تبريد
tabreed
District Cooling

ANNUAL REPORT 2006
PROMISES AND PERFORMANCES

H.H. Sh. Khalifa Bin Zayed Al Nahyan
President of the UAE and Ruler of Abu Dhabi

H.H. Sh. Mohammed Bin Rashid Al Maktoum
UAE Vice President and Prime Minister and
Ruler of Dubai

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BOARD OF DIRECTORS

Mohamed Saif Al Mazrouei
Chairman

Khalifa Mohamed Al Kindi
Deputy Chairman

Khalifa Mohamed Al Gobaisi
Board Member

Mubarak Rashed Al Mansouri
Board Member

Ahmed Ateeq Al Mazrouei
Board Member

Mohamed Darwish Al Qamzi
Board Member

Obaid Ghanim Al Mutaiwei
Board Member

Abdul Raouf W. Al Bitar
Board Member

Dany Joseph Safi
CEO, Board Member

CHAIRMAN'S MESSAGE

The focus of this annual report – and of our entire company – is performance. Tabreed has been displaying remarkable resiliency during its young corporate life.We said we were taking business improvement actions. We did, and this year those actions paid off: We continued to implement global best practices to increase productivity.

In this annual report we will detail and assess our performance in 2006 and highlight our strategies for the future.

We delivered

In many ways, 2006 can best be described as a year of promise and performance for "Tabreed".

Promise…because a number of positive developments occurred that will allow us to move forward – building plants region needs to meet its growing demand for District Cooling services.

Performance… because we were able to deliver higher customer satisfaction, solid financial results and real shareholders value.

Tabreed displayed remarkable resiliency last year, we said we were taking business improvement actions. We did, and this year those actions paid off: We continued to implement global best practices to increase productivity. This was an outstanding year for our business, as earnings from continuing operations totalled AED 104.4 million or AED .104 a share, installed capacity reached 182,000 R.T.

On a comparable basis in 2005, earnings were AED 51.1 million or AED .051 per share and chilled water tonnage was 97,000 R.T. Improving economy, lower debt levels and additional earnings from the new district cooling plants we brought into service during the course of the year were key factors in our improved results.

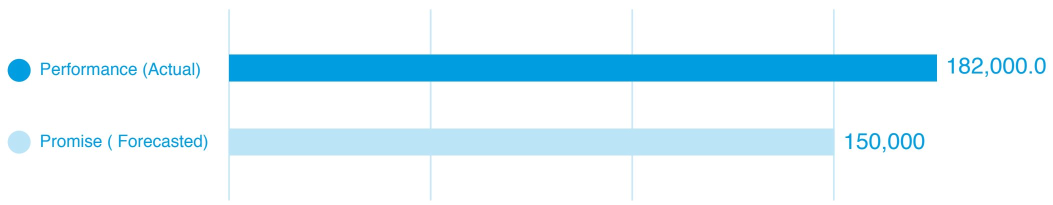
A promise for the future

As 2006 closed, our strong results became part of our proud history. And, with a new focus on the future, we turned our attention to, "What's next for Tabreed?" Our strategic priorities for 2007 and beyond are rather straightforward. They are centred on three key themes: strategic focus, financial discipline and successful execution.

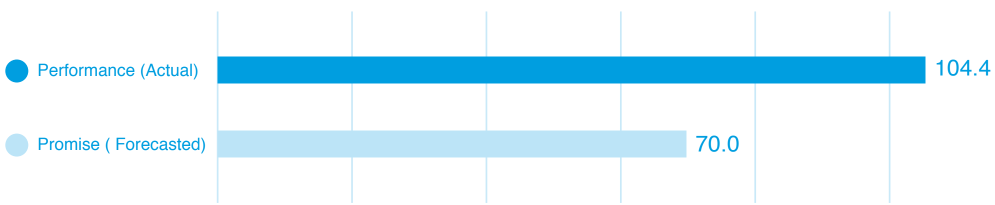
In short – we remain steadfast in our commitment to provide our customers with safe, reliable, affordable and environmentally sound energy – a commitment we have delivered on year-after-year; and to deliver solid long-term returns to our shareholders and maintaining an impeccable "say/do" ratio.

Mohamed Saif Al Mazrouei
Chairman

2006 Chilled Water Tonnage / R Tons



2006 Net Income / AED Millions



REPORT OF THE BOARD

We know from the lessons of history and the success of great business that financial discipline, a solid growth plan and a relentless focus on customer satisfaction lead to greater shareholder value. Our focus will be to make the enterprise even more valuable to our customers and shareholders in the years ahead.

Customer Satisfaction & Reliability

Tabreed delivered excellent results in 2006 with strong financials and terrific operational successes. Revenues from chilled water operations rose more than 31% from 2005, which resulted in a 24.4% increase in the company's gross profit and 104% in net profit over the last year. We generated these solid results by focusing on controlling production costs and reducing financing costs. And we did all of this without losing sight of our customers. However, we strongly believe we still have very real and substantial opportunities to make further progress on the extraordinary performance improvement path we have established over the past seven years.

Tabreed progressed solidly in 2006, we exceeded financial targets, advanced our development strategy and generated strong shareholder returns, setting the stage for continued growth. Tabreed's installed capacity increased by 85,500 tons from 2005. This growth will continue based on our firm contractual capacity. By 2008 we will add an additional 211,500 tons to current production capacity.

To assess our progress, Tabreed management adopts a high-level version of comprehensive scorecard methodology; we compare the results from 2005 to our performance through 2006. We measure our progress against the hallmarks of any successful company: operational excellence, market leadership, a strict risk/return mind set for all key business decisions, and a rigorous performance management system. We believe that executing against these elements is necessary to deliver top-quartile financial performance, shareholder return, and financial flexibility.

We know from the lessons of history and the success of great business that financial discipline, a solid growth plan and a relentless focus on customer satisfaction lead to greater shareholder value. Our focus will be to make the enterprise even more valuable to our customers and shareholders in the years ahead.

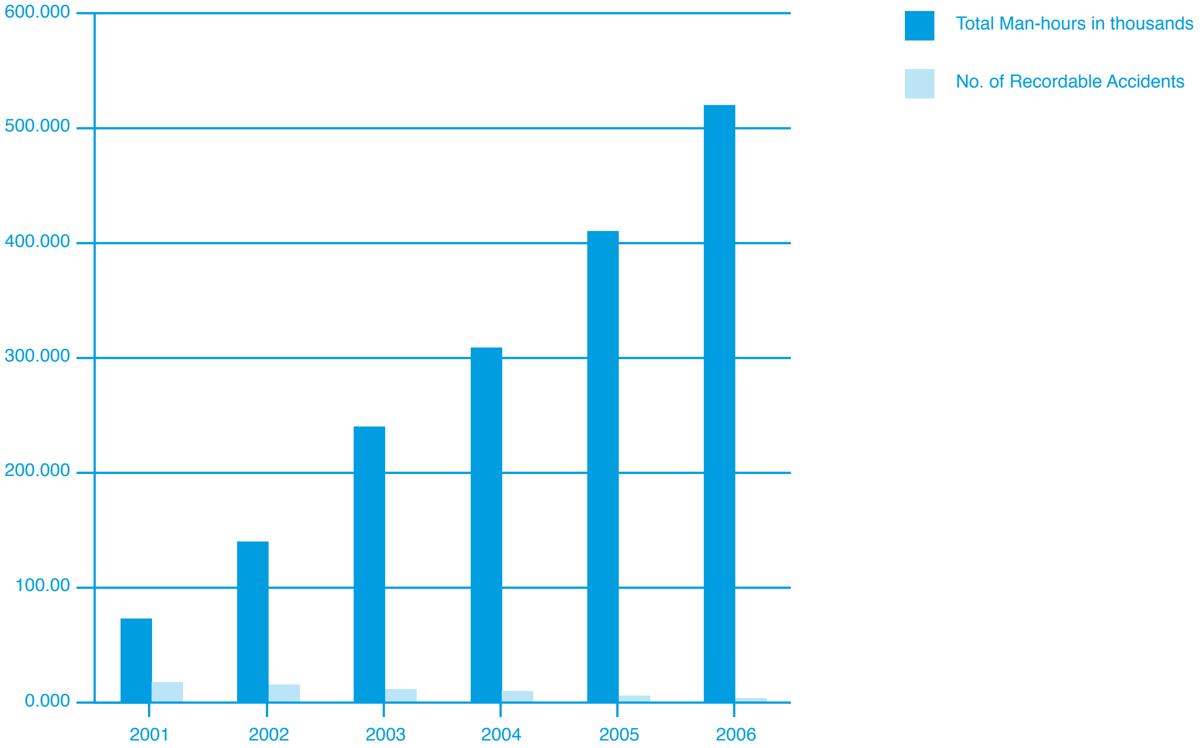
A promising Economy

As we look back on the year, we believe it's also important to note that nearly every sector of the UAE economy posted gains during 2006. Our customer base and the demand for district cooling services reflect this economic strength.

Based on the growth we have seen over the past year, and the untapped potential that lies ahead, the company's future looks very promising.

Tabreed Safety Performance

Year	2001	2002	2003	2004	2005	2006
No. of operational facilities	3	5	13	15	18	21
No. of O&M personnel	27	59	105	135	179	229
Total Man hours in thousands	62.019	135.523	241.185	310.095	411.163	526.013
No. of recordable accidents	15	10	8	7	5	3
No. of fatalities	0	0	0	0	0	0



CEO'S MESSAGE

Tabreed is a company powered by people, driven by performance and committed to excellence. While those words are easy to say, at Tabreed, they have meaning.

They define our organizational culture, which, in turn, defines who we are. More than anything, we are a company of leaders.

At Tabreed, we pride ourselves on our customer service, our safe and efficient operations, our well-maintained infrastructure, and our thoughtful plans and strategies. We believe our employees are well-prepared and capable of responding brilliantly to any business and market challenges.

People, performance and excellence shape our reality—and our future. Tabreed is a company powered by people, driven by performance and committed to excellence. While those words are easy to say, at Tabreed, they have meaning. They define our organizational culture, which, in turn, defines who we are. More than anything, we are a company of leaders. Our focus is on developing the talent and leadership potential within all employees. One of the ways we do that is through our many diversity and leadership initiatives.

At the start of the year, we examined our businesses, our strategies, and our competition, as well as marketplace trends and realities. The assessment? Tabreed's fundamentals are strong, and as we continue to deliver on our commitments, our stock's performance should improve. Consistently improving our return on capital while increasing earnings will be our focus. Here's how we do it:

Portfolio Management

We are focusing our people, technology, and capital in areas that have good returns and good growth.

Work Process Improvement

What do we want to improve? Everything we do–from how we design, build, and run plants to how we make, deliver and account for products. Our goal is to create a culture where work processes are driven by meeting customers' needs. So we are standardizing, shortening, simplifying, and sharing our work processes across groups, divisions, and regions to better serve our customers.

Growth

Portfolio management and work process improvements are not enough. To create true shareholder value, we must combine these initiatives with a strong, disciplined growth program. Our investments must focus on value creation–growing the top and bottom lines in ways that achieve and maintain acceptable returns on capital.

Change

To achieve our value commitment, change is no longer optional its imperative. We're engaging our people in the change process and addressing the impact of our changes on them as individuals. Our goal is to create the environment, practices, and clear accountabilities that will allow people to thrive in our high-performance organization.

Ultimately, we are changing to create the culture and the discipline necessary to better serve our customers while improving our return on capital and driving growth. In todays world consistent financial performance is a must. Our team is committed to making sure shareholder and customer value creation will be linked to all we do.

These four initiatives, which are part of our overall plan, deliver the difference, outline what we need to do as an organization to consistently generate double-digit earnings growth, improve our return on capital, and better serve our customers. This plan has produced tangible results in 2006. There's still work to be done, but I know our employees. They're talented, capable and, most of all, determined.

Dany Safi
Chief Executive Officer

ZAKAT (ALMS) REPORT

We have analyzed the data stated in the financial lists of National Central Cooling Company "Tabreed" and the subsidiary companies for the year ending Dec.31, 2006 for the purpose of assessing and determining the amount of Zakat payable by laws of Islam against each share.

We have obtained the data and notes we deemed appropriate for same. The scope of our mission has been represented in examining the financial lists and their annexes prepared with the approval of the Company Management and audited by the Auditor in accordance with the accounting principles and criteria applied in the United Arab Emirates.

In assessing and determining the amount of Zakat, we relied upon the provisions and legal opinions "fatawa" pertaining to the calculation of the Zakat as issued by the International Sharia Association of Zakat and the Companies Zakat Guide in addition to Zakat Calculation Criteria issued by Auditing and Controlling Body of the Islamic financial establishments.

In light of the above, it is our opinion that the Zakat calculation list attached herewith is in compliance with the Zakat provisions, fatawa and criteria.

Each shareholder may refer to the Shareholders Department of the Company to be informed of the amount of Zakat payable against each share.

Praise be to Allah with whom grace good deeds are accomplished.

CFO'S MESSAGE

Tabreed's success has earned us the right to pursue sensible initiatives to drive future earnings growth, with our dedicated staff, experienced management, clear investment policy and outlook, the company is now in an enviable position of strength. This, however, means that there is a heavy responsibility on our shoulders, but we have great confidence that we will measure up to the aspirations of our stake holders.

Financial Results

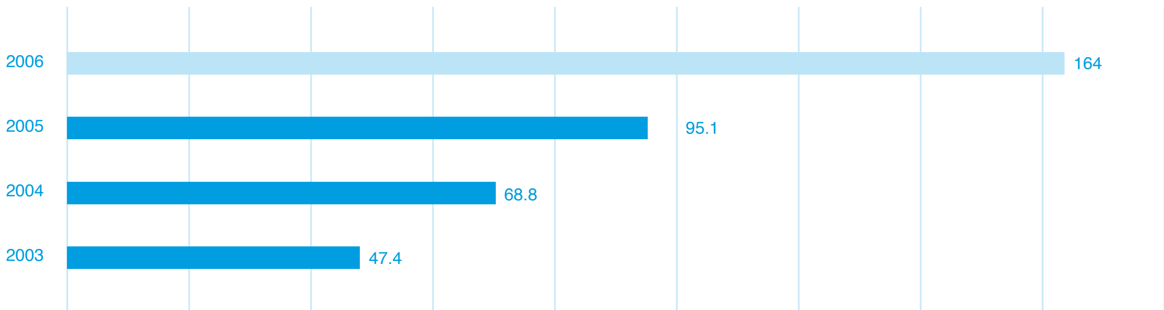
FY06 was another remarkable year for Tabreed, the company posted a record net profit of AED 104.4 million for the year, an increase of 104% from the previous year. Revenue grew from AED 409,904,000 in 2005 to AED 469,995,000 in 2006. Gross profit has increased to AED 189,020,000, up from AED 151,916,000 in 2005. At the year end, Tabreed's total assets soared to AED 4,185,185,000 from 2,643,730,000 in 2005, represents an increase of 58% from 2005.

Our financial and operating performance has improved sharply relative to 2005, reflects our focus on driving operational excellence, managing the cost structure, and enhancing financial strength.

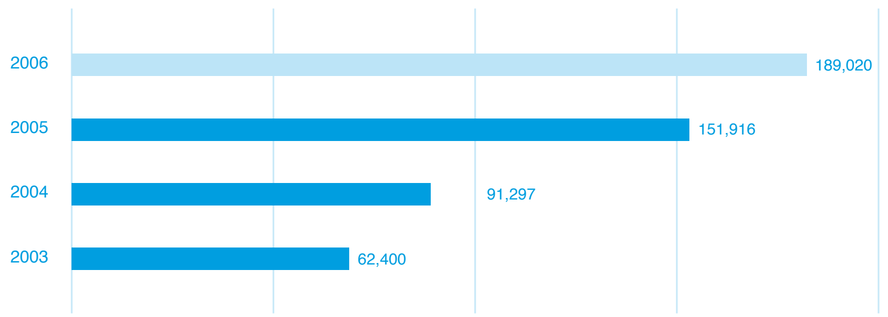
This success has earned us the right to pursue sensible initiatives to drive future earnings growth. While we still have a lot to do, Tabreed is a much stronger, more resilient, and better-performing company than it was years ago.

Karl Marietta
Chief Financial Officer

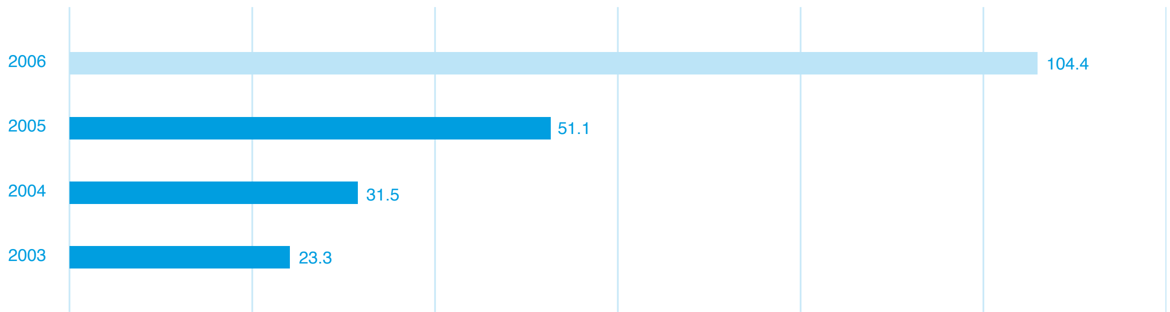
Cash Flow/AED Millions



Gross Profit / AED Thousands



Net Income / AED Millions



FINANCIAL STATEMENTS

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

Ernst & Young

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Central Cooling Company PJSC (the "Company") and its subsidiaries, which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies law of 1984 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 31 December 2006 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

Signed by
Bassam E Hage
Partner
Ernst & Young
Registration No. 258

Date 19th February 2007
Abu Dhabi

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	**2006 AED '000**	2005 AED '000
Revenue	3	**469,995**	400,904
Operating costs		**(280,975)**	(248,988)
GROSS PROFIT		**189,020**	151,916
Salaries and staff related costs		**(37,001)**	(30,753)
Other administrative expenses		**(47,561)**	(38,595)
Provision for impairment of property, plant and equipment	9	**(197)**	–
Finance costs		**(51,305)**	(35,433)
Other income	4	**70,684**	20,034
Share of results of associates	10	**1,617**	478
PROFIT FOR THE YEAR	5	**125,257**	67,647
Attributable to:			
Equity holders of the parent		**104,406**	51,140
Minority interests		**20,851**	16,507
		125,257	67,647
Basic and diluted earnings per share attributable to equity holders of the parent (AED)	6	**0.10**	0.05

The attached notes 1 to 32 form part of these consolidated financial statements.

National Central Cooling Company PJSC

CONSOLIDATED BALANCE SHEET

Year ended 31 December 2006

	Notes	2006 AED '000	2005 AED '000
ASSETS			
Non-current assets			
Capital work in progress	8	**755,482**	642,921
Property, plant and equipment	9	**1,282,344**	1,004,108
Investments in associates	10	**109,440**	46,002
Intangible assets	12	**38,334**	38,336
Available for sale investments		**1,880**	–
		2,187,480	1,731,367
Current assets			
Inventories		**27,235**	17,651
Trade and other receivables	14	**879,778**	208,080
Financial assets carried at fair value through income statement	15	**108,032**	76,269
Contract work in progress	16	**111,947**	69,211
Prepayments		**4,203**	3,253
Bank balances and cash	17	**866,510**	520,032
		1,997,705	894,496
Assets classified as held for sale		**–**	17,867
		1,997,705	912,363
TOTAL ASSETS		**4,185,185**	2,643,730
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	18	**1,050,000**	1,000,000
Treasury shares	19	**(10,050)**	(10,050)
Statutory reserve	20	**27,303**	14,544
Retained earnings		**27,378**	22,881
Cumulative changes in fair value of derivatives	30	**9,500**	3,800
Reserve for proposed bonus issue	21	**84,000**	50,000
Foreign currency translation reserve		**(374)**	–
		1,187,757	1,081,175
Minority interests		**121,938**	64,601
Total equity		**1,309,695**	1,145,776
Non-current liabilities			
Accounts payable and accruals	26	**36,468**	10,604
Term loans	22	**688,830**	382,068
Islamic Ijara loans	23	**185,559**	306,348
Islamic Istisna'a loans	23	**897,544**	174,486
Islamic Muqawala loans	23	**15,641**	132,263
Obligations under finance lease	24	**51,610**	–
Employees' end of service benefits	25	**8,225**	7,884
		1,883,877	1,013,653

CONSOLIDATED BALANCE SHEET continued

At 31 December 2006

	Notes	2006 AED '000	2005 AED '000
Current liabilities			
Accounts payable and accruals	26	**429,555**	318,919
Bank overdraft	17	**280,322**	111,933
Term loans	22	**41,024**	23,758
Islamic Ijara loans	23	**121,384**	15,514
Islamic Muqawala loans	23	**116,622**	14,177
Obligations under finance lease	24	**2,706**	–
		991,613	484,301
Total liabilities		**2,875,490**	1,497,954
TOTAL EQUITY AND LIABILITIES		**4,185,185**	2,643,730

Mohamed Saif Al Mazrouei
CHAIRMAN

Dany Safi
CHIEF EXECUTIVE OFFICER

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006

	Notes	2006 AED '000	2005 AED '000
OPERATING ACTIVITIES			
Profit for the year		**125,257**	67,647
Adjustment for:			
Depreciation	9	**59,405**	43,404
Amortisation of trademarks	12	**2**	12
Provision for impairment loss relating to goodwill	12	**–**	594
Provision for impairment loss relating to property, plant and equipment	9	**197**	–
Net movement in employees' end of service benefits	25	**341**	2,280
Share of results of associates	10	**(1,617)**	(478)
Interest income	4	**(10,983)**	(9,764)
Finance costs		**51,305**	35,433
Changes in fair value relating to financial assets carried at fair value through income statement	4	**(6,472)**	(5,486)
Gain on disposal of property, plant and equipment to a related party	4	**(40,552)**	–
Gain on disposal of assets classified as held for sale	4	**(682)**	–
Profit on sale of property, plant and equipment		**–**	(84)
		176,201	133,558
Working capital changes:			
Inventories		**(9,584)**	(9,233)
Accounts receivable and prepayments		**(141,948)**	(64,941)
Contract work in progress		**(42,736)**	1,246
Accounts payable and accruals		**105,941**	167,118
Net cash from operations		**87,874**	227,748
Interest paid		**(51,305)**	(35,433)
Net cash from operating activities		**36,569**	192,315
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	**(63,385)**	(26,088)
Proceeds from sale of property, plant and equipment		**1,595**	193
Proceeds from sale of assets classified as held for sale		**18,549**	–
Additional goodwill arising on acquisition of subsidiary	12	**–**	(8,898)
Investments in associates	10	**(61,821)**	(27,005)
Purchase of financial assets carried at fair value through income statement		**(55,262)**	(70,783)
Proceeds on disposal of financial assets carried at fair value through income statement		**29,971**	–
Additions to capital work in progress, net of advances		**(846,022)**	(577,465)
Purchase of available for sale investments		**(1,880)**	–
Interest received	4	**10,983**	9,764
Net cash used in investing activities		**(967,272)**	(700,282)

The attached notes 1 to 32 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT continued

Year ended 31 December 2006

	Notes	2006 AED '000	2005 AED '000
FINANCING ACTIVITIES			
Share capital received		**–**	500,000
Minority interest in increase in share capital of subsidiaries		**48,861**	36,264
Contribution to treasury shares		**–**	(5,000)
Dividends paid to equity holders of the parent		**–**	(25,000)
Dividends paid to minority interests		**(12,375)**	(2,700)
Term loans received		**372,331**	208,081
Term loans repaid		**(50,432)**	(28,822)
Payment for obligations under finance lease		**(1,493)**	–
Islamic Ijara loans repaid		**(15,514)**	(9,396)
Islamic Muqawala loans received		**–**	18,757
Islamic Muqawala loans repaid		**(14,177)**	(2,464)
Islamic Istisna'a loans received		**734,800**	–
Changes in prepaid finance cost		**(9,018)**	(1,543)
Proceeds from sale and lease back of property, plant and equipment under finance lease		**55,809**	–
Net cash from financing activities		**1,108,792**	688,177
INCREASE IN CASH AND CASH EQUIVALENTS		**178,089**	180,210
Cash and cash equivalents at 1 January		**408,099**	227,889
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	17	**586,188**	408,099

CONSOLIDATED CASH FLOW STATEMENT continued

Year ended 31 December 2006

Significant non-cash transactions, which have been excluded from the consolidated cash flow statement are as follows:

	Notes	2006 AED '000	2005 AED '000
Accounts receivable and prepayments – fair value adjustment for derivatives		**5,700**	10,219
Transfer from capital work in progress to property, plant and equipment		**733,461**	266,506
Transfer from property, plant and equipment to assets held for sale		**–**	17,867
Bonus share issue		**50,000**	–
Foreign currency translation reserve		**374**	–
Receivable from a related party on disposal of property, plant and equipment		**525,000**	–
Accounts payables and accruals – deferred income		**27,035**	–
Accounts payables and accruals – provision for board of directors' remuneration		**3,150**	–

The attached notes 1 to 32 form part of these consolidated financial statements.

National Central Cooling Company PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the parent				
	Share capital AED '000	Treasury shares AED '000	Statutory reserve AED '000	Retained earnings AED '000	Cumulative changes in fair value of derivatives AED '000
Balance at 1 January 2005	500,000	(5,050)	7,914	28,371	(6,419)
Net movement in fair value of cash flow hedges	–	–	–	–	10,219
Total income and expense for the year recognised directly in equity	–	–	–	–	10,219
Profit for the year	–	–	–	51,140	–
Total income for the year	–	–	–	51,140	10,219
Increase in share capital	500,000	–	–	–	–
Transfer to statutory reserve	–	–	6,630	(6,630)	–
Dividends paid	–	–	–	–	–
Contribution to treasury shares	–	(5,000)	–	–	–
Proposed bonus issue	–	–	–	(50,000)	–
Balance at 31 December 2005	1,000,000	(10,050)	14,544	22,881	3,800
Balance at 1 January 2006	1,000,000	(10,050)	14,544	22,881	3,800
Net movement in fair value of cash flow hedges	–	–	–	–	5,700
Exchange difference arising on translation of foreign currency operations	–	–	–	–	–
Total income and expense for the year recognised directly in equity	–	–	–	–	5,700
Profit for the year	–	–	–	104,406	–
Total income and expense for the year	–	–	–	104,406	5,700
Bonus shares issued	50,000	–	–	–	–
Transfer to statutory reserve	–	–	12,759	(12,759)	–
Dividends paid	–	–	–	–	–
Increase in share capital of subsidiaries	–	–	–	–	–
Proposed bonus issue	–	–	–	(84,000)	–
Board of directors' remuneration	–	–	–	(3,150)	–
Balance at 31 December 2006	**1,050,000**	**(10,050)**	**27,303**	**27,378**	**9,500**

The attached notes 1 to 32 form part of these consolidated financial statements.

Attributable to equity holders of the parent					
Reserve for proposed bonus issue AED '000	Proposed dividends AED '000	Foreign currency translation reserve AED '000	Total AED '000	Minority interests AED '000	Total equity AED '000
–	25,000	–	549,816	14,530	564,346
–		–	10,219	–	10,219
–	–	–	10,219	–	10,219
–	–	–	51,140	16,507	67,647
–	–	–	61,359	16,507	77,866
–	–	–	500,000	36,264	536,264
–	–		–	–	–
–	(25,000)	–	(25,000)	(2,700)	(27,700)
–	–	–	(5,000)	–	(5,000)
50,000	–	–	–	–	–
50,000	–	–	1,081,175	64,601	1,145,776
50,000	–	–	1,081,175	64,601	1,145,776
–		–	5,700	–	5,700
–	–	(374)	(374)	–	(374)
–	–	(374)	5,326	–	5,326
–	–	–	104,406	20,851	125,257
–	–	(374)	109,732	20,851	130,583
(50,000)	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	(12,375)	(12,375)
–	–	–	–	48,861	48,861
84,000	–	–	–	–	–
–	–	–	(3,150)	–	(3,150)
84,000	**–**	**(374)**	**1,187,757**	**121,938**	**1,309,695**

1 ACTIVITIES

National Central Cooling Company PJSC ("Tabreed" or the "Company") is registered in the United Arab Emirates as a Public Joint Stock Company pursuant to the U.A.E. Commercial Companies Law No. 8 of 1984 (as amended). The principal objectives of the Company are to construct, own, assemble, install, operate and maintain cooling and conditioning systems. In addition, the Company's objectives include to distribute and sell chilled water for use in district cooling technologies.

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 19th February 2007.

2.1 BASIS OF PREPARATION

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

The consolidated financial statements have been presented in United Arab Emirates Dirhams (AED) which is the functional currency of the Company. All values are rounded to the nearest thousand (AED '000) except when otherwise indicated.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments, share-based payments, financial assets carried at fair value through income statement and available for sale investments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Tabreed and each of its controlled subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All inter-company balances, transactions and profits have been eliminated on consolidation.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests principally represent the interest in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies are consistent with those used in the previous year except that the Company has adopted the following revised standards and IFRIC interpretations mandatory for financial years beginning on or after 1 January 2006:

- IAS 21 The Effect of Changes in Foreign Exchange Rates
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease

The principal effects of these changes in policies are discussed below:

- IAS 21 The Effect of Changes in Foreign Exchange Rates
  As of 1 January 2006, the Company adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Company's net investment in a foreign operation are recognised as a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change has had no significant impact on the consolidated financial statements as at 31 December 2006 or 31 December 2005.

- IAS 39 Financial Instruments: Recognition and Measurement
  As of 1 January 2006, the Company adopted the amendments to IAS 39. This amendment restricts use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. Refer to notes 2.3 and 2.4.

2.2 CHANGES IN ACCOUNTING POLICIES continued

- IFRIC 4 Determining Whether an Arrangement contains a Lease
  The Company adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be adopted. This change in accounting policy has had no significant impact on the consolidated financial statements as at 31 December 2006 or 31 December 2005.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgments

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

Classification of investments

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

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

IFRIC 4 Determining whether an Arrangement contains a Lease

Management determines whether an arrangement is, or contains, a lease based on the substance of the arrangement at inception date 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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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:

Impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was AED 38 million (2005: AED 38 million). More details are given in notes 12 and 13.

Impairment of accounts receivable

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

At the balance sheet date, gross trade accounts receivable were AED 185.9 million (2005: AED 168.4 million), and the provision for doubtful debts was AED 3.8 million (2005: AED 7.8 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated income statement.

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 balance sheet date, gross inventory was AED 27.2 million (2005: AED 17.6 million). No provision has been made for obsolete inventories. Any difference between the amounts actually realised in future periods and the amounts expected to be realised will be recognised in the consolidated income statement.

Contracting

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

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

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

When an uncertainty arises about the collectability of an amount already included in contract revenue and already recognised in the consolidated income statement, the uncollectable amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

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

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

Capital work in progress

Capital work in progress is recorded at cost which represents the contractual obligations of the Company for the construction of the plant. Allocated costs directly attributable to the construction of the asset are capitalised. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Company's policies when construction of the asset is completed and commissioned.

Borrowing costs

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Plant and buildings	over 25 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 carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts, being the higher of their fair value less costs to sell and their value in use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

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

Investments in associates

The Company's investments in associates are accounted for under the equity method of accounting. These are entities over which the Company exercises significant influence and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the consolidated balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Company's share of the results of its associates.

Interest in joint venture

The Company's interest in its joint venture is accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis.

When the Company purchases assets from the joint venture, the Company does not recognise its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

Intangible assets

Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Company are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Company's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash- generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Available for sale investments

Available for sale investments are those non-derivative financial assets that are designated as available for sale or are not classified in any of the other three categories for financial assets. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised as a separate component under equity. Upon impairment any loss, or upon derecognition any gain or loss, previously reported as "cumulative changes in fair value" within equity is included in the consolidated income statement for the period. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the consolidated income statement as "Dividends received" when the right of payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets carried at fair value through income statement
Financial assets are designated at initial recognition as at fair value through income statement if the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy. Financial assets at fair value through income statement are remeasured at fair value at each balance sheet date with all changes in fair value recorded in the consolidated income statement.

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

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

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

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Contract work in progress

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

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, 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.

Assets classified as held for sale

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

Impairment and uncollectibility of financial assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;

(b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Company's own equity instruments.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Provisions

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

Term loans and Islamic loans

Term loans and Islamic loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, term loans and Islamic loans are subsequently measured at amortised cost using the effective interest method. Interest on term loans and profit charges on Islamic financing arrangements are charged as an expense or capitalised as part of capital work in progress as they accrue, with unpaid amounts included in “accounts payable and accruals”.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at inception of the lease at the fair value of the leased asset or, if lower, 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 recognised directly in the consolidated income statement.

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

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

The Company 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 Company makes contributions to the relevant UAE Government pension scheme calculated as a percentage of the employees’ salaries. The obligations under these schemes are limited to these contributions, which are expensed when due.

Share-based payment transactions

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

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps and caps to hedge its risks associated with interest rate and currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate swap and cap contracts is determined by reference to market values for similar instruments. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the consolidated balance sheet.

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 highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company 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 attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges which meet the strict criteria for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the consolidated income statement. Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement.

The assets and liabilities of foreign subsidiaries are translated into UAE Dirhams at the rate of exchange ruling at the balance sheet date and the income statement is translated at the average exchange rates for the year. The exchange differences arising on translation are taken directly to a separate component of equity.

Financial instruments

Financial instruments comprise financial assets and financial liabilities.

Financial assets comprise investments in associates, available for sale investments, financial assets carried at fair value through income statement, receivables, deposits and bank balances and cash. Financial liabilities comprise payables, bank overdraft, loans and finance leases.

Fair values of financial instruments are based on estimated fair values using methods such as the net present value of future cash flows.

The fair value of interest bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. The fair value of investments traded in organised markets is determined by reference to quoted market bid prices.

2.5 IASB STANDARDS AND INTERPRETATIONS ISSUED BUT NOT ADOPTED

The following IASB Standards and Interpretations have been issued / amended but are not yet mandatory, and have not yet been adopted by the Company:

Standards:

IFRS 7	Financial Instruments: Disclosures
IFRS 8	Operating Segments
IAS 1	Amendment – Presentation of Financial Statements

2.5 IASB STANDARDS AND INTERPRETATIONS ISSUED BUT NOT ADOPTED continued

IFRS 7 Financial Instruments: Disclosures

The application of IFRS 7, which will be effective for annual periods beginning on or after 1 January 2007, will require disclosures that enable users to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments.

IFRS 8 Operating Segments

The application of IFRS 8, which will be effective for annual periods beginning on or after 1 January 2009, may require changes in the way the Company discloses information about its operating segments.

IAS 1 Amendment – Presentation of Financial Statements

The application of amendment to IAS 1, which will be effective for annual periods beginning on or after 1 January 2007, will result in new disclosures to enable users of the consolidated financial statements to evaluate the Company's objectives, policies and processes for managing capital.

IFRIC interpretations:

- IFRIC 8 Scope of IFRS 2
- IFRIC 11 IFRS 2 – Group and Treasury Shares Transaction

Management does not expect these interpretations to have a significant impact on the Company's consolidated financial statements when implemented in 2007.

3 SEGMENTAL ANALYSIS

The primary segment reporting format is determined to be business segments as the Company's risks and rates of return are affected predominantly by differences in the products and services produced. The Company is organised in one geographical segment and consequently, no secondary information is required to be provided. The operating businesses are organised and managed separately according to the nature of the products and services provided with each segment representing a strategic business unit that offers different products and services.

The 'services' segment is involved in designing and supervision of electrical, mechanical coding and sanitary engineering works.

The 'chilled water' segment operates and maintains cooling and conditioning systems.

The 'contracting' segment is involved in construction of air conditioning chilled water central stations and networks for new or existing buildings.

The 'manufacturing' segment is engaged in production of preinsulated piping systems for chilled and hot water, gas and other energy related applications and provision of pipe protection services.

Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

The following tables present revenue and profit and certain other information regarding the Company's and its subsidiaries business segments.

3 SEGMENTAL ANALYSIS continued

	Services AED '000	Chilled water AED '000	Contracting AED '000	Manufacturing AED '000	Eliminations AED '000	Total AED '000
2006						
Revenue						
External revenue	**68,640**	**175,003**	**100,983**	**125,369**	**–**	**469,995**
Inter–segment sales	**6,345**	**–**	**–**	**–**	**(6,345)**	**–**
Total revenue	**74,985**	**175,003**	**100,983**	**125,369**	**(6,345)**	**469,995**
Result						
Segment result	**32,745**	**73,124**	**22,104**	**28,904**	**613**	**157,490**
Finance costs	**–**	**–**	**–**	**–**	**–**	**(51,305)**
Interest and investment income	**–**	**–**	**–**	**–**	**–**	**17,455**
Share of results of associates	**–**	**–**	**–**	**–**	**–**	**1,617**
Minority interests	**–**	**–**	**–**	**–**	**–**	**(20,851)**
Profit for the year attributable to equity holders of the parent						**104,406**
2005						
Revenue						
External revenue	37,838	133,128	109,317	120,621	–	400,904
Inter–segment sales	9,690	–		–	(9,690)	–
Total revenue	47,528	133,128	109,317	120,621	(9,690)	400,904
Result						
Segment result	15,647	21,058	21,395	32,163	(2,911)	87,352
Finance costs	–	–	–	–	–	(35,433)
Interest and investment income	–	–	–	–	–	15,250
Share of results of associates	–	–	–	–	–	478
Minority interests	–	–	–	–	–	(16,507)
Profit for the year attributable to equity holders of the parent						51,140

3 SEGMENTAL ANALYSIS continued

2006	Services AED '000	Chilled water AED '000	Contracting AED '000	Manufacturing AED '000	Total AED '000
Other information					
Segment assets	**76,398**	**3,716,893**	**177,974**	**104,480**	**4,075,745**
Investments in associates	**–**	**109,440**	**–**	**–**	**109,440**
Total assets	**76,398**	**3,826,333**	**177,974**	**104,480**	**4,185,185**
Segment liabilities	**16,970**	**2,680,385**	**138,763**	**39,372**	**2,875,490**
2005					
Other information					
Segment assets	57,405	2,282,914	183,319	74,090	2,597,728
Investments in associates	–	46,002	–	–	46,002
Total assets	57,405	2,328,916	183,319	74,090	2,643,730
Segment liabilities	9,627	1,328,207	138,492	21,628	1,497,954
2006					
Capital expenditure:					
Property, plant and equipment	**391**	**62,146**	**144**	**704**	**63,385**
Capital work in progress	**–**	**792,324**	**–**	**19,951**	**812,275**
Depreciation	**541**	**57,308**	**512**	**1,044**	**59,405**
2005					
Capital expenditure:					
Property, plant and equipment	615	22,353	79	3,041	26,088
Capital work in progress	–	553,472	–	2,305	555,777
Depreciation	358	41,947	216	883	43,404

4 OTHER INCOME

	2006 AED '000	2005 AED '000
Gain on disposal of property, plant and equipment to a related party	**40,552**	–
Gain on disposal of assets classified as held for sale	**682**	–
Bank interest	**10,983**	9,764
Changes in fair value relating to financial assets carried at fair value through income statement	**6,472**	5,486
Gain arising from compensation received on termination of contract	**3,910**	–
Miscellaneous income	**8,085**	4,784
	70,684	20,034

5 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2006 AED '000	2005 AED '000
Costs of inventories recognised as an expense	**94,403**	82,696
Staff costs	**54,678**	42,443

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

Basic earnings per share are calculated by dividing the profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

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

	2006	2005
Profit for the year (AED '000)	**104,406**	51,140
Weighted average number of ordinary shares issued ('000)	**1,050,000**	992,465
Basic and diluted earnings per share (AED)	**0.10**	0.05

The weighted average number of ordinary shares in issue used in the determination of the earnings per share for the year ended 31 December 2005 has been adjusted for the effect of the share bonus issue in 2006.

7 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 2006 and 2005	
Gulf Energy Systems LLC	U.A.E.	100	100
National Central Cooling Company Ras Al Khaimah LLC	U.A.E.	100	100
Emirates Preinsulated Pipes Industries LLC	U.A.E.	60	60
Installation Integrity 2000 LLC	U.A.E.	60	60
BAC Balticare Gulf LLC	U.A.E.	100	100
Summit District Cooling Company	U.A.E.	51	51
Bahrain District Cooling Company	Bahrain	57	55
Ian Banham and Associates	U.A.E.	70	70
Tabreed Holdings WLL	Bahrain	100	100
Tabreed LLC Oman	Oman	100	100
Tabreed Captive Insurance Company B.S.C.	Bahrain	100	–
Installation Integrity 2006 WLL	Qatar	52	–

Gulf Energy Systems LLC was registered on 15 April 1995 and commenced its commercial activities thereafter.

National Central Cooling Company Ras Al Khaimah LLC was registered on 22 November 1999 and commenced its commercial activities thereafter.

Emirates Preinsulated Pipes Industries LLC was registered on 13 December 2000 and commenced its commercial activities in May 2002.

Installation Integrity 2000 LLC (I2I) was registered on 15 May 2000 and commenced its commercial activities thereafter. Tabreed acquired its equity share in I2I in 2002.

BAC Balticare Gulf LLC was registered on 7 April 2003 and commenced its commercial activities thereafter.

Tabreed acquired a 51% interest in Summit District Cooling Company (SDCC) on 29 May 2004. SDCC commenced its commercial activities thereafter. During the year, Tabreed invested an additional amount of AED 7.6 million representing its share of the additional share capital issued by SDCC.

Tabreed acquired a 55% interest in Bahrain District Cooling Company (BDCC) on 31 October 2004. BDCC commenced its commercial activities thereafter. During the year, Tabreed invested an additional amount of AED 25.6 million. Tabreed's interest in BDCC as of 31 December 2006 increased to 57%.

Tabreed acquired a 70% interest in Ian Banham and Associates on 27 October 2004. Ian Banham and Associates is already engaged in commercial activities.

Tabreed Holdings WLL was incorporated in the Kingdom of Bahrain and registered as a limited liability company. Tabreed Holdings WLL has not started operations as at 31 December 2006.

Tabreed LLC Oman was incorporated in the Sultanate of Oman and registered as a limited liability company. Tabreed LLC Oman has not started commercial activities as at 31 December 2006.

Tabreed Captive Insurance Company B.S.C was registered in Bahrain as a closed Joint Stock Company. Tabreed Captive Insurance Company B.S.C has not started commercial activities as at 31 December 2006.

Installation Integrity 2006 WLL was registered in 2006 in the state of Qatar and commenced its commercial activities thereafter.

8 CAPITAL WORK IN PROGRESS

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

	2006 AED '000	2005 AED '000
Balance at 1 January	**595,377**	306,106
Additions during the year	**812,275**	555,777
Transfer to property, plant and equipment (note 9)	**(733,461)**	(266,506)
	674,191	595,377
Advances to contractors	**81,291**	47,544
Balance at 31 December	**755,482**	642,921

At 31 December 2006, capital work in progress amounting to AED 247 million (2005: AED 263 million) has been funded by term loans (note 22) and AED 342 million (2005: AED 204 million) funded by Islamic financing arrangements (note 23). Upon completion of the construction of plants under Istisna'a financing arrangements, the total cost of the plant thereafter is financed under an Islamic Ijara agreement. Included in additions to capital work in progress are capitalised financing costs amounting to AED 51.6 million (2005: AED 29.5 million).

Istisna'a is a sales contract between a contract owner (the Islamic financing institution) and a contractor (the Company) whereby the contractor, based on an order from the contract owner, undertakes to manufacture or otherwise acquire the subject matter of the contract according to specifications, and sells it to the contract owner for an agreed upon price and method of settlement whether that be in advance, by instalments or deferred to a specific future time.

9 PROPERTY, PLANT AND EQUIPMENT

	Land, plant and buildings AED '000	Furniture and fixtures AED '000	Office equipment and instruments AED '000	Motor vehicles AED '000	Total AED '000
Cost:					
At 1 January 2006	1,093,134	6,599	15,169	2,099	1,117,001
Additions	62,147	235	959	44	63,385
Transfer from capital work in progress (note 8)	733,461	–	–	–	733,461
Disposals	(511,426)	(41)	(15)	(38)	(511,520)
At 31 December 2006	**1,377,316**	**6,793**	**16,113**	**2,105**	**1,402,327**
Depreciation:					
At 1 January 2006	101,548	3,889	6,318	1,138	112,893
Charge for the year	55,367	1,154	2,590	294	59,405
Disposals	(52,463)	(15)	(3)	(31)	(52,512)
At 31 December 2006	**104,452**	**5,028**	**8,905**	**1,401**	**119,786**
Net carrying amount at 31 December 2006 before provision for impairment in value	1,272,864	1,765	7,208	704	1,282,541
Provision for impairment	(197)	–	–	–	(197)
Net carrying amount:					
At 31 December 2006	**1,272,667**	**1,765**	**7,208**	**704**	**1,282,344**
At 31 December 2005	991,586	2,710	8,851	961	1,004,108

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

9 PROPERTY, PLANT AND EQUIPMENT continued

	2006 AED '000	2005 AED '000
Included in operating costs	**52,068**	39,401
Included in other administrative expenses	**5,748**	3,630
Included in capital work in progress	**1,589**	373
	59,405	43,404

At 31 December 2006, the net book value of plants financed by term loans (note 22) and an Islamic Ijara loan (note 23) under sale and leaseback Ijara financing arrangements amounted to AED 1,143 million (2005: AED 563.9 million). The plants are constructed on land which has been granted to Tabreed and its subsidiaries at nominal or no cost to them.

Additions during the year include net book value of plant amounting to AED 55.8 million (2005: nil) held under finance lease. The leased assets are pledged as security for the related finance lease (note 24).

Included in land, plant and buildings is an amount of AED 11.1 million (2005: AED 11.1 million) relating to cost of freehold land purchased by Tabreed in the Emirate of Ajman for the purpose of constructing a district cooling plant.
National Central Cooling Company PJSC

10 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

	Country of incorporation	Ownership 2006	2005
Industrial City Cooling Company	United Arab Emirates	**20%**	20%
Qatar Central Cooling Company PJSC	State of Qatar	**44%**	44%
Tabreed District Cooling Company (Saudi)	Kingdom of Saudi Arabia	**25%**	25%
Jordanian Company for Central Energy (PLS)	Jordan	**50%**	–

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

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

	2006 AED '000	2005 AED '000
Share of the associates' balance sheets:		
Current assets	**54,877**	38,239
Non-current assets	**169,269**	75,446
Current liabilities	**(9,890)**	(21,068)
Non-current liabilities	**(104,816)**	(46,615)
Net assets	**109,440**	46,002
Share of the associates' revenues and results:		
Revenues	**12,512**	2,791
Results	**1,617**	478
Carrying amount of the investments	**109,440**	46,002

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

10 INVESTMENTS IN ASSOCIATES continued

Tabreed invested an amount of AED 61.8 million (2005: AED 27 million) representing its share of additional share capital issued by the associates during the year as follows:

	2006 AED '000	2005 AED '000
Qatar Central Cooling Company PJSC	**39,549**	26,980
Tabreed District Cooling Company (Saudi)	**11,764**	25
Jordanian Company for Central Energy (PLS)	**10,508**	–
	61,821	27,005

Jordanian Company for Central Energy (PLS) was incorporated during the year and has not yet commenced operations.

11 INTEREST IN JOINT VENTURE

Tabreed has a 51% equity interest in SNC Lavalin Gulf Contractors LLC, a jointly controlled limited liability company which is involved in engineering, procurement, construction and construction management in the field of District Cooling. As all construction activity relates to the Company, no revenues or expenses of the joint venture for the years ended 31 December 2006 and 2005 are included in the consolidated income statement.

Tabreed's share of the assets and liabilities of the joint venture included in the consolidated balance sheet are as follows:

	2006 AED '000	2005 AED '000
Current assets	**158,819**	140,342
Non-current assets	**369**	572
	159,188	140,914
Current liabilities	**113,499**	121,017
Non-current liabilities	**8,459**	4,356
	121,958	125,373

12 INTANGIBLE ASSETS

	Goodwill		Trademarks		Total	
	2006 AED '000	2005 AED '000	**2006 AED '000**	2005 AED '000	**2006 AED '000**	2005 AED '000
Balance at 1 January	**38,334**	30,030	**2**	14	**38,336**	30,044
Additions during the year	**–**	8,898	**–**	–	**–**	8,898
Provision for impairment loss	**–**	(594)	**–**	–	**–**	(594)
Amortisation for the year	**–**	–	**(2)**	(12)	**(2)**	(12)
Balance at 31 December	**38,334**	38,334	**–**	2	**38,334**	38,336

13 IMPAIRMENT TESTING OF GOODWILL

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

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

Ian Banham & Associates

The recoverable amount of Ian Banham & Associates unit has been determined based on a value in use calculation using cash flow projections prepared by an external consultant in the year ended 31 December 2004 and extrapolated by the senior management using a stable growth rate to cover a five-year period ending 31 December 2011. The discount rate applied to the cash flow projections is 25% (2005: 25%).

Tabreed 1 District Cooling Plant

The recoverable amount of Tabreed 1 District Cooling Plant unit is also determined based on a value in use calculation using cash flow projections. The revenue included in the cash flow projections is based on a contractual agreement for the sale of chilled water to a customer for a period of 20 years. The operating costs are determined based on management's approved financial forecast. The discount rate applied to the cash flow projections is 9.4%. (2005: 9.4%)

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

	2006 and 2005 AED '000
Ian Banham & Associates	27,711
Tabreed 1 District Cooling Plant	9,712

Key assumptions used in value in use calculation of Ian Banham & Associates and Tabreed 1 District Cooling Plant for the years ended 31 December 2006 and 2005:

The following describes each key assumption on which management has based its cash flows projections to undertake impairment testing of goodwill:

Ian Banham & Associates:

Terminal value of business is based on the estimate provided by the external consultant in the year ended 31 December 2004 and updated by the management as at 31 December 2006.

Tabreed 1:

Price Inflation: A general price inflation level of 3% (2005: 3%) has been applied to the cash flows. The basis used to determine the value assigned to the price inflation is management's estimate of the long term average forecast for the United Arab Emirates.

Residual Value: An estimate of 20% (2005: 20%) of the original cost of the plant is used as an estimate of the residual value of the plant at the end of the term of the agreement. The useful life of the plant is in excess of the period of the contractual agreement with the customer.

14 TRADE AND OTHER RECEIVABLES

	2006 **AED '000**	2005 AED '000
Trade accounts receivable	**182,115**	160,617
Receivable from a related party on disposal of property, plant and equipment	**525,000**	–
Other receivables	**172,663**	47,463
	879,778	208,080

15 FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH INCOME STATEMENT

Financial assets carried at fair value through income statement comprise of investments in several managed funds. These investments are classified under this category as they are managed and their performance is evaluated on a fair value basis, in accordance with the Company's documented risk management strategy.

16 CONTRACT WORK IN PROGRESS

	2006 **AED '000**	2005 AED '000
Cost plus attributable profit	**286,408**	261,291
Less: progress billings	**(174,461)**	(192,080)
	111,947	69,211

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated cash flow statement include the following balance sheet amounts:

	2006 **AED '000**	2005 AED '000
Bank balances and cash	**866,510**	520,032
Bank overdraft	**(280,322)**	(111,933)
	586,188	408,099

Bank balances and cash include short-term bank deposits of AED 713 million (2005: AED 104 million) placed with commercial banks in the United Arab Emirates and Kingdom of Bahrain. These are denominated in AED with effective rates in the range of 2.55% to 6% (2005: 1.7% to 5.0%).

18 SHARE CAPITAL

	2006 **AED '000**	2005 AED '000
Authorised, issued and fully paid up share capital 1,050,000,000 ordinary shares at AED 1 each (31 December 2005: 1,000,000,000 ordinary shares of 1 each)	**1,050,000**	1,000,000

At the Annual General Meeting held on 20 March 2006, the shareholders approved the proposed issue of 50 million bonus shares amounting to AED 50 million. The registration of the bonus shares was completed in Tabreed's share register on 3 April 2006.

19 TREASURY SHARES AND SHARE-BASED PAYMENTS

Treasury shares

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

Share based payments

The employee incentive scheme ('the scheme') grants notional units of the Company's ordinary shares to qualifying employees on recommendation of the remuneration committee of the Company. These notional units of the Company's ordinary shares can be settled in cash in accordance with the terms of the scheme.

At 31 December 2006, the employee incentive scheme had outstanding notional units of the Company's ordinary shares analysed as follows:

	No. of shares	
	2006	2005
At 1 January	**1,203,540**	1,254,485
Notional units of the Company's ordinary shares granted during the year	**651,600**	517,990
Exercised during the year	**(323,766)**	(568,935)
At 31 December	**1,531,374**	1,203,540

The weighted average fair value of notional units granted during the year was AED 3.37 (2005: AED 3.6).

The employee incentive scheme liability is re-measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the consolidated income statement or capital work in progress, as applicable (refer below).

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

	2006	2005
	AED '000	AED '000
Other administrative expenses	844	(1,815)
Capital work in progress	1,900	(2,268)

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

20 STATUTORY RESERVE

As required by the U.A.E. Commercial Companies Law of 1984 (as amended) and the articles of association of the Company, 10% of the profit for the year is transferred to the statutory reserve. The transfer for the year represents 10% of the profit of Tabreed before accounting for Tabreed's share in the results of its subsidiaries, and Tabreed's share in the subsidiaries' statutory reserves transferred for the year. The Company may resolve to discontinue such transfers when the reserve equals 50% of the share capital. The reserve is not available for distribution.

21 DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

The Board of Directors has proposed a bonus share dividend at the rate of 8% (2005: 5%) amounting to AED 84 million (2005: AED 50 million). The bonus share dividend will be submitted for approval at the Annual General Meeting in 2007.

An amount of AED 3.15 million (2005: nil) has been proposed as remuneration for the members of the Board of Directors for the year ended 31 December 2006. The remuneration will be submitted for approval at the Annual General Meeting in 2007.

22 TERM LOANS

	Effective interest rate %	Repayments	**2006 AED '000**	2005 AED '000
Current				
Term loan 1	EIBOR + margin	January & July 2007	**250**	–
Term loan 2	LIBOR + margin	April & October 2007	**4,583**	–
Term loan 3	EIBOR+ margin	November 2007	**500**	–
Term loan 5, net of prepaid finance costs	EIBOR + margin	April & October 2007	**35,669**	23,633
Other loan	1.99%	January – December 2007	**22**	125
			41,024	23,758
Non-current				
Term loan 1	EIBOR + margin	January 2009	**375**	875
Term loan 2	LIBOR + margin	October 2017	**71,795**	32,681
Term loan 3	EIBOR + margin	November 2012	**4,500**	–
Term loan 4	EIBOR + margin	November 2019	**91,873**	–
Term loan 5, net of prepaid finance costs	EIBOR + margin	October 2016	**520,287**	348,482
Other loan	1.99%	January 2007	**–**	30
			688,830	382,068

The above term loans are secured by pledges over plant and capital work in progress and a corporate guarantee in accordance with the facility agreements.

At 31 December 2006, unutilised term loans facilities available to the Company amounted to AED 119.3 million (2005: AED 319.8 million).

As the term loans attract interest at rates which vary with market movements, the fair value of the term loans approximates their carrying value.

Amounts repayable (before deducting prepaid finance costs) are as follows:

	2006 AED '000	2005 AED '000
Within 1 year	**42,314**	25,418
Between 1 – 2 years	**52,634**	29,450
Between 2 – 3 years	**60,431**	35,620
Between 3 – 4 years	**60,901**	39,395
Between 4 – 5 years	**76,288**	39,270
After 5 years	**448,586**	250,103
	741,154	419,256

23 ISLAMIC FINANCING ARRANGEMENTS

	Effective interest rate %	Repayments	**2006 AED '000**	2005 AED '000
(i) Islamic Ijara loans				
Current				
Ijara 1	EIBOR + margin	March & September 2007	**121,384**	15,514
Non-current				
Ijara 1	EIBOR + margin	March 2012	**–**	121,384
Ijara 2, net of prepaid finance costs	5.5%	March 2009	**185,559**	184,964
			185,559	306,348
(ii) Islamic Istisna'a loans				
Non-current				
Istisna'a 1, net of prepaid finance costs	5.5%	March 2009	**175,836**	174,486
Istisna'a 2, net of prepaid finance costs	LIBOR + margin	July 2011	**721,708**	–
			897,544	174,486
(iii) Islamic Muqawala loans				
Current				
Muqawala 1	EIBOR + margin	May & November 2007	**108,288**	11,712
Muqawala 2	11.7%	January & July 2007	**8,334**	2,465
			116,622	14,177
Non-current				
Muqawala 1	EIBOR + margin	May 2014	**–**	108,288
Muqawala 2	11.7%	January 2010	**15,641**	23,975
			15,641	132,263

The Islamic financing arrangements are secured by an assignation of the plant purchased under the Islamic financing arrangement and a joint credit and Islamic loan facility agreement.

Islamic financing arrangements repayable (before deducting prepaid finance costs) are as follows:

	2006 AED '000	2005 AED '000
Within 1 year	**238,006**	29,691
Between 1 – 2 years	**8,334**	37,488
Between 2 – 3 years	**374,810**	39,546
Between 3 – 4 years	**–**	408,196
Between 4 – 5 years	**734,800**	35,743
After 5 years	**–**	100,174
	1,355,950	650,838

24 OBLIGATIONS UNDER FINANCE LEASE

During the year, the Company entered into a sale and lease back agreement with a third party relating to certain plant (note 9) 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:

	Minimum lease payments AED '000	Present value of payments AED '000
Within one year	**7,749**	2,706
After one year but not more than five years	**30,994**	13,790
After five years	**51,011**	37,820
	89,754	54,316
Less: amounts representing finance charges	**(35,438)**	–
Present value of minimum lease payments	**54,316**	54,316

Amounts repayable over the term of the lease are as follows:

	2006 AED '000	2005 AED '000
Within 1 year	**2,706**	–
1 – 2 years	**2,975**	–
2 – 3 years	**3,270**	–
3 – 4 years	**3,594**	–
4 – 5 years	**3,951**	–
More than 5 years	**37,820**	–
	54,316	–

The lease is classified in the consolidated balance sheet as follows:

	2006 AED '000	2005 AED '000
Current	**2,706**	–
Non-current	**51,610**	–
	54,316	–

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 balance sheet are as follows:

	2006 AED '000	2005 AED '000
Balance at 1 January	**7,884**	5,604
Net movement during the year	**341**	2,280
Balance at 31 December	**8,225**	7,884

An actuarial valuation has not been performed as the net impact of discount rates and future increases in benefits is not likely to be material.

26 ACCOUNTS PAYABLE AND ACCRUALS

	2006 AED '000	2005 AED '000
Amounts due in more than one year		
Retentions payable	**10,672**	10,604
Deferred income	**25,796**	–
	36,468	10,604
Amounts due in less than one year		
Accounts payable	**165,364**	153,339
Retentions payable	**39,331**	20,790
Employee incentive scheme payable	**3,430**	7,221
Deferred income	**1,239**	–
Payable to former shareholders	**5,883**	6,906
Due to related parties	**–**	5,076
Accrued expenses	**141,789**	84,649
Other payables	**72,519**	40,938
	429,555	318,919

27 RELATED PARTY TRANSACTIONS

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

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

	2006		2005	
	Revenue AED'000	**Fees for management services AED'000**	Revenue AED'000	Fees for management services AED'000
Associated companies	**125**	**3,860**	840	2,447

Further, during the year, the Company sold certain plants with net book value of AED 457 million to a related party (note 4).

Balances with related parties included in the consolidated balance sheet are as follows:

	2006		2005	
	Accounts receivable AED '000	**Accounts payable AED '000**	Accounts receivable AED '000	Accounts payable AED '000
Associated companies	4,025	–	5,456	–
Other related parties	6,245	–	3,378	5,076
	10,270	–	8,834	5,076

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

	2006 AED '000	2005 AED '000
Short-term benefits	**23,416**	20,067
Employees' end of service benefits	**861**	1,428
	24,277	21,495
Number of key management personnel	**48**	43

28 CONTINGENCIES

The bankers have issued guarantees on behalf of the Company and its subsidiaries as follows:

	2006 AED '000	2005 AED '000
Performance guarantees	**30,150**	22,728
Advance payment guarantees	**70**	70
Financial guarantees	**1,598**	3,617
	31,818	26,415

The Company's share of contingencies of the joint venture as of 31 December 2006 amounted to AED 0.3 million (2005: AED 0.3 million).

The Company's share of contingencies of the associates as of 31 December 2006 amounted to AED 1.4 million (2005: AED 0.4 million).

29 COMMITMENTS

The Board of Directors has authorised future capital expenditure amounting to AED 2,193 million (2005: AED 1,393 million). Included in this amount is AED 1,436 million (2005: AED 1,255 million) which is expected to be incurred within one year from the balance sheet date.

The Company's share of commitments of the joint venture as of 31 December 2006 amounted to AED 48.9 million (2005: AED 29.9 million). These commitments are in respect of forward foreign exchange contracts outstanding at the balance sheet date.

30 RISK MANAGEMENT

Interest rate risk

The Company is exposed to interest rate risk on their interest bearing assets (bank deposits) and liabilities (bank overdrafts and loans). To limit the risk, management has sought to limit the exposure of the Company to any adverse future movements in rates by entering into various interest rate swap and cap deals. The notional amount outstanding at 31 December 2006 was AED 1,316 million (2005: AED 1,062 million). At 31 December 2006, the fixed rates vary from 3.57% to 4.8% (2005: 3.57% to 4.75%). The floating interest rate on the instruments is LIBOR. The derivative financial instruments entered into for the purposes of a cash flow hedge had positive changes in their fair values amounting to AED 9.5 million (2005: AED 3.8 million) which have been recognised within equity under cumulative changes in fair values of derivatives. Management is therefore of the opinion that the Company's exposure to interest rate risk is limited.

Credit risk

The Company seeks to limit its credit risk with respect to customers by monitoring outstanding receivables. The Company sells its services and products to a number of institutions in the UAE. Their three largest customers account for approximately 59% of outstanding accounts receivable at 31 December 2006 (2005: 3 customers – 69%). As amounts receivable are stated net of any required provision and are short term in nature, fair value approximates carrying value.

The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks.

Credit risk is limited to the carrying values of financial assets in the consolidated balance sheet.

Liquidity risk

The Company limits its liquidity risk by monitoring their current financial position in conjunction with their cash flow forecasts on a regular basis to ensure funds are available to meet their commitments for liabilities as they fall due. The Company's terms of sale require amounts to be paid within 60 to 90 days of the date of sale. Trade payables are normally settled within 60 days of the date of purchase.

Foreign currency risk

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

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values of the financial assets and liabilities of the Company are not materially different from their carrying values at the balance sheet date except for certain Islamic financing arrangements with fixed profit rates (note 23).

32 COMPARATIVE INFORMATION

Certain comparative figures for 2005 have been reclassified in order to conform with presentation for the current year. Such reclassifications do not affect previously reported profit or equity.

These amounts have been restated in light of changes in International Financial Reporting Standards and to improve the quality of information presented.

Notes