooling Company	United Arab Emirates	<b>20%</b>	20%
Qatar Central Cooling Company PJSC	Qatar	<b>44%</b>	44%
Tabreed District Cooling Company (Saudi)	Kingdom of Saudi Arabia	<b>25%</b>	25%
Sahara Cooling Limited	United Arab Emirates	<b>40%</b>	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:

	<b>2017</b> <b>AED '000</b>	<b>2016</b> <b>AED '000</b>
At 1 January	<b>640,516</b>	590,178
Share of results for the year (i)	<b>102,868</b>	95,227
Dividends received	<b>(39,708)</b>	(47,257)
Share of changes in fair value of effective cash flow hedges	<b>(1,358)</b>	2,368
At 31 December	<b>702,318</b>	640,516

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 0.6 million (2016: AED 1.9 million).

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 12 INVESTMENTS IN ASSOCIATES (continued)

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

	<i>Qatar Central Cooling Company PJSC AED 000'</i>	<i>Tabreed District Cooling Company (Saudi) AED 000'</i>	<i>Others AED 000'</i>	<i>Total AED 000'</i>
<b>2017</b>				
Current assets	310,247	419,008	125,248	854,503
Non-current assets	1,506,664	1,667,442	385,889	3,559,995
Current liabilities	(241,700)	(178,653)	(47,957)	(468,310)
Non-current liabilities	(623,379)	(1,130,813)	(219,260)	(1,973,452)
Net assets	951,832	776,984	243,920	1,972,736
Tabreed's share of net assets	418,806	194,246	89,266	702,318
<b>2016</b>				
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
<b>2017</b>				
Revenue	395,273	278,074	119,409	792,756
Cost of sales	(169,410)	(89,507)	(54,779)	(313,696)
Administrative and other expenses	(92,553)	(28,380)	(2,997)	(123,930)
Other Income	-	35,096	10,023	45,119
Net finance cost	(11,726)	(56,848)	(11,137)	(79,711)
Other Charges	(10,332)	-	-	(10,332)
Profit for the year	111,252	138,435	60,519	310,206
Tabreed's share of results for the year	48,951	34,609	19,909	103,469
<b>2016</b>				
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

Net assets of associates include the Company's share of negative fair value of derivatives of associates amounting to AED 5.8 million (2016: AED 4.5 million). Summarised financial information of the Group's investments in associates is adjusted for intercompany transactions.

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 13 INVESTMENTS IN JOINT VENTURES

The Company has the following investments in joint ventures:

	Country of incorporation	2017	Ownership 2016
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:

	2017 AED '000	2016 AED '000
At 1 January	185,580	51,000
Addition contribution to a joint venture (i)	-	91,837
Transfer of loan to investment	-	72,276
Share of results for the year	25,321	19,794
Dividends	(82,769)	(29,000)
Share of changes in fair value of effective cash flow hedges	620	590
Adjustments for inter group transactions	(4,871)	(20,917)
At 31 December	123,881	185,580
Share of the joint ventures' revenues and profits:		
Revenues	92,755	79,278
Profit for the year	25,321	19,794

- (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:

	2017 AED '000	2016 AED '000
Revenue	185,032	158,093
Cost of sales	(90,400)	(88,154)
Administrative and other expenses	(12,951)	(10,431)
Other Income	171	216
Net finance cost	(31,230)	(20,006)
Profit for the year	50,622	39,718
Tabreed's share of results for the year	25,321	19,794

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 13 INVESTMENTS IN JOINT VENTURES (continued)

	2017 AED '000	2016 AED '000
Current assets	235,933	142,674
Non-current assets	1,257,782	1,276,807
Current liabilities	(377,546)	(142,027)
Non-current liabilities	(869,043)	(906,875)
Total net assets	247,126	370,579
Tabreed's share of net assets	123,881	185,580

Net assets of joint ventures include the Company's share of negative fair value of derivatives of a joint venture amounting to AED 21.2 million (2016: AED 21.8 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 Goodwill

	2017 AED '000	2016 AED '000
At 1 January	27,710	37,596
Accumulated impairment losses	-	(9,886)
At 31 December	27,710	27,710

#### *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 2022. The discount rate applied to the cash flow projections is 25% (2016: 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% (2016: 3%).

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 15 FINANCE LEASE RECEIVABLES

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

	2017 AED '000	2016 AED '000
At 1 January	3,013,485	2,963,096
Initial recognition of new finance lease receivables during the year (i)	-	98,804
Finance lease income (note 3)	188,158	185,587
Lease rentals received	(243,899)	(234,002)
At 31 December	<u>2,957,744</u>	<u>3,013,485</u>

Analysed in the consolidated statement of financial position as follows:

	2017 AED '000	2016 AED '000
Current assets	242,638	230,918
Non-current assets	<u>2,715,106</u>	<u>2,782,567</u>
	<u>2,957,744</u>	<u>3,013,485</u>

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

	2017		2016	
	Minimum lease receivables AED '000	Present value of minimum lease AED '000	Minimum lease receivables AED '000	Present value of minimum lease AED '000
Within one year	250,883	242,638	243,899	230,918
After one but no more than five years	1,057,596	876,162	1,034,542	842,428
More than five years	<u>3,784,481</u>	<u>1,838,944</u>	<u>4,058,418</u>	<u>1,940,139</u>
	5,092,960	2,957,744	5,336,859	3,013,485
Unearned revenue	<u>(2,135,216)</u>	-	<u>(2,323,374)</u>	-
	<u>2,957,744</u>	<u>2,957,744</u>	<u>3,013,485</u>	<u>3,013,485</u>

Movement in unearned revenue is as follows:

	2017 AED '000	2016 AED '000
At 1 January	2,323,374	2,440,025
Relating to new finance leases	-	68,936
Recognised during the year (note 3)	<u>(188,158)</u>	<u>(185,587)</u>
At 31 December	<u>2,135,216</u>	<u>2,323,374</u>

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

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 15 FINANCE LEASE RECEIVABLES (continued)

(i) During 2016, the Company constructed a new district cooling plant for an existing customer and signed a cooling agreement with the customer. Management 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 was transferred from capital work in progress and finance lease receivable was 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.

### 16 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<b>2017</b> <b>AED '000</b>	<b>2016</b> <b>AED '000</b>
Trade receivables, net	<b>350,999</b>	262,128
Amounts due from related parties (note 27)	<b>62,814</b>	46,427
Advances to contractors and employees	<b>15,336</b>	13,493
Contract work in progress	<b>13,959</b>	16,183
Deposits and other receivables	<b>58,511</b>	54,997
Prepayments	<b>15,200</b>	15,887
	<b>516,819</b>	409,115

As at 31 December 2017, trade receivables with a nominal value of AED 21.2 million (2016: AED 16.1 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	<b>2017</b> <b>AED '000</b>	<b>2016</b> <b>AED '000</b>
At 1 January	<b>16,244</b>	16,135
Charge for the year (note 6.2)	<b>11,972</b>	5,694
Amounts written off	<b>(6,970)</b>	(5,585)
At 31 December	<b>21,246</b>	16,244

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**16 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)**

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

	<i>Total AED'000</i>	<i>Neither past due nor impaired AED'000</i>	<i>Past due but not impaired</i>					<i>&gt;365 days AED'000</i>
			<i>&lt; 30 days AED'000</i>	<i>30 – 60 days AED'000</i>	<i>60 – 90 days AED'000</i>	<i>90 – 120 days AED'000</i>	<i>120 – 365 days AED'000</i>	
<b>2017</b>	<b>413,813</b>	<b>226,734</b>	<b>61,342</b>	<b>38,453</b>	<b>20,195</b>	<b>6,895</b>	<b>30,853</b>	<b>29,341</b>
2016	308,555	181,613	44,861	9,872	8,512	8,614	27,505	27,578

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 27.

**17 CASH AND BANK DEPOSITS**

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

	<i>2017 AED '000</i>	<i>2016 AED '000</i>
Bank balances and cash	<b>369,053</b>	376,841
Bank deposits	<b>49,227</b>	13,120
Cash and cash equivalents as at 31 December	<b>418,280</b>	389,961

Included in the bank balances is an amount of AED 77.7 million (2016: AED 27.9 million) placed in debt service reserve accounts in relation to bank facilities and an amount of AED 26.2 million (2016: AED 33.9 million) held as cash margin against trade related bank guarantees and letters of credit.

Bank deposits attract a fixed rate of interest ranging from 0.95% to 2.75% per annum (2016: 1.3% to 2.5% per annum).

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

Allocation of the equity and extinguishment of the liability component of the Mandatory Convertible Bonds (MCBs) as a result of conversion into ordinary shares is a non-cash event and has therefore been excluded from the statement of cash flow.



# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 17 CASH AND BANK DEPOSITS (continued)

Geographical concentration of cash and bank deposits is as follows:

	2017 AED '000	2016 AED '000
Within UAE	407,492	371,159
Outside UAE	10,788	18,802
	<b>418,280</b>	<b>389,961</b>

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

	Interest bearing loans and borrowings AED '000	Islamic financing arrangements AED '000	Mandatory Convertible bonds AED '000	Total AED '000
Balance at 1 January	3,229,899	-	1,955,114	5,185,013
Financing cash flows	(1,241,070)	1,181,215	(43,222)	(103,077)
Transaction cost paid	6,418	(27,414)	-	(20,996)
Non cash transaction:				
Amortisation of transaction cost (note 5)	13,832	1,371	525	15,728
Accretion expense (note 5)	-	-	3,456	3,456
Transfer to other reserve (note 20)	-	-	61,166	61,166
Conversion of MCBs in to ordinary shares (note 18)	2,009,079	1,155,172	(1,977,039)	1,187,212
Balance at 31 December	<b>4,018,158</b>	<b>2,310,344</b>	<b>-</b>	<b>6,328,502</b>

### 18 ISSUED CAPITAL

	2017 AED '000	2016 AED '000
Balance at 1 January	738,490	738,490
Issue of new shares upon conversion of MCBs	1,977,039	-
Balance at 31 December	<b>2,715,529</b>	<b>738,490</b>
<b>Authorised, issued and fully paid up share capital</b>		
Shares 2,715,529,123 (2016: 738,489,648) ordinary shares of AED 1 each	<b>2,715,529</b>	<b>738,490</b>

On 16 August 2017, Mubadala Investment Company converted all of the Mandatory Convertible Bonds (MCBs) into ordinary shares (note 23). A total of 1,977,039,475 ordinary shares of AED 1 each has been issued upon conversion.

On conversion, Mubadala Investment Company sold 40% of the Company's total ordinary shares to a new shareholder, Kahrabel FZE, which is a subsidiary of ENGIE.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 19 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.

### 20 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

During the year, the group transferred AED 61.2 million to other reserve upon conversion of mandatory convertible bonds into ordinary shares (note 18 & 23).

In addition to the above, other reserve includes 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 8.7 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.

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 that resulted in a one off charge to the other reserves amounting to AED 209.3 million.

### 21 INTEREST BEARING LOANS AND BORROWINGS

	<i>Effective interest rate %</i>	<b>2017 AED '000</b>	<b>2016 AED '000</b>
Term loan 1- Facility A (note i)	EIBOR + margin	<b>149,263</b>	298,573
Term loan 1- Facility B (note i)	EIBOR + margin	<b>1,424,426</b>	1,424,511
Term loan 1- Facility C (note i)	EIBOR + margin	-	938,194
Revolving credit facility (note i)	EIBOR + margin	-	132,090
Term loan 2 (note ii)	LIBOR + margin	<b>115,048</b>	124,707
Term loan 3 (note iii)	4.5%	<b>65,096</b>	49,964
Term loan 4 (note iv)	EIBOR + margin	<b>180,470</b>	185,517
Term loan 5 (note v)	EIBOR + margin	<b>74,776</b>	76,343
		<b>2,009,079</b>	<b>3,229,899</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**21 INTEREST BEARING LOANS AND BORROWINGS (continued)**

Analysed in the consolidated statement of financial position as follows:

	<b>2017</b> <b>AED '000</b>	<b>2016</b> <b>AED '000</b>
Current portion	<b>164,457</b>	342,712
Non-current portion	<b>1,844,622</b>	2,887,187
	<b><u>2,009,079</u></b>	<b><u>3,229,899</u></b>

*(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 2014 with the last instalment due on 31 December 2018. The facility carries interest rate of EIBOR plus a margin. During the year, total repayments of AED 153.8 million were made against this facility.

*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 available 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. During the year, total drawdown of AED 100.0 million and total repayments of AED 240.0 million were made against this facility. As of 31 December 2017, the Company has no utilised balance from the revolving facility.

*Facility C*

During the year, the Group has refinanced facility C of AED 945.5 million with a new Islamic Financing arrangement of AED 1,025 million (note 22).

*(ii) Term loan 2*

Term loan 2 relating to a subsidiary borrowing is repayable in 22 semi-annual instalments starting 2008. During the year, total repayments of AED 9.9 million were made against this facility.

*(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. During the year, total drawdown of AED 20.0 million and total repayments of AED 4.8 million were made against this facility.

*(iv) Term loan 4*

Term loan 4 relating to a subsidiary borrowing 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. During the year, total repayments of AED 5.4 million were made against this facility.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**21 INTEREST BEARING LOANS AND BORROWINGS (continued)***(v) Term loan 5*

Term loan 5 relating to a subsidiary borrowing 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. During the year, total repayments of AED 1.7 million were made against this facility.

Included in the interest bearing loans and borrowings is an amount of AED 55.0 million (2016: AED 35.1 million) of unamortised transaction cost.

**22 ISLAMIC FINANCING ARRANGEMENT**

	Effective profit rate %	2017 AED '000	2016 AED '000
Tranche 1	EIBOR + margin	970,534	-
Tranche 2	EIBOR + margin	184,638	-
		<b>1,155,172</b>	<b>-</b>

Analysed in the consolidated statement of financial position as follows:

	2017 AED '000	2016 AED '000
Current portion	65,292	-
Non-current portion	1,089,880	-
	<b>1,155,172</b>	<b>-</b>

During the year, the Group obtained a new syndicated Islamic financing facility with local banks amounting to AED 1,513.0 million in 3 tranches. The financing was obtained to refinance the existing term loan facility of AED 945.5 million and to fund capital expenditure. The facility carries profit rate of EIBOR plus a margin, payable in cash on a quarterly basis and is secured against specified account receivables and property plant and equipment.

The facility is repayable in 20 semi-annual instalments commencing on December 2017 with a bullet payment of 43% of the facility amount payable in June 2027. All other key terms of the new facility are the same as the refinanced facility.

During the year, the Group has drawn Tranche 1 and Tranche 2 from the new Islamic facility amounting to AED 1,025 million and AED 195 million, respectively. Tranche 1 of the Islamic facility was utilized to settle the existing term loan facility of AED 945.5 million (note 21).

During the year, total repayments of AED 38.8 million were made against the Islamic financing arrangement.

Included in the Islamic financing arrangement is an amount of AED 26.0 million of unamortised transaction cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**23 MANDATORY CONVERTIBLE BONDS (MCB)**

On 16 August 2017, Mubadala Investment Company converted all of the Mandatory Convertible Bonds (MCBs) into ordinary shares (note 18). A total of 1,977,039,475 ordinary shares of AED 1 each has been issued upon conversion.

As a result, the total balance of the equity component has been allocated to issued capital and other reserves, and the liability component has been extinguished. Accordingly, the difference between number of shares issued and the balance of the equity component and liability component has been transferred to other reserve.

	<b>Mandatory convertible bond (MCB 1A)</b>		
	<b>Liability component AED '000</b>	<b>Equity component AED '000</b>	<b>Total AED '000</b>
Balance at 1 January 2017	94,925	870,575	965,500
Accretion expense	162	-	162
Amortisation of transaction costs	1,782	-	1,782
Cash coupons paid	(22,292)	-	(22,292)
Conversion into ordinary shares	-	(989,945)	(989,945)
Transfer to other reserve	(74,577)	119,370	44,793
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>

	<b>Mandatory convertible bond (MCB 1B)</b>		
	<b>Liability component AED '000</b>	<b>Equity component AED '000</b>	<b>Total AED '000</b>
Balance at 1 January 2017	27,298	244,850	272,148
Accretion expense	275	-	275
Amortisation of transaction costs	521	-	521
Cash coupons paid	(6,522)	-	(6,522)
Conversion into ordinary shares	-	(289,627)	(289,627)
Transfer to other reserve	(21,572)	44,777	23,205
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 23 MANDATORY CONVERTIBLE BONDS (MCB) (continued)

<i>Mandatory convertible bond (MCB 1C)</i>		
<i>Liability component</i>	<i>Equity component</i>	<i>Total</i>
<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2017	60,415	559,951
Accretion expense	88	-
Amortisation of transaction costs	1,153	-
Cash coupons paid	(14,408)	-
Conversion into ordinary shares	-	(639,862)
Transfer to other reserve	(47,248)	79,911
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>-</b>

<i>Mandatory convertible bond (MCB 4)</i>		
<i>Liability component</i>	<i>Equity component</i>	<i>Total</i>
<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2017	-	97,100
Conversion into shares	-	(57,605)
Transfer to other reserve	-	(39,495)
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>-</b>

<i>Total Mandatory convertible bonds</i>		
<i>Liability component</i>	<i>Equity component</i>	<i>Total</i>
<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2017	182,638	1,772,476
Accretion expense	525	-
Amortisation of transaction costs	3,456	-
Cash coupons paid	(43,222)	-
Conversion into ordinary shares	-	(1,977,039)
Transfer to other reserve	(143,397)	204,563
<b>Balance at 31 December 2017</b>	<b>-</b>	<b>-</b>

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

	<i>At 31 December 2017</i>	<i>At 31 December 2016</i>
	<i>AED '000</i>	<i>AED '000</i>
Current	-	84,909
Non-current	-	97,729
	<b>-</b>	<b>182,638</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 24 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:

	2017		2016	
	<i>Minimum lease payments</i>	<i>Present value of payments</i>	<i>Minimum lease payments</i>	<i>Present value of payments</i>
	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Within one year	4,517	4,374	7,749	7,364
After one year but not more than five years	-	-	4,536	3,979
	4,517	4,374	12,285	11,343
Less: amounts representing finance charges	(143)	-	(942)	-
Present value of minimum lease payments	4,374	4,374	11,343	11,343

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

	2017	2016
	<i>AED '000</i>	<i>AED '000</i>
Current	4,374	7,364
Non-current	-	3,979
	4,374	11,343

### 25 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:

	2017	2016
	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January	22,649	20,625
Reclassified from disposal group held for sale	-	451
Net movement during the year	3,327	1,573
Balance at 31 December	25,976	22,649



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

## 26 ACCOUNTS PAYABLE AND ACCRUALS

	2017 AED '000	2016 AED '000
<b>Non-current liabilities</b>		
<i>Relating to capital expenditure:</i>		
Contractor payable and retentions	14,079	15,120
<i>Others:</i>		
Other payables and provisions	114,365	117,990
	<u>128,444</u>	<u>133,110</u>
<b>Current liabilities</b>		
<i>Relating to capital expenditure:</i>		
Contractor payable and retentions	50,685	59,955
Due to a non-controlling interest	-	100,000
Accrued expenses	54,929	48,776
	<u>105,614</u>	<u>208,731</u>
<i>Others:</i>		
Accounts payable	52,504	22,115
Due to related parties (note 27)	43,982	40,584
Accrued expenses	192,058	202,141
Derivative financial instruments(i)	10,770	3,286
Other payables and provisions	170,624	166,806
	<u>469,938</u>	<u>434,932</u>
	<u>575,552</u>	<u>643,663</u>

(i)The group has entered into interest rate swaps (IRS) for the interest borrowing loans and Islamic financing arrangements denominated in AED, which are designated as a hedging instrument (note 31).

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 5.4 million (2016: AED 0.8 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 27.

# National Central Cooling Company PJSC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 27 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:

	2017				2016			
	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	-	99,359	-	4,838	-	101,001	-	4,929
Joint Venture	5,364	-	-	-	2,560	-	-	-
Majority shareholder	-	-	3,456	-	-	-	9,214	-
Associate of a majority shareholder	131,112	-	-	-	118,651	-	-	-
Government related departments and institutions	537	165,513	74,262	-	45,446	145,789	44,923	-

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

	2017				
	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	-	27,825	-	33,943	-
Joint venture	-	3,909	-	-	-
Associate of a majority shareholder	-	25,477	-	-	-
Government related departments and institutions	-	5,603	323,290	10,039	1,607,328
	-	62,814	323,290	43,982	1,607,328
	2016				
	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	-	32,631	-
Joint venture	-	5,329	-	-	-
Majority shareholder (note 23)	1,955,114	-	-	-	-
Associate of a majority shareholder	-	13,815	-	-	-
Other related party	-	-	-	100,000	-
Government related departments and institutions	-	3,968	271,195	7,953	1,136,426
	1,955,114	46,427	271,195	140,584	1,136,426

## National Central Cooling Company PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

#### 27 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:

	<i>Terms and conditions</i>	<b>2017</b> <b>AED '000</b>	<b>2016</b> <b>AED '000</b>
Mandatory convertible bond 1A	Interest bearing, unsecured, cash coupon	-	965,500
Mandatory convertible bond 1B	Interest bearing, unsecured, cash coupon	-	272,148
Mandatory convertible bond 1C	Interest bearing, unsecured, cash coupon	-	620,366
Mandatory convertible bond 4	Unsecured	-	97,100
Accounts receivable	Interest free, unsecured, settled over agreed payment terms	<b>62,814</b>	46,427
Accounts receivable from associate of a majority shareholder	Interest free, unsecured, payment terms as per agreed payment terms	<b>25,477</b>	13,815
Accounts payable	Interest free, unsecured, settled over normal credit period	<b>33,943</b>	32,631
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	<b>1,607,328</b>	1,136,426
Accounts receivables with Government related departments and institutions	Interest free, unsecured, settled over normal credit period	<b>5,603</b>	3,968
Accounts payables with Government related departments and institutions	Interest free, unsecured, settled over normal credit period.	<b>10,039</b>	7,953

There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2017, amounts owed by related parties with a nominal value of AED 1.3 million (2016: AED 1.7 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) During the year, Mubadala Investment Company converted all of the Mandatory Convertible Bonds (MCBs) into ordinary shares (note 18). A total of 1,977,039,475 ordinary shares of AED 1 each has been issued upon conversion (note 23)

##### Non-cash transactions:

- (i) During 2016, 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

## National Central Cooling Company PJSC

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

#### 27 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

##### Compensation of key management personnel

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

	2017 AED '000	2016 AED '000
Short-term benefits	6,886	6,363
Employees' end of service benefits	148	131
	<u>7,034</u>	<u>6,494</u>
Number of key management personnel	<u>5</u>	<u>4</u>

#### 28 CONTINGENT LIABILITIES

##### Bank guarantees

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

	2017 AED '000	2016 AED '000
Performance guarantees	112,588	108,418
Advance payment guarantees	673	673
Financial guarantees	2,585	2,586
	<u>115,846</u>	<u>111,677</u>

The Company's share of contingencies of associates and joint ventures as of 31 December 2017 amounted AED 12.8 million (2016: AED 10.8 million). The Company expects no outflow of economic resources and accordingly no provision has been made in the consolidated financial statements.

#### 29 COMMITMENTS

##### Contractual commitments

The authorised contractual commitments as at 31 December 2017 but not provided for amounted to AED 147.0 million (2016: AED 174 million). The Company's share of authorised future capital expenditure of associates and joint ventures at 31 December 2017 amounted to AED 57.0 million (2016: AED 16.0 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 29 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:

	2017 AED '000	2016 AED '000
Within one year	156,842	149,008
After one year but not more than five years	842,821	793,772
More than five years	3,564,605	3,540,423
	<u>4,564,268</u>	<u>4,483,203</u>

Included in revenue is an amount of AED 153.1 million (2016: AED 138.1 million) related to operating lease income recognised during the year.

Included in operating lease commitments is an amount of AED 3,353.0 million relating to an associate of a majority shareholder, a related party (2016: AED 3,208.0 million).

### 30 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 bank 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 2017 and 2016 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, Islamic financing arrangements, 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 2017 and 2016.

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 2017 and 2016.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

### 30 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 2017 and 2016 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 2017, after taking into account the effect of interest rate swaps, approximately 57% of the Group's borrowings are at a fixed rate of interest (2016: 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).

	<i>Effect on profit</i> <i>AED '000</i>
<b>2017</b>	
+100 basis point increase	(10,281)
-100 basis point decrease	10,281
<b>2016</b>	
+100 basis point increase	(14,387)
-100 basis point decrease	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 the transactions and balances are in either UAE Dirham or US Dollar or currencies that are pegged to US Dollar. As the UAE Dirham is pegged to the US Dollar, balances in US Dollar are not considered to represent significant foreign currency risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**30 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 16 and 15. The Group's three largest customers, including a related party, account for approximately 49% of outstanding trade and related party receivable balances at 31 December 2017 (2016: 3 customers 46%). Amounts due in respect of finance lease receivables are from four customers (2016: three customers).

With respect to credit risk arising from other financial assets of the Group, which comprise cash and bank 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 2017 based on undiscounted payments and current market interest rates.

	<i>On demand AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3 to 12 months AED'000</i>	<i>1 to 5 Years AED'000</i>	<i>&gt;5 years AED'000</i>	<i>Total AED'000</i>
<b>At 31 December 2017</b>						
Interest bearing loans and borrowings	-	33,967	328,959	1,733,494	253,613	2,350,033
Islamic financing arrangements	-	11,502	103,591	455,021	840,632	1,410,746
Obligations under finance leases	-	1,937	2,580	-	-	4,517
Accounts and retention payable, due to related parties and other financial liabilities	-	117,699	352,078	14,079	-	483,856
	<u>-</u>	<u>165,105</u>	<u>787,208</u>	<u>2,202,594</u>	<u>1,094,245</u>	<u>4,249,152</u>
<b>At 31 December 2016</b>						
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
	<u>-</u>	<u>278,079</u>	<u>689,883</u>	<u>3,417,973</u>	<u>305,302</u>	<u>4,691,237</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**30 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 adjusts it, in the light of changes in economic conditions. There are no regulatory imposed requirements on the level of share capital which the Group has not met.

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

	<b>2017</b> <b>AED '000</b>	<b>2016</b> <b>AED '000</b>
Interest bearing loans and borrowings	<b>2,009,079</b>	3,229,899
Islamic financing arrangement	<b>1,155,172</b>	-
Mandatory convertible bond and – liability component	-	182,638
Obligation under finance lease	<b>4,374</b>	11,343
	<b>3,168,625</b>	3,423,880
Less: cash and bank deposits	<b>(418,280)</b>	(389,961)
Net debt	<b>2,750,345</b>	3,033,919
Equity attributable to equity holders of the parent	<b>4,725,935</b>	4,367,223
Adjustment for cumulative changes in fair values of derivatives	<b>37,774</b>	29,551
Total capital	<b>4,763,709</b>	4,396,774
Capital and net debt	<b>7,514,054</b>	7,430,693
Gearing ratio	<b>37%</b>	41%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**31 FAIR VALUE MEASUREMENT****31.1 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:

	<b>Carrying Amount</b>		<b>Fair Value</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>AED '000</b>	<b>AED '000</b>	<b>AED '000</b>	<b>AED '000</b>
<b>Financial assets</b>				
Finance lease receivables	<b>2,957,744</b>	3,013,485	<b>3,570,822</b>	3,305,998
<b>Financial liabilities</b>				
Obligations under finance lease	<b>4,374</b>	11,343	<b>4,838</b>	12,385
Mandatory convertible bond – liability component	-	182,638	-	187,073

**31.2 Fair value hierarchy**

As at 31 December 2017 and 2016, the fair value measurement hierarchy of the Group's assets and liabilities is as follows:

	<b>2017</b>				<b>2016</b>			
	<b>31 December 2017 AED'000</b>	<b>Level 1 AED'000</b>	<b>Level 2 AED'000</b>	<b>Level 3 AED'000</b>	<b>31 December 2016 AED'000</b>	<b>Level 1 AED'000</b>	<b>Level 2 AED'000</b>	<b>Level 3 AED'000</b>
<b>Liabilities measured at fair value</b>								
Interest rate swaps	<u>10,770</u>	-	<u>10,770</u>	-	<u>3,286</u>	-	<u>3,286</u>	-
<b>Assets for which fair values are disclosed</b>								
Finance lease receivables	<u>3,570,822</u>	-	-	<u>3,570,822</u>	<u>3,305,998</u>	-	-	<u>3,305,998</u>
<b>Liabilities for which fair values are disclosed</b>								
Obligations under finance lease	<u>4,838</u>	-	-	<u>4,838</u>	<u>12,385</u>	-	-	<u>12,385</u>
Mandatory convertible bond – liability component	<u>-</u>	-	-	<u>-</u>	<u>187,073</u>	-	-	<u>187,073</u>
	<u><b>4,838</b></u>	-	-	<u><b>4,838</b></u>	<u><b>199,458</b></u>	-	-	<u><b>199,458</b></u>

During the reporting years ended 31 December 2017 and 31 December 2016, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017

**31 FAIR VALUE MEASUREMENT (continued)****31.2 Fair value hierarchy (continued)**

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

- 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.

**31.3 Hedging activities***Cash flow hedges*

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

In order to reduce its exposure to interest rate fluctuations on the interest bearing loans and borrowings the 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 1,820 million as at 31 December 2017 (2016: AED 1,819 million).

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

	<i>Within 1 year AED '000</i>	<i>1-3 years AED '000</i>	<i>Total AED '000</i>
<b>2017</b>			
Cash inflows (assets)	35,479	75,983	111,462
Cash outflows (liabilities)	(48,584)	(80,915)	(129,499)
Net cash outflow	<u>(13,105)</u>	<u>(4,932)</u>	<u>(18,037)</u>
<b>2016:</b>			
Cash inflows (assets)	30,288	33,390	63,678
Cash outflows (liabilities)	(41,328)	(36,211)	(77,539)
Net cash outflow	<u>(11,040)</u>	<u>(2,821)</u>	<u>(13,861)</u>

All derivative contracts are with counterparty banks in UAE.



**Abu Dhabi Mall**

**West Tower, 13<sup>th</sup> Floor**

P.O. Box: 29478, Abu Dhabi, UAE

T: +971 2 202 0400 | F: +971 2 645 5008

Info@tabreed.ae | www.tabreed.ae