تبريد
tabreed

ANNUAL REPORT 2007

PROMISES AND PERFORMANCES

ANNUAL REPORT 2007

التقرير السنوي ٢٠٠٧

تبريد
tabreed

التقرير السنوي ٢٠٠٧

وعود وإنجازات

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

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

Contents

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 Safi
CEO, Board Member

Turning the vision of strategic planning into the reality of business success takes an around-the clock, day-in-and-day-out commitment from every one of Tabreed's 391 employees. It's the effective execution of our respective responsibilities that ensures we meet the high standards we've set for our Company and your investment via our "Measures of Success". Our employees perform hundreds of behind-the-scenes, everyday tasks that enable our business units to provide both superior service and return on your investment.

No matter what our title or job duty, we share a devotion to taking ownership, satisfying customers and ensuring the success of the enterprise. Examining just one "day in the life of Tabreed" illustrates our 24/7 commitment to those we serve - customers and shareholders alike.

We're moving forward - advancing the interests of our shareholders, our employees, our customers and our communities. It's about breaking the mold of the traditional utility company and setting a new higher standard.

Making Performance Work

I am pleased to report a very solid year for our company. By focusing on our core business and streamlining our other operations, we delivered on our commitment to shareholders, customers and employees. As a result, all three groups benefited from our performance.

2007 was a year of significant, continued achievement for our company. We generated solid earnings and cash flow, set new company records for chilled water output. Company's Revenues increased 17% over 2006 to reach AED 549,300,000 and net income improved by 19% (excluding the one-time-gain of AED 40,552,000 resulted from the gain on sale of a portion of certain plants in 2006).

These and other accomplishments prepared the ground for an even brighter future. Our task ahead is to make our strong company even stronger - to keep increasing our financial strength through operational excellence and apply that strength through disciplined investment.

No matter what investment path we eventually choose, we intend to proceed in a disciplined fashion. We will stay away from isolated projects, but rather look to invest in areas that complement our existing assets. We will ask tough questions about every option, including whether it will be accretive to earnings within a reasonable timeframe and be supportable with our overall strategy.

We're moving forward - advancing the interests of our shareholders, our employees, our customers and our communities. It's about breaking the mold of the traditional utility company and setting a new higher standard.

Finally, I want to pay tribute to our company's dedicated workforce, past and present. Our reputation as a reliable, profitable, well-run company owes more to our employees than I can possibly say in this letter. They have met many challenges, adjusted to many changes and contributed in innumerable ways to making Tabreed the great company it is. I am confident that under the company's lead management they will write a new and even brighter chapter in Tabreed's history.

It has been my privilege to work with them and I wish them every continued success.

Sincerely,

Mohamed Saif Al Mazrouei
Chairman

REPORT OF THE BOARD

Making Transition Work

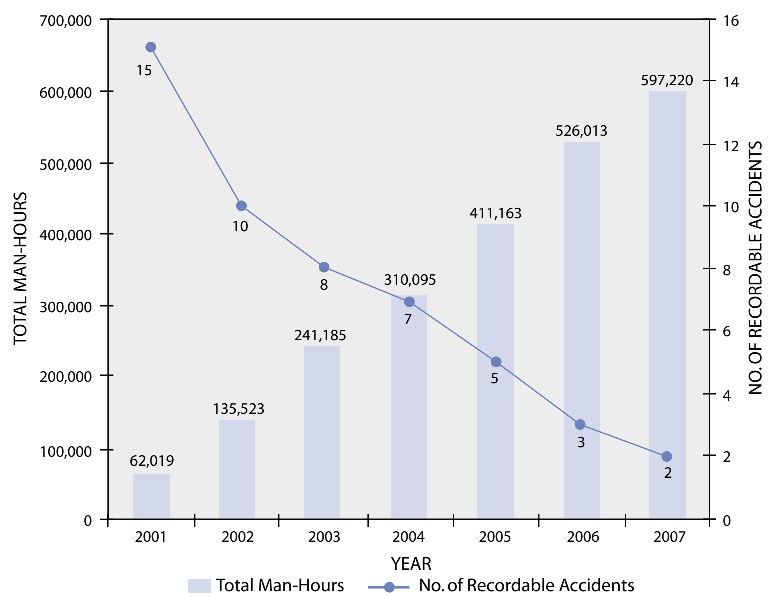
We remain a company known for keeping our commitments to customers, employees, communities and, not last but not least, shareholders who invest their hard-earned money with us.

Operational Excellence

Building a Strong Foundation for Growth... through Operational Excellence. Operational excellence has been the basis for success at Tabreed for almost a decade and will continue to be. It is demonstrated in many ways our employees use their skills and training to achieve best-ever safety results, win international and regional reliability awards, set new records in output generation and, not least, deliver one of life's necessities for our end-users in hot weather.

Our service reliability remained strong and our safety performance improved significantly, this builds on strict safety policy where the number and severity of accidents have been reduced to almost a perfect record (HSE Performance shown in the Bar-Chart below). It is a tribute to our employees' focus each day on making our workplace safer and their care for the customers and communities we serve.

HSE PERFORMANCE



In addition, our utilities delivered solid operational performance. Our service reliability remained strong and the overall capacity of our production surpassed our targets. Most importantly, customers ranked our company as the region's most reliable district cooling provider.

Accomplishments such as these constitute a strong, stable foundation that can support new growth initiatives. With this in mind, we have identified our key goals for 2007 and years to come:

Strengthen our organization structure in ways that contribute to long-term success; ensure that our return to operations continues at a high level of performance; and further strengthen our balance sheet.

We are encouraged by our progress in assembling a talented and highly capable leadership team, where during the course of the year we have strengthened our senior management team by appointing Karl Marietta as Deputy CEO. We also had two key appointments: Khaled Salmeen Al Kawari as the company's Chief Operating Officer and Abdulla Al Muhairi as the Chief Financial Officer for the company. Both Al Kawari and Al Muhairi are outstanding professionals with many years of international experience. Their leadership will definitely help Tabreed achieve its aggressive growth plan as it looks to consolidate its market-leading position. We will continue rebuilding our workforce with an eye on rewarding good internal performers, recruiting diverse talent from outside the company and preserving cost savings from more efficient operations.

At Tabreed, we want employees to have the power to be their best. That's because our success arises directly from our employees. It's not just their performance, but their dedication and pride that make us the world's leading district cooling company.

We come from different backgrounds but share common goals: pursuing excellence, focusing on safety and striving to serve customers and shareholders to the best of our ability. In doing so, we foster a workplace based on mutual trust and respect where people feel empowered to achieve excellence - and where their contributions are recognized and rewarded.

Reinforcing our Thought Leadership... in Industry and Society Tabreed has long been among the leaders in shaping the utility industry, and the need to continue as a thought leader has never been greater. We will do this by contributing practical solutions on challenging and emerging issues - solutions that increase shareholder value and providing benefits to our society at the same time.

We remain a company known for keeping our commitments to customers, employees, communities and, not least, shareholders who invest their hard-earned money with us.

We Make Lives Better

The challenge for us is to balance our customers' need for reliable, affordable energy with shareholder expectations to enable us to attract the capital necessary to safely maintain and grow the business.

Today, people think differently about how utility companies impact natural resources, the environment and the overall economy. The challenge for us is to balance our customers' need for reliable, affordable energy with shareholder expectations to enable us to attract the capital necessary to safely maintain and grow the business. A financially viable core utility business combined with a well-managed non-utility portfolio offer the best way to make progress in today's cooling industry. It's about taking a leap - not based on faith only - but a leap based on sound principles and prudent decision-making. In 2007, we took many of these leaps - many that have already dramatically advanced the interests of the company and our customers and some that will do so over the coming years.

This annual report focuses on illustrating the successes of the past year and the opportunities that lie before us - all of which relate to one or several of the four key categories featured here. Together, these words help capture the overall strategy of Tabreed and how we are delivering, managing, investing and creating to ensure the financial stability of our company.

delivering

It's more than just providing a reliable chilled water source. It's about delivering excellent customer service, fueling economic development and growing our customer base. Managing resources, time and fund. Enterprise asset management technology and process changes will improve the effectiveness of how Tabreed's field operations employees perform work.

managing

Our business is focused not only on optimizing the efficiency of our internal resources but helping our customers do the same. Tabreed provides competitive, reliable services for more than 800 commercial, industrial and residential customers throughout the Gulf region.

During the year Tabreed has won many major contracts including a major agreement with Abu Dhabi's leading developer - ALDAR Properties - which will significantly increase its capacity to provide cooling services in the near and medium term. Additionally, our partnerships

CEO's Message

and group companies in other regional markets such as the GCC and Levant ensure that we will maintain our market-leading position for the foreseeable future.

investing

At Tabreed, we're spending money at the right time to maximize rewards. It's about strategic, effectively managed investments that support the core utility business and provide safe, reliable energy.

creating

This isn't your typical, stodgy utility company. We're not satisfied with the notion that "this is the way we've always done it." We're forward-thinking, innovative and revolutionary. Knowing that today's creative ideas yield tomorrow's success, our utility and non-utility entities are powering change in the utility industry.

In closing, I must say that I am confident in the direction we're headed. Today's utility company must find a way to break the mold of the conventional utility company of yesterday, and I believe we've packaged together the right mix of utility innovation and non-utility opportunity to keep us moving forward. More importantly, we're adapting our business models and making the right investments - in technology, natural resources and operating companies - at the right time to maximize shareholder value. Our decoupling efforts and targeted business portfolio have us well-positioned to continue as a champion for positive change.

I want to congratulate our employees for their outstanding operational performance this year and their many other achievements. I am extremely fortunate to be on the same team with them, and also humbled recognizing how much I owe to so many dedicated men and women in our growing company.

Dany Safi
Chief Executive Officer

We Make Assets Work Harder

By a considerable margin we have now the strongest financial outlook in the company's history, we anticipate even brighter outlook for many years to come.

Our utility business drove our financial performance by generating earnings of AED 71,907,000 or AED 0.06 per diluted share.

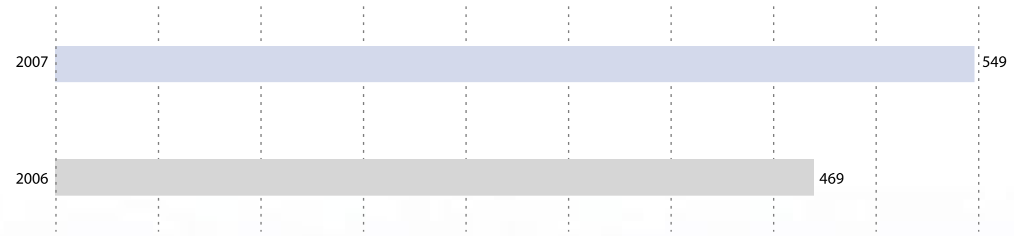
By a considerable margin we have now the strongest financial outlook in the company's history, we anticipate even brighter outlook for many years to come.

Financial Results Comments

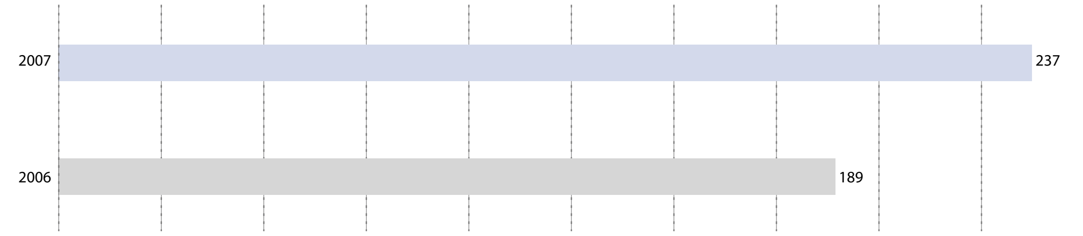
For the year 2007, Tabreed reported record financial results. Earnings from continuing operations climbed 26% from 2006. Revenues increased 17% over 2006 to AED 549,300,000. Gross profit has increased to AED 237,237,000 up from AED 189,020,000 last year. As a result, net profit improved by 19% (excluding the one-time-gain of 40,552,000 resulted from the gain on sale of a portion of certain plants in 2006). At the yearend, shareholder's equity stood at AED 1,374,855,000 and total assets reached AED 4,508,224,000 increased by AED 323,039,000 from the previous year.

Approaching Investment Decisions with Discipline... from a Position of Strength. While focused on our near-term objectives, we are also hard at work planning how to sustain a strong growth trajectory over the long term. Combining these elements with a dedicated work force have positioned us to deliver financial results, meet customer demand for reliable energy and set up the remainder of this decade for continued growth.

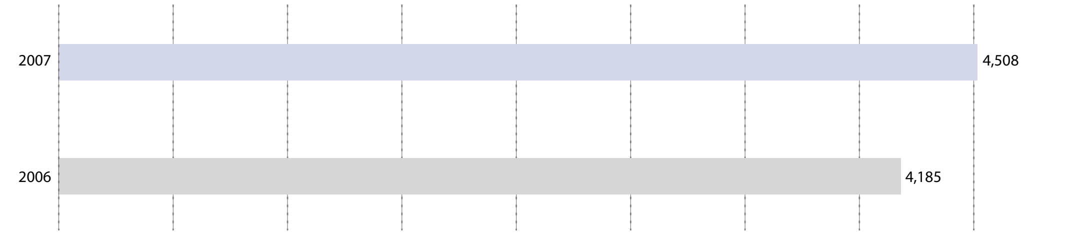
Karl Marietta
Deputy CEO



TOTAL REVENUES / AED MILLIONS



GROSS PROFIT / AED MILLIONS



TOTAL ASSETS / AED MILLIONS

National Central Cooling Company PJSC

Consolidated Financial Statements

31 December 2007

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 2007 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 2007 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Independent Auditors' Report To The Shareholders Of National Central Cooling Company PJSC

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

Mohammad Mobin Khan
Partner
Ernst & Young
Registration No. 532

Date: 13 February 2008
Abu Dhabi

National Central Cooling Company PJSC

Consolidated Income Statement

Year ended 31 December 2007

	Notes	***2007*** ***AED '000***	*2006* *AED '000*
Revenue	3	**549,300**	469,995
Operating costs		**(312,063)**	(280,975)
GROSS PROFIT		**237,237**	189,020
Salaries and staff related costs		**(59,851)**	(37,001)
Administrative and other expenses		**(56,686)**	(47,561)
Provision for impairment of property, plant and equipment	10	**-**	(197)
Finance costs	4	**(68,697)**	(51,305)
Other income	5	**37,083**	70,684
Share of results of associates	11	**12,077**	1,617
PROFIT FOR THE YEAR	6	**101,163**	125,257
Attributable to:			
Equity holders of the parent		**71,907**	104,406
Minority interests		**29,256**	20,851
		101,163	125,257
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (AED)	7	**0.06**	0.09

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

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Notes	2007 AED '000	2006 AED '000
ASSETS			
Non-current assets			
Capital work in progress	9	**1,123,746**	755,482
Property, plant and equipment	10	**2,018,188**	1,282,344
Investments in associates	11	**193,690**	109,440
Available for sale investments		**8,487**	1,880
Intangible assets	13	**38,344**	38,334
Loan to an associate	15	**42,029**	-
		3,424,484	2,187,480
Current assets			
Inventories		**34,306**	27,235
Trade and other receivables	16	**314,977**	879,778
Financial assets carried at fair value through income statement	17	**117,390**	108,032
Contract work in progress	18	**179,031**	111,947
Prepayments		**7,774**	4,203
Bank balances and cash	19	**430,262**	866,510
		1,083,740	1,997,705
TOTAL ASSETS		**4,508,224**	4,185,185
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	20	**1,134,000**	1,050,000
Treasury shares	21	**(10,050)**	(10,050)
Statutory reserves	22	**36,478**	27,303
Retained earnings		**10,730**	27,378
Cumulative changes in fair value of derivatives and available for sale investments	22	**(8,509)**	9,500
Reserve for proposed bonus issue	23	**79,380**	84,000
Foreign currency translation reserve		**(145)**	(374)
		1,241,884	1,187,757
Minority interests		**132,971**	121,938
Total equity		**1,374,855**	1,309,695
Non-current liabilities			
Accounts payable and accruals	28	**77,444**	36,468
Interest bearing loans and borrowings	24	**1,092,742**	688,830
Islamic financing arrangements	25	**1,099,847**	1,098,744
Obligations under finance lease	26	**48,635**	51,610
Employees' end of service benefits	27	**11,267**	8,225
		2,329,935	1,883,877
Current liabilities			
Accounts payable and accruals	28	**672,904**	429,555
Bank overdraft	19	**61,626**	280,322
Interest bearing loans and borrowings	24	**57,595**	41,024
Islamic financing arrangements	25	**8,334**	238,006
Obligations under finance lease	26	**2,975**	2,706
		803,434	991,613
Total liabilities		**3,133,369**	2,875,490
TOTAL EQUITY AND LIABILITIES		**4,508,224**	4,185,185

Mohamed Saif Al Mazrouei
CHAIRMAN

Dany Safi
CHIEF EXECUTIVE OFFICER

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

		Attributable to equity holders of the parent									
	Note	Share capital AED '000	Treasury shares AED '000	Statutory reserve AED '000	Retained earnings AED '000	Cummulative changes in fair value of derivatives and available for sale investments AED '000	Reserve for proposed bonus issue AED '000	Foreign currency translation reserve AED '000	Total AED '000	Minority interests AED '000	Total equity AED '000
Balance at 1 January 2006		**1,000,000**	**(10,050)**	**14,544**	**22,881**	**3,800**	**50,000**	-	**1,081,175**	**64,601**	**1,145,776**
Net movement in fair value of cash flow hedges		-	-	-	-	5,700	-	-	5,700	-	5,700
Board of directors' remuneration	23	-	-	-	(3,150)	-	-	-	(3,150)	-	(3,150)
Exchange difference arising on translation of foreign currency operations		-	-	-	-	-	-	(374)	(374)	-	(374)
Total income and expense for the year recognised directly in equity		-	-	-	(3,150)	5,700	-	(374)	2,176	-	2,176
Profit for the year		-	-	-	104,406	-	-	-	104,406	20,851	125,257
Total income and expense for the year		-	-	-	101,256	5,700	-	(374)	106,582	20,851	127,433
Bonus shares issued		50,000	-	-	-	-	(50,000)	-	-	-	-
Transfer to statutory reserve		-	-	12,759	(12,759)	-	-	-	-	-	-
Dividends paid		-	-	-	-	-	-	-	-	(12,375)	(12,375)
Increase in share capital of subsidiaries		-	-	-	-	-	-	-	-	48,861	48,861
Proposed bonus issue	23	-	-	-	(84,000)	-	84,000	-	-	-	-
Balance at 31 December 2006		**1,050,000**	**(10,050)**	**27,303**	**27,378**	**9,500**	**84,000**	**(374)**	**1,187,757**	**121,938**	**1,309,695**
Balance at 1 January 2007		**1,050,000**	**(10,050)**	**27,303**	**27,378**	**9,500**	**84,000**	**(374)**	**1,187,757**	**121,938**	**1,309,695**
Net movement in fair value of cash flow hedges		-	-	-	-	(24,616)	-	-	(24,616)	-	(24,616)
Gain on revaluation of available for sale investments		-	-	-	-	6,607	-	-	6,607	-	6,607
Exchange difference arising on translation of foreign currency operations		-	-	-	-	-	-	229	229	-	229
Total income and expense for the year recognised directly in equity		-	-	-	-	(18,009)	-	229	(17,780)	-	(17,780)
Profit for the year		-	-	-	71,907	-	-	-	71,907	29,256	101,163
Total income and expense for the year		-	-	-	71,907	(18,009)	-	229	54,127	29,256	83,383
Bonus shares issued		84,000	-	-	-	-	(84,000)	-	-	-	-
Transfer to statutory reserve		-	-	9,175	(9,175)	-	-	-	-	-	-
Dividends paid		-	-	-	-	-	-	-	-	(18,223)	(18,223)
Proposed bonus issue	23	-	-	-	(79,380)	-	79,380	-	-	-	-
Balance at 31 December 2007		**1,134,000**	**(10,050)**	**36,478**	**10,730**	**(8,509)**	**79,380**	**(145)**	**1,241,884**	**1,32,971**	**1,374,855**

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

Consolidated Cash Flow Statement
Year ended 31 December 2007

	Notes	2007 AED '000	2006 AED '000
OPERATING ACTIVITIES			
Profit for the year		**101,163**	125,257
Adjustment for:			
Depreciation of property, plant and equipment	10	**43,796**	59,405
Amortisation of trademarks	13	**3**	2
Provision for impairment loss relating to property, plant and equipment	10	**-**	197
Net movement in employees' end of service benefits	27	**3,042**	341
Share of results of associates		**(9,574)**	(1,617)
Interest income	5	**(9,544)**	(10,983)
Finance costs	4	**68,697**	51,305
Changes in fair value relating to financial assets carried at fair value through income statement	5	**(9,358)**	(6,472)
Gain on disposal of property, plant and equipment	5	**-**	(40,552)
Gain on disposal of assets classified as held for sale	5	**-**	(682)
Changes in prepaid finance costs		**10,419**	(9,018)
		198,644	167,183
Working capital changes:			
Inventories		**(7,071)**	(9,584)
Trade and other receivables and prepayments		**59,427**	(141,948)
Contract work in progress		**(67,084)**	(42,736)
Accounts payable and accruals		**187,040**	78,089
Net cash from operations		**370,956**	51,004
Interest paid		**(70,858)**	(23,453)
Net cash from operating activities		**300,098**	27,551
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	**(22,831)**	(63,385)
Proceeds from sale of property, plant and equipment		**-**	1,595
Proceeds from sale of assets classified as held for sale		**501,803**	18,549
Investments in associates	11	**(74,676)**	(61,821)
Purchase of trademarks	13	**(13)**	-
Purchase of financial assets carried at fair value through income statement		**-**	(55,262)
Proceeds on disposal of financial assets carried at fair value through income statement		**-**	29,971
Additions to capital work in progress, net of advances		**(1,050,014)**	(846,022)
Purchase of available for sale investments		**-**	(1,880)
Loan to an associate	15	**(42,029)**	-
Interest received	5	**9,544**	10,983
Net cash used in investing activities		**(678,216)**	(967,272)

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

National Central Cooling Company PJSC

Consolidated Cash Flow Statement
Year ended 31 December 2007

	Notes	2007 AED '000	2006 AED '000
FINANCING ACTIVITIES			
Minority interest in increase in share capital of subsidiaries		**-**	48,861
Dividends paid to minority interests		**(18,223)**	(12,375)
Interest bearing loans and borrowings received		**463,763**	372,331
Interest bearing loans and borrowings repaid		**(44,262)**	(50,432)
Payment for obligations under finance lease		**(2,706)**	(1,493)
Islamic financing arrangement repaid		**(238,006)**	(29,691)
Islamic financing arrangement received		**-**	734,800
Proceeds from sale and lease back of property, plant and equipment under finance lease		**-**	55,809
Net cash from financing activities		**160,566**	1,117,810
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(217,552)**	178,089
Cash and cash equivalents at 1 January		**586,188**	408,099
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	19	**368,636**	586,188

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

	2007	2006
Trade and other receivable - fair value adjustment for derivatives	**-**	5,700
Accounts payable and accruals - fair value adjustment for derivatives	**(24,616)**	-
Transfer from capital work in progress to property, plant and equipment	**756,809**	733,461
Bonus share issue	**84,000**	50,000
Movement in foreign currency translation reserve	**229**	(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 directorsí remuneration	**-**	3,150
Unrealised gain on available for sale investment	**6,607**	-
Interest payable	**43,400**	45,561
Adjustment of profit resulting from transactions with associates	**2,503**	-

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

Notes To The Consolidated Financial Statements
31 December 2007

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) and is listed on the Dubai Financial Market. 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 13 February 2008.

2.1 BASIS OF PREPARATION

The consolidated financial statements of the Company and all its subsidiaries (the "Group") 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 its 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, income and expenses and unrealized gains and losses 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.

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2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment - Presentation of Financial Statements
- IFRIC 8 Scope of IFRS 2
- IFRIC 10 Interim Financial Reporting and Impairment

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

- IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the consolidated financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

- IAS 1 - Amendment Presentation of Financial Statements

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 32.

- IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As notional units of the Company's ordinary shares are only granted to employees in accordance with the employee incentive scheme, the interpretation had no impact on the financial position or performance of the Company.

- IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgments

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

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2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

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

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

IFRIC 4 Determining whether an Arrangement contains a Lease
Management determines whether an arrangement is, or contains, a lease based on the substance of the arrangement at inception date 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:

Change in 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 expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and the future depreciation charge would be adjusted where management believes that the useful lives differ from previous estimates.

During the year, the estimated useful life of plants and related distribution assets (the "Assets") was revised from 25 years to 30 years for plants and other related integrated assets including buildings and from 25 years to 50 years for related distribution assets, as a result of a review of their respective useful lives carried out by an independent consultant. The change in useful lives estimate has been applied with effect from 1 January 2007. The financial impact of the change in the estimated useful lives of the Assets is a reduction in the depreciation charge of AED 23.8 million for the year ended 31 December 2007 which has been reflected in full in the profit for the year ended 31 December 2007.

Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of key assumptions are given in note 14.

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 238.2 million (2006: AED 185.9 million), and the provision for doubtful debts was AED 3.8 million (2006: AED 3.8 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated income statement.

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2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES continued

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

At the balance sheet date, gross inventory was AED 34.3 million (2006: AED 27.2 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 Group;
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 the outcome of a construction contract cannot be estimated reliably revenue is recognised only to the extent of contract costs incurred.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition
Sales are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. For 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.

Connection fee is 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 income statement. Other income representing management service income and property service income is recognised when the service is performed.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Capital work in progress

Capital work in progress is recorded at cost which represents the contractual obligations of the Group 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 Group's policies when construction of the asset is completed and available for use.

Borrowing costs

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

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 plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated income statement as incurred. Land is not depreciated. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Plant and related integrated assets (incl building)	over 30 years (effective from 1 January 2007)
Distribution assets	over 50 years (effective from 1 January 2007)
Furniture and fixtures	over 3 to 4 years
Office equipment and instruments	over 3 to 4 years
Motor vehicles	over 4 to 5 years

Prior to 1 January 2007, plant, buildings and distribution assets were depreciated over 25 years. The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

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.

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

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

Investments in associates

The Company's investments in associates are accounted for under the equity method of accounting. These are entities over which the Company exercises significant influence and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the consolidated balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The consolidated income statement reflects the Company's share of the results of its associates. Where there has been a change recognized directly in the equity of the associate, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. Losses on transaction are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss.

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

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

Interest in joint venture

The Company has an interest in a joint venture which is a jointly controlled entity, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entity. 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.

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

Adjustments are made in the Company's financial statements to eliminate the Company's share of unrealized gains and losses on transaction between the Company and its jointly controlled entity. Losses on transaction are recognized immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Company ceases to have joint control over the joint venture.

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.

The Company assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired.

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

Investment and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through income statement, loans, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

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

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

Available for sale investments
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories of financial assets. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognised in income statement.

Financial assets carried at fair value through income statement
Financial assets at fair value through income statement includes financial assets designated upon initial recognition as 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.

Loans
Loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the consolidated income statement when the loans are derecognised or impaired, as well as through the amortisation process.

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.

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.

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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.

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

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.

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

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

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

Derecognition of financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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

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Leases
Finance leases, which transfer to the Group substantially all 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 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.

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

Employees' end of service benefits
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 Group makes contributions to the relevant UAE Government pension scheme calculated as a percentage of the employees' salaries. The obligations under these schemes are limited to these contributions, which are expensed when due.

Share-based payment transactions
Qualifying employees (including senior executives) of the Company receive part of their remuneration in the form of share-based payment transactions. The employees are granted notional units of Company's ordinary shares which are 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 and hedging
The Company and its joint venture use derivative financial instruments such as interest rate swaps and forward currency contracts respectively to hedge risks associated with interest rate and foreign currency fluctuations respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. The fair value of forward currency contracts is calculated by reference to currency forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability; or
- fair value hedges when hedging the exposure to changes in the fair value of an unrecognised firm commitment.

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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 or fair values, as applicable, attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows or fair values, as applicable, and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in 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. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non financial asset or liability.

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

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

Foreign currencies
The consolidated financial statements are presented in United Arab Emirates Dirhams (AED), which is the Company's functional and presentation currency. 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.

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. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in income statement.

Financial instruments
Financial instruments comprise financial assets and financial liabilities.

Financial assets comprise available for sale investments, loan to associate, 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.

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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. The fair value of managed funds is determined by reference to a net asset value assessment conducted by an independent third party.

2.5 FUTURE CHANGES IN ACCOUNTING POLICIES - STANDARDS ISSUED BUT NOT YET EFFECTIVE

IAS 1 Presentation of Financial Statements
The Group has not adopted the revised IAS 1 (Presentation of Financial Statements) which will be effective for the year ending 31 December 2009. The application of this Standard will result in amendments to the presentation of the financial statements.

IAS 23 Borrowing Costs
A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group already capitalises borrowing costs relating to qualifying assets. Accordingly, the revision in IAS 23 will not have an impact on the Group's financial statements.

IFRS 8 Operating Segments
IFRS 8 Operating Segments was issued in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Group discloses information about its operating segments.

3 SEGMENTAL ANALYSIS

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services produced. The Group 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 design and supervision of electrical, mechanical coding and sanitary engineering works.

The 'chilled water' segment constructs, owns, assembles, installs, operates and maintains cooling and conditioning systems. In addition, the segment distributes and sells chilled water for use in district cooling technologies.

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

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

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

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3 SEGMENTAL ANALYSIS continued

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

	Services AED '000	*Chilled Water AED '000*	*Contracting AED '000*	*Manufacturing AED '000*	*Eliminations AED '000*	*Total AED '000*
2007						
Revenue						
External revenue	**106,943**	**192,771**	**103,211**	**146,375**	**-**	**549,300**
Inter-segment sales	**13,779**	**-**	**-**	**-**	**(13,779)**	**-**
Total revenue	**120,722**	**192,771**	**103,211**	**146,375**	**(13,779)**	**549,300**
Result						
Segment result	**57,766**	**30,127**	**20,742**	**33,829**	**(3,583)**	**138,881**
Finance costs						**(68,697)**
Interest and investment income						**18,902**
Share of results of associates		**12,077**				**12,077**
Minority interests						**(29,256)**
Profit for the year attributable to equity holders of the parent						**71,907**
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				1,617
Minority interests						(20,851)
Profit for the year attributable to equity holders of the parent						104,406

2007	*Services AED '000*	*Chilled Water AED '000*	*Contracting AED '000*	*Manufacturing AED '000*	*Unallocated AED '000*	*Total AED '000*
Other information						
Segment assets	116,691	3,481,007	228,167	113,395	-	3,939,260
Investments in associates	-	193,690	-	-	-	193,690
Unallocated assets	-	-	-	-	375,274	375,274
Total assets	**116,691**	**3,674,697**	**228,167**	**113,395**	**375,274**	**4,508,224**
Segment liabilities	**27,484**	**2,838,240**	**233,102**	**34,543**	**-**	**3,133,369**
2006						
Other information						
Segment assets	76,398	3,387,457	177,974	104,480	-	3,746,309
Investments in associates	-	109,440	-	-	-	109,440
Unallocated assets	-	-	-	-	329,436	329,436
Total assets	76,398	3,496,897	177,974	104,480	329,436	4,185,185
Segment liabilities	16,970	2,680,385	138,763	39,372	-	2,875,490

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3 SEGMENTAL ANALYSIS continued

	Services AED '000	Chilled Water AED '000	Contracting AED '000	Manufacturing AED '000	Total AED '000
2007					
Capital expenditure:					
Property, plant and equipment	**719**	**20,544**	**25**	**1,543**	**22,831**
Capital work in progress	**-**	**1,139,290**	**-**	**16,530**	**1,155,820**
Depreciation	**535**	**41,175**	**334**	**1,752**	**43,796**
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

4 FINANCE COSTS

	2007 AED '000	2006 AED '000
Interest bearing loans and borrowings and overdrafts	**45,208**	23,432
Islamic financing arrangements	**22,175**	27,873
Interest element of finance leases	**1,314**	-
	68,697	51,305

5 OTHER INCOME

	2007 AED '000	2006 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	**9,544**	10,983
Changes in fair value relating to financial assets carried at fair value through income statement	**9,358**	6,472
Gain arising from compensation received on termination of contract	**-**	3,910
Management service income	**6,290**	3,860
Property maintenance income	**9,245**	3,568
Miscellaneous income	**2,646**	657
	37,083	70,684

6 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2007 AED '000	2006 AED '000
Costs of inventories recognised as an expense	**110,656**	94,403
Total staff costs	**84,056**	54,678

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7 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 and diluted earnings per share computations:

	2007	2006
Profit for the year attributable to ordinary equity holders of the parent (AED '000)	**71,907**	104,406
Weighted average number of ordinary shares issued, excluding treasury shares ('000)	**1,123,950**	1,123,950
Basic and diluted earnings per share (AED)	**0.06**	0.09

The weighted average number of ordinary shares in issue used in the determination of the earnings per share for the year ended 31 December 2006 has been adjusted for the effect of the share bonus issue in 2007 (note 20).

As of 31 December 2007, the Company has not issued any instruments which would have a dilutive impact on earnings per share when converted or exercised.

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8 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 2007 and 2006*	
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	*68*	*57*
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*	*100*
Installation Integrity 2006 WLL	Qatar	*52*	*52*
Tabreed Oman SAOC	Oman	*60*	-
Sahara Cooling and Air Conditioning LLC	U.A.E.	*51*	-

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.

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 49 million. Tabreed's interest in BDCC as of 31 December 2007 increased to 68%.

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 in 2006 and commenced its activities thereafter.

Tabreed LLC Oman was incorporated in the Sultanate of Oman and registered as a limited liability company in 2006. Tabreed LLC Oman has not started commercial activities as at 31 December 2007.

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 started operations in 2007.

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

Tabreed Oman SAOC was incorporated in the Sultanate of Oman and registered as a limited liability company. During the year, Tabreed invested an amount of AED 5.7 million representing its share of share capital issued by Tabreed Oman SAOC. Tabreed Oman SAOC has not started commercial activities as at 31 December 2007.

Sahara Cooling and Air Conditioning LLC was incorporated in Abu Dhabi and registered as a limited liability company in 2007 and commenced its commercial activities thereafter.

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9 CAPITAL WORK IN PROGRESS

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

	2007 AED'000	*2006 AED '000*
Balance at 1 January	**674,191**	595,377
Additions during the year	**1,155,820**	812,275
Transfer to property, plant and equipment (note 10)	**(756,809)**	733,461)
	1,073,202	674,191
Advances to contractors	**50,544**	81,291
Balance at 31 December	**1,123,746**	755,482

At 31 December 2007, capital work in progress amounting to AED 214 million (2006: AED 207 million) is held as security against interest bearing loans and borrowings (note 24) and AED 299 million (2006: AED 243 million) is held as security against Islamic financing arrangements (note 25). 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 72.11 million (2006: AED 51.6 million).

10 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*
2007					
Cost:					
At 1 January 2007	1,377,316	6,793	16,113	2,105	1,402,327
Additions	15,022	1,397	5,737	675	22,831
Transfer from capital work in progress (note 9)	756,809	-	-	-	756,809
At 31 December 2007	**2,149,147**	**8,190**	**21,850**	**2,780**	**2,181,967**
Depreciation:					
At 1 January 2007	104,452	5,028	8,905	1,401	118,786
Charge for the year	40,159	994	2,339	304	43,796
At 31 December 2007	**144,611**	**6,022**	**11,244**	**1,705**	**163,582**
Net carrying amount at 31 December 2007 before provision for impairment in value	2,004,536	2,168	10,606	1,075	2,018,385
Provision for impairment	(197)	-	-	-	(197)
Net carrying amount: **At 31 December 2007**	**2,004,339**	**2,168**	**10,606**	**1,075**	**2,018,188**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10 PROPERTY, PLANT AND EQUIPMENT continued

	Land, plant and buildings AED '000	*Furniture and fixtures AED '000*	*Office equipment and instruments AED '000*	*Motor vehicles AED '000*	*Total AED '000*
2006					
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 9)	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	104,542	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

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

	2007 AED'000	*2006 AED '000*
Included in operating costs	**37,721**	52,068
Included in other administrative expenses	**5,759**	5,748
Included in capital work in progress	**316**	1,589
	43,796	59,405

At 31 December 2007, the net book value of plants held as security against interest bearing loans and borrowings (note 24) and an Islamic Ijara loan (note 25) under sale and leaseback Ijara financing arrangements amounted to AED 1,708 million (2006: AED 1,169 million). The plants are constructed on land which has been granted to Tabreed and its subsidiaries at nominal or no cost to them.

Net book value of plant amounting to AED 55.4 million (2006: AED 55.8 million) are held under finance lease. The leased assets are pledged as security for the related finance lease (note 26).

Included in land, plant and buildings is an amount of AED 11.1 million (2006: 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.

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11 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

	Country of incorporation	*Ownership* **2007**	*2006*
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%***	50%
Sahara Cooling Limited	United Arab Emirates	***40%***	-

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:

	2007 AED'000	*2006 AED '000*
Share of the associates' balance sheets:		
Current assets	**172,129**	54,877
Non-current assets	**501,545**	169,269
Current liabilities	**(98,317)**	(9,890)
Non-current liabilities	**(379,164)**	(104,816)
Net assets	**196,193**	109,440
Share of the associates' revenues and results:		
Revenues	**46,409**	12,512

	2007 AED'000	*2006 AED '000*
Results (as adjusted by profit resulting from transactions between the Company and the associates amounting to AED 2.5 million (2006: nil))	**12,077**	1,617
Carrying amount of the investments	**193,690**	109,440

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

Tabreed invested an amount of AED 74.6 million (2006: AED 61.8 million) representing its share of share capital issued by the associates during the year as follows:

	2007 AED'000	*2006 AED '000*
Qatar Central Cooling Company PJSC	**53,628**	39,549
Tabreed District Cooling Company (Saudi)	**-**	11,764
Jordanian Company for Central Energy (PLS)	**-**	10,508
Sahara Cooling Limited	**21,048**	-
	74,676	61,821

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12 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 2007 and 2006 are included in the consolidated income statement. The Company's share of the unrealised gain arising from the joint venture's profit for the year amounts to AED 39 million (2006: AED 46 million) and is credited against the capital work in progress balance during the year.

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

	2007	*2006*
	AED'000	*AED '000*
Current assets	**214,591**	158,819
Non-current assets	**165**	369
	214,756	159,819
Current liabilities	**(170,439)**	(113,499)
Non-current liabilities	**(879)**	(8,459)
Total	**43,438**	37,230

13 INTANGIBLE ASSETS

	Goodwill		*Trademarks*		*Total*	
	2007	*2006*	***2007***	*2006*	***2007***	*2006*
	AED'000	*AED '000*	***AED'000***	*AED '000*	***AED'000***	*AED '000*
Balance at 1 January	**38,334**	38,334	**-**	2	**38,334**	38,336
Additions during the year	**-**	-	**13**	-	**13**	-
Amortisation for the year	**-**	-	**(3)**	(2)	**(3)**	(2)
Balance at 31 December	**38,334**	38,334	**10**	-	**38,344**	38,334

14 IMPAIRMENT TESTING OF GOODWILL

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

	2007 and 2006
	AED'000
Ian Banham & Associates	**27,711**
Tabreed 1 District Cooling Plant	**9,712**
Other	**911**
Total	**38,334**

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

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

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14 IMPAIRMENT TESTING OF GOODWILL continued

Ian Banham & Associates

The recoverable amount of Ian Banham & Associates unit has been determined based on a value in use calculation using revenue and cost cash flow projections prepared by an external consultant in the year ended 31 December 2004 and updated by the senior management to cover a five-year period ending 31 December 2012. The discount rate applied to the cash flow projections is 25% (2006: 25%). Revenue is earned from projects supervision and study and design contracts. The revenue in the five year cash flow model reflects the expected growth in the real estate sector of the UAE 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. At a discount rate of 25%, assuming no increase in net income from the original cash flow projections prepared by an external consultant in the year ended 31 December 2004, the goodwill would still not be impaired. Consequently, management believes no reasonable change in the revenue, cost and discount rate assumptions would cause the carrying amount of goodwill to exceed its recoverable amount.

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. Revenue comprises of available capacity and variable output based on signed contract with customer for a period of 20 years. As the useful life of the plant is assessed as 30 years by an independent consultant during the year, the Company has used the remaining useful life of the plant of 24 years at the year end in the model based on rates currently agreed with the customer. The management is confident that the current 20 year contract with the customer will be extended for the remaining useful life of the plant. The operating costs mainly represent cost of utilities to operate the plant and salaries and related benefits of staff and are determined based on management's approved financial forecast. The discount rate applied to the cash flow projections is 9.4%. (2006: 9.4%). A general price inflation level of 5% (2006: 3%) has been applied to the cash flows. The basis used to determine the value assigned to the price inflation is management's estimate of the long term average forecast for the United Arab Emirates. Given the headroom in the cash flow projections, management believes no reasonable change in the revenue, cost and discount rate assumptions would cause the carrying amount of goodwill to exceed its recoverable amount.

15 LOAN TO AN ASSOCIATE

During the year, the Company has granted a loan of AED 42 million (2006: nil) to Sahara Cooling Limited, an associate company. The loan is unsecured and interest is charged at LIBOR + 0.85%. The amount is not expected to be repaid within twelve months from the balance sheet date.

16 TRADE AND OTHER RECEIVABLES

	2007	*2006*
	AED'000	*AED '000*
Trade receivables	**234,412**	182,115
Receivable from a related party on disposal of property, plant and equipment	**23,197**	525,000
Amounts due from other related parties	**30,852**	10,270
Other receivables	**26.516**	162,393
	314,977	879,778

As at 31 December 2007, trade receivables at nominal value of AED 3.8 million (2006: AED 3.8 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	2007	*2006*
	AED'000	*AED '000*
At 1 January	**3,807**	7,793
Charge for the year	**75**	1,445
Amounts written off	**(111)**	(5,431)
At 31 December	**3,771**	3,807

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16 TRADE AND OTHER RECEIVABLES continued

As at 31 December, the ageing analysis of trade receivables is as follows:

	Total AED	Neither past due nor impaired AED	Past due but not impaired <30 days AED	30-60 days AED	60-90 days AED	90-120 days AED	>120 days AED
2007	234,412	**116,704**	29,345	31,164	11,303	7,203	38,693
2006	182,115	**95,914**	13,400	15,749	14,243	13,951	28,858

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 - 45 days terms.

For terms and conditions relating to related party receivables, refer to note 29.

17 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.

18 CONTRACT WORK IN PROGRESS

	2007 AED'000	*2006 AED '000*
Cost plus attributable profit	**400,631**	286,408
Less: progress billings	**(221,600)**	(174,461)
	179,031	111,947

19 CASH AND CASH EQUIVALENTS

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

	2007 AED'000	*2006 AED '000*
Bank balances and cash	**172,378**	645,106
Short term deposits	**257,884**	221,404
	430,262	866,510
Bank overdraft	**(61,626)**	(280,322)
	368,636	586,188

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day to three months, depending on the immediate cash requirements of the Group.

The bank overdraft facility is secured against corporate guarantee and letter of awareness from the Company and pledge over short term deposits of AED 26.8 million (2006: AED 26.8 million).

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20 SHARE CAPITAL

	2007 AED'000	*2006 AED '000*
Authorised, issued and fully paid up share capital		
1,134,000,000 ordinary shares at AED 1 each (31 December 2006: 1,050,000,000 ordinary shares of 1 each)	**1,134,000**	1,050,000

At the Annual General Meeting held in April 2007, the shareholders approved the issue of bonus shares amounting to AED 84 million. The registration of the bonus shares was completed in Company's share register on 6th May 2007. Legal formalities are in progress to revise the Articles of Association of the Company for the increase in the share capital.

21 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.

No gain or loss is recognised in the consolidated income statement in respect of these treasury 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 2007, the employee incentive scheme had outstanding notional units of the Company's ordinary shares analysed as follows:

	No. of Shares **2007**	*2006*
At 1 January	**1,531,374**	1,203,540
Notional units of the Company's ordinary shares granted during the year	**557,675**	651,600
Exercised during the year	**(473,059)**	(323,766)
At 31 December	**1,615,990**	1,531,374

The weighted average fair value of notional units granted during the year was AED 3.37 (2006: 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 (loss) gain 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:

	2007 AED'000	*2006 AED '000*
Other administrative expenses	**(310)**	844
Capital work in progress	**(40)**	1,900

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.

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22 STATUTORY AND OTHER RESERVES

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.

Other reserves

	Cummulative changes in fair value of derivatives AED '000	*Cummulative changes in available for sale investments AED '000*	*Total AED '000*
Balance at 1 January 2006	3,800	-	3,800
Net movement in fair value of cash flow hedges	5,700	-	5,700
Balance at 31 December 2006	9,500	-	9,500
Net movement in fair value of cash flow hedges	(24,616)	-	(24,616)
Gain on revaluation of available for sale investment	-	6,607	6,607
Balance at 31 December 2007	**(15,116)**	**6,607**	**(8,509)**

23 DIVIDENDS AND BOARD OF DIRECTORS' REMUNERATION

The Board of Directors has proposed a bonus share dividend at the rate of 7% (2006: 8%) amounting to AED 79 million (2006: AED 84 million). The bonus share dividend will be submitted for approval at the Annual General Meeting in 2008.

No remuneration is proposed for the members of the Board of Directors for the year ended 31 December 2007 (2006: AED 3.15 million).

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24 FLOATING RATE INTEREST BEARING LOANS AND BORROWINGS

	2007 ***AED'000***	*2006* *AED '000*
Current		
Term loan 1	**250**	250
Term loan 2	**4,583**	4,583
Term loan 3	**2,389**	500
Term loan 4	**2,742**	-
Term loan 5, net of prepaid finance costs	**47,631**	35,669
Other loan	**-**	22
	57,595	41,024
Non-current		
Term loan 1	**125**	375
Term loan 2	**67,210**	71,795
Term loan 3	**9,558**	4,500
Term loan 4	**134,348**	91,873
Term loan 5, net of prepaid finance costs	**514,416**	520,287
Term loan 6, net of prepaid finance costs	**367,085**	-
	1,092,742	688,830

The above interest bearing loans and borrowings are secured by pledges over certain plants (note 10) and capital work in progress (note 9) and a corporate guarantee.

25 ISLAMIC FINANCING ARRANGEMENTS

	Profit charge %	***2007*** ***AED'000***	*2006* *AED '000*
Current			
Islamic Ijara	EIBOR + margin	**-**	121,384
Islamic Muqawala 1	EIBOR + margin	**-**	108,288
Islamic Muqawala 2	11.7%	**8,334**	8,334
		8,334	238,006
Non-current			
Islamic Ijara 1, net of prepaid finance costs	5.5%	**186,467**	185,559
Islamic Istisna'a 1, net of prepaid finance costs	5.5%	**177,899**	175,836
Islamic Istisna'a 2, net of prepaid finance costs	LIBOR + margin	**728,173**	721,708
Muqawala 2	11.7%	**7,308**	15,641
		1,099,847	1,098,744

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. 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.

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26 OBLIGATIONS UNDER FINANCE LEASE

During 2006, the Company entered into a sale and lease back agreement with a third party relating to certain plant (note 10) 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:

	2007		2006	
	Minimum lease payments AED'000	**Present value of payments AED '000**	Minimum lease payments AED'000	Present value of payments AED '000
Within one year	7,749	2,975	7,749	2,706
After one year but not more than five years	30,994	15,158	30,994	13,790
After five years	43,262	33,477	51,011	37,820
	82,005	51,610	89,754	54,316
Less: amounts representing finance charges	(30,395)	-	(35,438)	-
Present value of minimum lease payments	51,610	51,610	54,316	54,316

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

	2007 AED'000	2006 AED '000
Current	2,975	2,706
Non-current	48,635	51,610
	51,610	54,316

27 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:

	2007 AED'000	2006 AED '000
Balance at 1 January	8,225	7,884
Net movement during the year	3,042	341
Balance at 31 December	11,267	8,225

28 ACCOUNTS PAYABLE AND ACCRUALS

	2007 AED'000	2006 AED '000
Amounts due in more than one year		
Retentions payable	52,496	10,672
Deferred income	24,948	25,796
	77,444	36,468

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28 ACCOUNTS PAYABLE AND ACCRUALS continued

	2007 AED'000	2006 AED '000
Amounts due in less than one year		
Accounts payable	233,762	142,854
Retentions payable	31,418	39,331
Deferred income	1,239	1,239
Due to related parties	57,687	-
Accrued expenses	240,375	164,299
Other payables	108,423	81,832
	672,904	429,555

Terms and conditions of the above financial liabilities:
Accounts payable and other financial liabilities are non-interest bearing and are normally settled on 60 day terms.
Retentions payable are non interest bearing and are normally settled in accordance with the terms of the contracts.
For terms and conditions relating to related parties, refer to note 29.

29 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:

	2007				2006			
	Revenue AED'000	**Other expenses AED '000**	**Fees for management services AED '000**	**Interest income AED '000**	Revenue AED'000	Other expenses AED '000	Fees for management services AED '000	Interest income AED '000
Associated companies	21	70,006	6,290	463	125	-	3,860	-

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

	2007			2006		
	Loan receivable AED '000	**Other receivables AED '000**	**Other payables AED '000**	Loan receivable AED '000	Other receivables AED '000	Other payables AED '000
Associated companies	42,029	44,926	57,687	-	529,025	-
Other related parties	-	9,123	-	-	6,245	-
	42,029	54,049	57,687	-	535,270	-

Terms and conditions of transactions with related parties
Transactions from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free, except for loan to an associate (note 15), and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2007, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2006: Nil). 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.

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29 RELATED PARTY TRANSACTIONS continued

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

	2007	*2006*
	AED'000	*AED '000*
Short-term benefits	**30,416**	23,416
Employees' end of service benefits	**1,764**	861
	32,180	24,277
Number of key management personnel	**64**	48

30 CONTINGENCIES

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

	2007	*2006*
	AED'000	*AED '000*
Performance guarantees	**28,695**	30,150
Advance payment guarantees	**70**	70
Financial guarantees	**3,922**	1,598
	32,687	31,818

The Company's share of contingencies of the joint venture as of 31 December 2007 amounted to AED 0.4 million (2006: AED 0.3 million).

The Company's share of contingencies of the associates as of 31 December 2007 amounted to AED 1.1 million (2006: AED 1.4 million).

31 CAPITAL COMMITMENTS

Capital commitments
The Board of Directors has authorised future capital expenditure amounting to AED 2,962 million (2006: AED 2,193 million). Included in this amount is AED 2,041 million (2006: AED 1,436 million) which is expected to be incurred within one year from the balance sheet date.

The Group also had commitments of AED 1,105 million (2006: AED nil) in relation to the Group's interest in the joint venture investments.

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32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise interest bearing loans and borrowings, Islamic financing arrangements, obligations under finance lease, bank overdraft, and trade payables. The main purpose of these financial liabilities is to raise finance for the Company's operations and construction activity. The Group has various financial assets such as trade receivables, financial assets carried at fair value through income statement and cash and short-term deposits, which arise directly from its operations.

The Company enters into derivative transactions, primarily interest rate swaps, to manage the interest rate risk arising from the Company's sources of finance. The Company's joint venture enters into forward foreign exchange contracts to manage the foreign currency fluctuations relating to commitments to purchase equipment for various contracts from Euro suppliers and settle inter-company transactions in Canadian Dollars (ìCADî).

It is, and has been throughout 2007 and 2006 the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. To manage this risk, 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 2007, after taking into account the effect of interest rate swaps, approximately 65% of the Group's borrowings are at a fixed rate of interest (2006: 66%).

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 relating to un-hedged portion of floating rate borrowings.

	Effect on profit
	AED '000
2007	
+5 increase in basis points	294
-5 decrease in basis points	(294)
2006	
+5 increase in basis points	(328)
-5 decrease in basis points	328

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.

Credit risk
The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 16. The Group's three largest customers account for approximately 39% of outstanding trade receivable balance at 31 December 2007 (2006: 3 customers - 59%).

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, and certain derivative instruments, the Company'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

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32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Market price risk
Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Company is exposed to market risk with respect to its financial assets carried at fair value through income statement.

The Company limits market price risk by actively monitoring the key factors that affect the market movements, including analysis of the operational and financial performance of investees.

The following table demonstrates the sensitivity to a reasonably possible change in the market price of financial assets carried at fair value through income statement, on the Group's profit for one year. The effect of decrease in market price is expected to be equal and opposite to the effect of increase shown.

	Change in net asset value	*31 December 2007 Impact on profit AED'000*	*31 December 2006 Impact on profit AED '000*
Financial assets carried at fair value through income statement	5%	**5,870**	5,402

There is no impact on equity.

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

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases. The Company's policy is that not more than 20% of borrowings should mature in the next 12 month period. 6% of the Company's debt will mature in less than one year at 31 December 2007 (2006: 23%) based on the carrying value of borrowings reflected in the financial statements. At 31 December 2007, unutilised interest bearing loans and borrowings facilities available to the Company amounted to AED 13 million (2006: AED 119.3 million).

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2007 based on undiscounted payments and current market interest rates.

	On demand	*Less than 3 months AED '000*	*3 to 12 months AED '000*	*1 to 5 years AED '000*	*>5 years AED '000*	*Total AED '000*
At 31 December 2007						
Derivative financial instruments	-	**-**	**-**	**13,139**	**9,395**	**22,534**
Interest bearing loans and borrowings	**-**	**2,094**	**126,561**	**867,337**	**492,080**	**1,488,072**
Obligations under finance leases	**-**	**1,937**	**5,812**	**30,994**	**43,262**	**82,005**
Islamic financing arrangements	**-**	**3,840**	**62,457**	**1,264,443**	**-**	**1,330,740**
Accounts payable and other financial liabilities	**-**	**379,344**	**29,412**	**52,496**	**-**	**461,252**
Bank overdraft	**61,626**	**-**	**-**	**-**	**-**	**61,626**
	61,626	**387,215**	**224,242**	**2,228,409**	**544,737**	**3,446,229**
At 31 December 2006						
Derivative financial instruments	-	-	-	3,371	1,964	5,335
Interest bearing loans and borrowings	-	2,094	101,712	451,360	575,029	1,130,195
Obligations under finance leases	-	1,937	5,812	30,994	51,011	89,754
Islamic financing arrangements	-	3,821	305,401	1,326,150	-	1,635,372
Accounts payable and other financial liabilities	-	225,470	33,212	10,672	-	269,354
Bank overdraft	280,322	-	-	-	-	280,322
	280,322	233,322	446,137	1,822,547	628,004	3,410,332

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32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Foreign currency risk
The Company's joint venture has transactional currency exposures mainly in Euro and Canadian Dollars. Such exposures arise from anticipated purchases for various contracts from Euro suppliers and expected inter company transactions in Canadian Dollars.

The joint venture uses derivative hedging instruments such as forward foreign exchange contracts and non-derivative hedging instruments such as designated bank balances to hedge against firm commitments of equipment purchases for various contracts from Euro suppliers and expected inter company transactions in Canadian Dollars.

As the foreign currency commitments in Euro and Canadian Dollars are covered by effective hedges, management is of the opinion that there is no sensitivity as a result of changes in Euro and Canadian Dollar exchange rates.

Other than the above, the majority of the Group's 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.

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between 50% and 70%. The Company includes within net debt, interest bearing loans and borrowings, Islamic financing arrangements, obligations under finance lease, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less the net unrealised gains reserve.

	2007 AED'000	*2006 AED '000*
Interest bearing loans and borrowings	**1,150,337**	729,854
Islamic financing arrangements	**1,108,181**	1,336,750
Obligation under finance lease	**51,610**	54,316
	2,310,128	2,210,920
Less: cash and cash equivalents	**368,636**	586,188
Net debt	**1,941,492**	1,534,732
Equity	**1,241,884**	1,187,757
Add / (less): net unrealised gains reserve	**8,509**	(9,500)
Total capital	**1,250,393**	1,178,257
Capital and net debt	**3,191,885**	2,712,989
Gearing ratio	**61%**	57%

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33 FINANCIAL INSTRUMENTS

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying values at the balance sheet date except for certain Islamic financing arrangements and obligations under finance lease with fixed profit and interest rates respectively. Set out below is a comparison of carrying amounts and fair values of Islamic financing arrangements and obligations under finance lease with fixed profit and interest rates:

	Carrying amount		*Fair value*	
	2007	*2006*	***2007***	*2006*
	AED '000	*AED '000*	***AED '000***	*AED '000*
Obligations under finance lease	**51,610**	54,316	**55,282**	58,278
Islamic financing arrangements	**380,008**	385,370	**406,844**	406,878

The fair value of fixed rate borrowings has been calculated by discounting the expected future cash flows at market interest rates.

Hedging activities

Cash flow hedges

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

In order to reduce its exposure to interest rate fluctuations on the interest bearing loans and borrowings and Islamic financing arrangements, the Company has entered into interest rate swaps with counter-party banks designated as effective cash flow hedges for notional amounts that mirror the drawdown and repayment schedule of the loans. A schedule indicating as at 31 December 2007 the periods when the hedged cash flows are expected to occur and when they are expected to effect the consolidated income statement is as follows:

	Within 1 year	*1-3 years*	*3-8 years*	*Over 8 years*	*Total*
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Cash inflows (assets)	**-**	**110**	**7,308**	**-**	**7,418**
Cash outflows (liabilities)	**-**	**-**	**(22,534)**	**-**	**(22,534)**
Net cash inflow (outflow)	**-**	**110**	**(15,226)**	**-**	**(15,116)**

The net gain on cash flow hedges reclassified to the income statement during the year amounts to AED 270 thousand (2006: AED 665 thousand).

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivatives underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	2007			*2006*		
Derivatives held as cash flow hedges	***Assets***	***Liabilities***	***Notional amount***	*Assets*	*Liabilities*	*Notional amount*
	AED '000	***AED '000***	***AED '000***	*AED '000*	*AED '000*	*AED '000*
Interest rate swaps and interest rate swaps with a cap	**7,418**	**22,534**	**1,500,806**	14,835	5,335	1,316,458

Fair value hedges

The Company's joint venture has forward foreign exchange contracts outstanding designated as a fair value hedge to hedge the risk associated with foreign currency fluctuations relating to commitments to purchase equipment for various contracts from Euro suppliers and settle inter-company transactions in Canadian Dollars.

The Company's share of outstanding forward foreign exchange commitments of the joint venture at the year end amounted to approximately AED 86.2 million (2006: AED 48.9 million). The terms of the forward foreign exchange contracts match the terms of the commitments. The Company's share of the positive changes in fair value of the forward foreign exchange contracts amounting to AED 4 million (2006: AED 0.9 million) have been recognised within other receivables.