National Central Cooling Company PJSC

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

NATIONAL CENTRAL COOLING COMPANY PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Central Cooling Company PJSC (the "Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended). 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 Group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 2.1 to the consolidated financial statements which indicates that the Group incurred a loss of AED 1.23 billion for the year ended 31 December 2009 and, as of that date, the Group's current liabilities exceeded its current assets by AED 4.9 billion and its accumulated losses of AED 1.04 billion amounted to 86% of its issued share capital. These conditions, along with other matters as set forth in Note 2.1, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The consolidated financial statements have been prepared on a going concern basis as the management supported by the Board of Directors are confident on the positive outcome of the mitigating factors as outlined in Note 2.1 of the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

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

Without qualifying our opinion, we draw attention to Note 2.1 to the consolidated financial statements which states that, as the losses of the Company amount to more than half the capital, the Company's Board of Directors has resolved to call an extra ordinary general assembly to decide on the continuation of the Company as required by Article 285 of the UAE Commercial Companies Law of 1984 (as amended).

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

31 March 2010
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2009

	Notes	***2009*** ***AED '000***	*2008* *AED '000*
Revenue	3	**741,506**	734,801
Operating costs	6.1 & 3	**(450,223)**	(415,709)
GROSS PROFIT		**291,283**	319,092
Administrative and other expenses	6.2	**(148,156)**	(138,983)
Other income		**4,589**	3,727
PROFIT FROM OPERATIONS	6	**147,716**	183,836
Provision for doubtful debts	18 &33	**(46,644)**	(6,579)
Impairment of property, plant and equipment	7	**(127,675)**	-
Impairment of capital work in progress	7	**(1,108,220)**	-
Impairment of investment in an associate, available for sale investments and goodwill	12, 14 & 19	**(12,535)**	-
Finance costs	4	**(107,567)**	(81,037)
Interest income	5	**4,176**	23,747
Changes in fair value of derivatives		**(16,180)**	(12,200)
Changes in fair value and loss on sale of investments carried at fair value through income statement, net		**1,246**	(15,122)
Share of results of associates	12	**29,794**	16,901
(LOSS) PROFIT FOR THE YEAR		**(1,235,889)**	109,546
Attributable to:			
Equity holders of the parent		**(1,118,499)**	72,958
Non-controlling interests		**(117,390)**	36,588
		(1,235,889)	109,546
Basic and diluted (loss) earnings per share attributable to ordinary equity holders of the parent (AED)	8	**(0.60)**	0.04

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	Note	***2009 AED '000***	*2008 AED '000*
(LOSS) PROFIT FOR THE YEAR		**(1,235,889)**	109,546
Other comprehensive income (loss)			
Changes in fair value of derivatives in cash flow hedges		**9,083**	(64,960)
Fair value of derivative reclassified to consolidated income statement		**1,780**	-
Share of changes in fair value of derivatives of associate		**9,378**	(19,400)
Changes in fair value of available for sale investments		**9,448**	(19,320)
Impairment loss on available for sale investment recognised in consolidated income statement	25	**4,797**	-
Exchange differences arising on translation of overseas operations		**(28)**	(519)
Other comprehensive income (loss) for the year		**34,458**	(104,199)
TOTAL COMPREHENSIVE (LOSS) INCOME FOR THE YEAR		**(1,201,431)**	5,347
Attributable to:			
Equity holders of the parent		**(1,084,041)**	(31,241)
Non-controlling interests		**(117,390)**	36,588
		(1,201,431)	5,347

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2009

	Notes	***2009*** ***AED '000***	*2008* *AED '000*
ASSETS			
Non-current assets			
Capital work in progress	10	**1,824,867**	2,764,733
Property, plant and equipment	11	**3,310,103**	2,626,587
Intangible assets	14	**37,600**	38,562
Investments in associates	12	**239,655**	243,232
Available for sale investments	19	**68,421**	58,973
Loan to an associate	16	**21,084**	42,029
Finance lease receivable	17	**1,135,762**	-
		6,637,492	5,774,116
Current assets			
Inventories		**36,307**	77,338
Trade and other receivables	18	**581,848**	449,279
Loan to an associate	16	**9,781**	-
Finance lease receivable	17	**33,862**	-
Financial assets carried at fair value through income statement	19	**-**	58,840
Contract work in progress	20	**30,813**	207,563
Prepayments		**5,374**	8,787
Cash and short term deposits	21	**343,954**	701,959
		1,041,939	1,503,766
Assets classified as held for sale	22	**33,800**	-
TOTAL ASSETS		**7,713,231**	7,277,882
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	23	**1,213,380**	1,213,380
Treasury shares	24	**(10,050)**	(10,050)
Statutory reserve	25	**47,433**	47,433
(Accumulated losses) retained earnings		**(1,045,766)**	72,733
Foreign currency translation reserve		**(692)**	(664)
Cumulative changes in fair value of derivatives and available for sale investments	25	**(77,703)**	(112,189)
Mandatory convertible bond – equity component	28	**1,301,679**	1,301,679
		1,428,281	2,512,322
Non - controlling interests		**18,385**	161,766
Total equity		**1,446,666**	2,674,088
Non-current liabilities			
Retentions payable and deferred income	31	**76,608**	55,172
Interest bearing loans and borrowings	26	**-**	185,465
Islamic financing arrangements	27	**-**	1,669,209
Obligations under finance lease	29	**38,004**	41,272
Mandatory convertible bond – liability component	28	**160,847**	256,597
Employees' end of service benefits	30	**16,116**	17,254
		291,575	2,224,969
Current liabilities			
Bank overdraft	21	**52,007**	233,326
Accounts payable and accruals	31	**1,892,972**	1,458,051
Advances	32	**400,000**	-
Interest bearing loans and borrowings	26	**1,174,444**	158,045
Islamic financing arrangements	27	**2,330,327**	403,576
Mandatory convertible bond – liability component	28	**117,876**	118,463
Obligations under finance lease	29	**7,364**	7,364
		5,974,990	2,378,825
Total liabilities		**6,266,565**	4,603,794
TOTAL EQUITY AND LIABILITIES		**7,713,231**	7,277,882

Khadem Abdulla Al Qubaisi
CHAIRMAN

Sujit S. Parhar
CHIEF EXECUTIVE OFFICER

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2009

	Attributable to equity holders of the parent										
	Issued capital AED '000	*Treasury shares AED '000*	*Statutory reserve AED '000*	*(Accumulated Losses)/ Retained earnings AED '000*	*Foreign currency translation reserve AED '000*	*Cumulative changes in fair value of derivatives and available for sale investments AED '000*	*Mandatory convertible bond - equity component AED '000*	*Reserve for proposed bonus issue AED '000*	*Total AED '000*	*Non-controlling interests AED '000*	*Total equity AED '000*
Balance at 1 January 2008	1,134,000	(10,050)	36,478	10,730	(145)	(8,509)	-	79,380	1,241,884	132,971	1,374,855
Profit for the year	-	-	-	72,958	-	-	-	-	72,958	36,588	109,546
Other comprehensive loss for the year	-	-	-	-	(519)	(103,680)	-	-	(104,199)	-	(104,199)
Total comprehensive income for the year	-	-	-	72,958	(519)	(103,680)	-	-	(31,241)	36,588	5,347
Bonus shares issued	79,380	-	-	-	-	-	-	(79,380)	-	-	-
Transfer to statutory reserve	-	-	10,955	(10,955)	-	-	-	-	-	-	-
Dividend paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	-	(21,258)	(21,258)
Share capital injection by non-controlling interest shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	29,414	29,414
Acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-	(15,949)	(15,949)
Convertible bond - equity component	-	-	-	-	-	-	1,301,679	-	1,301,679	-	1,301,679
Balance at 31 December 2008	1,213,380	(10,050)	47,433	72,733	(664)	(112,189)	1,301,679	-	2,512,322	161,766	2,674,088
Loss for the year	-	-	-	(1,118,499)	-	-	-	-	(1,118,499)	(117,390)	(1,235,889)
Other comprehensive income (loss) for the year	-	-	-	-	(28)	34,486	-	-	34,458	-	34,458
Total comprehensive loss for the year	-	-	-	(1,118,499)	(28)	34,486	-	-	(1,084,041)	(117,390)	(1,201,431)
Dividend paid to non-controlling interest shareholders	-	-	-	-	-	-	-	-	-	(25,991)	(25,991)
Balance at 31 December 2009	**1,213,380**	**(10,050)**	**47,433**	**(1,045,766)**	**(692)**	**(77,703)**	**1,301,679**	**-**	**1,428,281**	**18,385**	**1,446,666**

The attached notes 1 to 39 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2009

	Notes	*2009* *AED '000*	*2008* *AED '000*
OPERATING ACTIVITIES			
(Loss) profit for the year		**(1,235,889)**	109,546
Non-cash adjustments to reconcile (loss) profit for the year to net cash flows:			
Depreciation of property, plant and equipment	11	**87,236**	62,121
Amortisation of trademarks	14	**3**	3
Impairment of property plant and equipment and capital work in progress	7	**1,235,895**	-
Impairment of goodwill	14	**1,275**	-
Impairment of investment in an associate	12	**6,463**	-
Impairment of available for sale investment	19	**4,797**	-
Share of results of associates		**(27,208)**	(13,009)
Net movement in employees' end of service benefits	30	**(1,138)**	5,987
Interest income	5	**(4,176)**	(23,747)
Finance costs	4	**107,567**	81,037
Loss on disposal of financial assets carried at fair value through income statement		**79**	60
Changes in fair value relating to financial assets carried at fair value through income statement		**(1,325)**	15,062
Changes in fair value of derivatives		**16,180**	12,200
Gain on disposal of property, plant and equipment		**(1,854)**	(101)
		187,905	249,159
Working capital adjustments:			
Inventories		**41,031**	(43,032)
Trade and other receivables and prepayments		**(106,749)**	(135,315)
Contract work in progress		**176,750**	(28,532)
Accounts payable and accruals		**42,821**	45,106
Net cash flows from operating activities		**341,758**	87,386
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	**(7,552)**	(83,857)
Proceeds from sale of property, plant and equipment		**2,288**	133
Investments in associates	12	**(100)**	(55,933)
Purchase of intangible assets	14	**(316)**	(221)
Proceeds on disposal of financial assets carried at fair value through income statement		**60,086**	43,428
Advances received	32	**400,000**	-
Additions to capital work in progress		**(1,734,903)**	(1,526,832)
Purchase of available for sale investments		**-**	(69,806)
Investment in bank deposits	21	**226,788**	(226,788)
Repayment of loan by associate		**11,164**	-
Acquisition of non-controlling interest		**-**	(15,949)
Interest received	5	**4,176**	23,747
Net cash flows used in investing activities		**(1,038,369)**	(1,912,078)
FINANCING ACTIVITIES			
Interest bearing loans and borrowings received		**942,956**	228,844
Interest bearing loans and borrowings repaid		**(101,173)**	(1,045,981)
Islamic financing arrangement repaid		**(405,845)**	(20,969)
Islamic financing arrangement received		**668,000**	1,000,000
Transaction costs on interest bearing loans and borrowings		**(17,388)**	-
Transaction costs on Islamic financing arrangements		**(13,029)**	(11,772)
Proceeds from issue of convertible bond		**-**	1,656,146
Coupon payment of convertible bond	28	**(123,250)**	-
Payment for obligations under finance lease		**(3,268)**	(2,974)
Share capital injection by non-controlling interest shareholders of subsidiary		**-**	29,414
Interest paid		**(174,299)**	(113,549)
Dividends paid to non-controlling interests		**(25,991)**	(21,258)
Net cash flows from financing activities		**746,713**	1,697,901
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**50,102**	(126,791)
Cash and cash equivalents at 1 January		**241,845**	368,636
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21	**291,947**	241,845

The attached notes 1 to 39 form part of these consolidated financial statements.

1 ACTIVITIES

National Central Cooling Company PJSC ("Tabreed" or "the Company") is registered in the United Arab Emirates as a Public Joint Stock Company pursuant to the UAE Commercial Companies Law No. 8 of 1984 (as amended) and is listed on the Dubai Financial Market. The principal activities of the Company and its subsidiaries ("the Group") are described in note 3 to the consolidated financial statements.

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 31 March 2010.

2.1 FUNDAMENTAL ACCOUNTING CONCEPT

The Group incurred a loss of AED 1.23 billion for the year ended 31 December 2009 and, as of that date, the Group's current liabilities exceeded its current assets by AED 4.9 billion and its accumulated losses of AED 1.04 billion amounted to 86% of its issued share capital.

The excess of current liabilities over current assets includes the impact of reclassification of interest bearing loans and borrowings and Islamic financing arrangements amounting to AED 3.2 billion (net of prepaid finance costs) which were due more than one year from the balance sheet date based on their respective original maturity profile but have been reclassified to current liability in the consolidated statement of financial position as at 31 December 2009. The reclassification has been made in accordance with the requirement of International Accounting Standard No.1 which requires an entity which breaches a provision of a long-term loan arrangement on or before the end of the reporting period with the effect that the liability is capable of being payable on demand, to reclassify such liability as current. As at 31 December 2009, the Company had a technical breach in relation to its financial covenant in some of its debt obligations. A breach of a financial covenant in one debt obligation can result in cross default provisions in other debt obligations being triggered such that the entire debt obligations of the Group is capable of being payable on demand.

As noted above, the accumulated losses of the Group amounted to 86% of the issued share capital at 31 December 2009. The UAE Commercial Companies Law of 1984 (as amended), states, "if the losses of a joint stock company amount to half the capital, the Board of Directors must call the extra ordinary general assembly to convene and decide whether the company should continue or be dissolved before the duration specified in its articles." (Refer to point 4 below).

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

1. Post year end short term loan facility approved by a shareholder amounting to AED 1.3 billion (this short-term financing may be converted to long-term capital);

2. Expected profitability and operating cash flows in the year ending 31 December 2010, which together with the short term loan in (1) above is expected to cover funding shortfall relating to anticipated operating and capital expenditure and finance costs up to 31 December 2010; and

2.1 FUNDAMENTAL ACCOUNTING CONCEPT

3. Comprehensive recapitalization plan launched by the Company's Board of Directors on 7 March 2010 with the objective to achieve a stable long-term capital structure. The recapitalisation plan addresses the following:

    - o Entering into discussions with strategic investors to provide the long-term capital necessary to support the development of the business;
    - o Proposal for a capital reduction;
    - o Options for new capital including a private placement and offering to all shareholders;
    - o Proactively engaging with creditors to secure amendments to support the recapitalization process (address short-term maturity profile and other terms and conditions to facilitate new investment);
    - o Identification of significant funding requirement to complete projects and fund committed capital expenditure; and
    - o Addresses near-term operational funding issues through provision of AED 1.3 billion short term loan

The above recapitalization plan will be presented at the proposed Extra Ordinary General Meeting to seek approval from the shareholders to authorize the Company's Board of Directors to negotiate and implement the recapitalization plan.

4. The Company's Board of Directors has resolved to call an extra ordinary general assembly to comply with the requirement of the UAE Commercial Companies Law of 1984 (as amended).

5. As of the date of approval of the consolidated financial statements of the Company, no lender has requested accelerated repayment of its loans and borrowings. The management is currently engaged in discussions with the lenders to secure amendments to address the resulting short term maturity profile. Management is confident that the outcome of the discussions with the lenders and the implementation of the recapitalisation plan launched by the Company's Board of Directors on 7 March 2010 (note 36) will address the liquidity risk of the Company.

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

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

2.2 BASIS OF PREPARATION

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

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

Basis of consolidation
The consolidated financial statements 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 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.

2.2 BASIS OF PREPARATION continued

Basis of consolidation continued
Non-controlling interests principally represent the interest in subsidiaries not held by the Company and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the Company shareholders' equity. Acquisitions of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the net book value of the share of the net assets acquired is recognised in goodwill.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous year, except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2009:

- IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
- IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 Presentation of Financial Statements effective 1 January 2009
- IAS 23 Borrowing Costs (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRIC 9 Remeasurement of embedded derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- Improvements to IFRSs (May 2008)

The adoption of the above standards and interpretations did not have any effect on the financial performance or position of the Group. However, the adoption of certain standards and interpretations resulted in certain disclosures in the consolidated financial statements as follows:

- *IFRS 7 Financial Instruments: Disclosures*

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosure. The fair value measurement disclosures are presented in note 37. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in note 36.

- *IFRS 8 Operating Segments*

During the year the Company has adopted IFRS 8 "Operating Segments", which requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The Company concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in note 3, including the comparative information.

- *IAS 1 Presentation of Financial Statements*

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

Impairment of available for sale investments
The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement for which management takes into consideration, amongst other factors, share price volatility and the underlying asset base of the investee companies. The Company has recognised an impairment loss of AED 4.8 million (2008: nil) in the consolidated income statement for the year ended 31 December 2009.

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.

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

On 4 October 2009, the Company signed an agreement with a customer for supply of chilled water. This agreement was determined to contain a lease and based on the terms of the agreement the Company has transferred the significant risks and rewards of ownership to the customer. Accordingly, the agreement is accounted for as a 'finance lease' in accordance with IAS 17 (note 17).

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

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Useful lives of property, plant and equipment
The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the current usage of the asset compared to full utilisation capabilities of the asset and physical wear and tear. Management reviews the residual value and useful lives annually and the future depreciation charge would be adjusted where management believes that the useful lives differ from previous estimates.

Impairment of non-financial assets
Impairment testing requires an estimation of the value in use of the cash generating units. Estimating the value in use requires the Company to make an estimate of the expected future cash flows, terminal value of the distribution assets, cost to complete the construction of the plant and distribution assets and choose a suitable discount rate in order to calculate the present value of the cash flows.

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

	2009	*2008*
	AED '000	*AED '000*
Capital work in progress	**1,824,867**	2,764,733
Property, plant and equipment	**3,310,103**	2,626,587
Intangible assets	**37,600**	38,562

During the year, an impairment loss of AED 127.7 million (2008: AED nil) relating to property plant and equipment, AED 1,108 million (2008: nil) relating to capital work in progress and AED 1.3 million (2008: AED nil) relating to goodwill was recognised in the consolidated income statement for the year ended 31 December 2009.

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

At the balance sheet reporting date, gross trade accounts receivable, amounts due from related parties and finance lease receivable were AED 502 million (2008: AED 362.7 million), AED 73.3 million (2008: AED 26.8 million) and AED 1,170 million (2008: AED nil) respectively and impairment loss recognised in the consolidated income statement for the year ended 31 December 2009 was AED 34.8 million (2008: AED 5.4 million), AED 11.8 million (2008: AED 1.2 million) and AED nil (2008: nil) respectively.

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

At the reporting date, gross inventory was AED 36.3 million (2008: AED 77.3 million). No provision has been made for obsolete inventories (2008: nil). Any difference between the amounts actually realised in future periods and the amounts expected to be realised will be recognised in the consolidated income statement.

2.4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

Contracting

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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 property plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated income statement as incurred. Land is not depreciated.

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

Interest in joint ventures
The Company has interest in joint ventures which are jointly controlled entities, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entities. The Company recognized its interest in the joint ventures using the proportionate consolidation method, 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 ventures 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 entities. 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. Upon loss of joint control and provided the former joint control entity does not become a subsidiary or associate, the Company measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal is recognised in consolidated income statement. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.

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

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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

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

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 the statement of comprehensive income until the investment is derecognised or determined to be impaired at which time the cumulative gain or loss recorded in the statement of changes in equity is recognised in the consolidated income statement. Reversal of impairment loss is not recognised in the consolidated income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment and other financial assets continued
Financial assets carried at fair value through income statement
Financial assets at fair value through income statement include 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 reporting date with all changes in fair value recorded in the consolidated income statement.

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

- the rights to receive cash flows from the asset have expired; or

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment and other financial assets continued
Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

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

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

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

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

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

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

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

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

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

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

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

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

Fair value of financial instruments
Financial instruments comprise financial assets and financial liabilities.

Financial assets comprise available for sale investments, loan to an associate, financial assets carried at fair value through income statement, receivables, finance lease receivable, cash and short term deposits. Financial liabilities comprise payables, bank overdraft, loans, liability component of convertible bond and finance leases.

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

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 37.

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

Standards and interpretations issued but not yet effective up to the date of issuance of the Group’s consolidated financial statements are listed below.

- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
- IFRS 2 Share-based Payments: Group Cash-settled Share-based Payment
- IAS 24 Related Party Disclosures
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedge Item
- Improvements to IFRS (April 2009)

In the opinion of management, the adoption of the above standards and interpretations will have no material impact on the financial position or performance of the Group.

3 OPERATING SEGMENTS

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

- The ‘chilled water’ segment constructs, owns, assembles, installs, operates and maintains cooling and conditioning systems. In addition, the segment distributes and sells chilled water for use in district cooling technologies. This also includes Tabreed’s share in a joint venture engaged in similar activity.

- The ‘contracting’ segment is involved in construction of air conditioning chilled water central plants and networks for new or existing buildings. This also includes Tabreed’s share in a joint venture which is involved in engineering, procurement, construction and construction management in the field of District Cooling.

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

- The ‘services’ segment is involved in design and supervision of electrical, mechanical coding and sanitary engineering works.

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

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. However, Group financing (including finance costs, interest income, impairment of available for sale investment and changes in fair value of derivatives) is managed on a group basis and is not allocated to operating segments.

3 OPERATING SEGMENTS continued

	Chilled water AED '000	*Contracting AED '000*	*Manufacturing AED'000*	*Services AED'000*	*Eliminations AED'000*	*Total AED'000*
Year ended 31 December 2009:						
Revenue						
External revenue	**357,437**	**173,858**	**141,652**	**68,559**	**-**	**741,506**
Inter–segment revenue	**325**	**42,788**	**3,627**	**15,110**	**(61,850)**	**-**
Total revenue	**357,762**	**216,646**	**145,279**	**83,669**	**(61,850)**	**741,506**
Operating costs	**(178,646)**	**(143,119)**	**(96,522)**	**(31,936)**	**-**	**(450,223)**
Gross profit	**179,116**	**73,527**	**48,757**	**51,733**	**(61,850)**	**291,283**
Results						
Segment results	**68,907**	**27,690**	**37,680**	**13,439**	**-**	**147,716**
Provision for doubtful debts	**(30,028)**	**(122)**	-	**(16,494)**	-	**(46,644)**
Impairment of property plant and equipment	**(127,675)**	-	-	-	-	**(127,675)**
Impairment of capital work in progress	**(1,108,220)**	-	-	-	-	**(1,108,220)**
Finance costs	**-**	-	-	-	-	**(107,567)**
Impairment of investment in an associate	**(6,463)**	-	-	-	-	**(6,463)**
Impairment of available for sale investment	-	-	-	-	-	**(4,797)**
Impairment of goodwill	**(316)**	**(959)**	-	-	-	**(1,275)**
Changes in fair value of derivatives	**-**	-	-	-	-	**(16,180)**
Interest income	**-**	-	-	-	-	**4,176**
Changes in fair value of investments, net	**-**	-	-	-	-	**1,246**
Share of results of associates	**29,794**	-	-	-	-	**29,794**
Loss for the year						**(1,235,889)**
Year ended 31 December 2008:						
Revenue						
External revenue	278,069	126,321	203,625	126,786	-	734,801
Inter–segment revenue	323	-	8,189	11,974	(20,486)	-
Total revenue	278,392	126,321	211,814	138,760	(20,486)	734,801
Operating costs	(141,240)	(98,348)	(138,136)	(37,985)	-	(415,709)
Gross profit	137,152	27,973	73,678	100,775	(20,486)	319,092
Results						
Segment results	48,224	30,013	50,955	54,644	-	183,836
Provision for doubtful debts	(2,033)	-	-	(4,546)	-	(6,579)
Finance costs	-	-	-	-	-	(81,037)
Interest income	-	-	-	-	-	23,747
Changes in fair value of derivatives	-	-	-	-	-	(12,200)
Changes in fair value of investments, net	-	-	-	-	-	(15,122)
Share of results of associates	16,901	-	-	-	-	16,901
Profit for the year						109,546

Inter-segment revenues are eliminated on consolidation.

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

	Chilled water AED '000	*Contracting AED '000*	*Manufacturing AED'000*	*Services AED'000*	*Total AED'000*
Year ended 31 December 2009	**80,977**	**7**	**5,692**	**563**	**87,239**
Year ended 31 December 2008	57,713	166	3,668	577	62,124

3 OPERATING SEGMENTS continued

Segment assets and liabilities are as follows:

	Chilled water *AED '000*	Contracting *AED '000*	Manufacturing *AED '000*	Services *AED '000*	Unallocated *AED '000*	Total *AED '000*
2009:						
Segment assets	6,588,396	417,926	139,596	147,225	-	7,293,143
Investments in associates	239,655	-	-	-	-	239,655
Unallocated assets	-	-	-	-	180,433	180,433
Total assets	**6,828,051**	**417,926**	**139,596**	**147,225**	**180,433**	**7,713,231**
Segment liabilities	1,940,958	424,277	13,531	28,345	-	2,364,281
Unallocated liabilities	-	-	-	-	3,880,869	3,880,869
Total liabilities	**1,940,958**	**424,277**	**13,531**	**28,345**	**3,880,869**	**6,266,565**
2008:						
Segment assets	5,754,934	347,380	188,518	173,575	-	6,464,407
Investments in associates	243,232	-	-	-	-	243,232
Unallocated assets	-	-	-	-	570,243	570,243
Total assets	5,998,166	347,380	188,518	173,575	570,243	7,277,882
Segment liabilities	879,893	514,101	60,421	76,062	-	1,530,477
Unallocated liabilities	-	-	-	-	3,073,317	3,073,317
Total liabilities	879,893	514,101	60,421	76,062	3,073,317	4,603,794

Segment assets do not include available for sale investments of AED 68,421 thousand (2008: AED 58,973 thousand), loan to an associate AED 30,865 thousand (2008: AED 42,029 thousand), financial assets carried at fair value through income statement AED nil (2008: AED 58,840 thousand) and bank deposits AED 81,147 thousand (2008: AED 410,401 thousand) as these assets are managed on a group basis.

Segment liabilities do not include interest bearing loans and borrowings of AED 1,174,444 thousand (2008: AED 343,510 thousand), Islamic financing arrangements AED 2,330,327 thousand (2008: AED 2,072,785 thousand), obligations under finance lease AED 45,368 thousand (2008: AED 48,636 thousand), convertible bond – liability component AED 278,723 thousand (2008: AED 375,060 thousand) and bank overdraft AED 52,007 thousand (2008: AED 233,326 thousand) as these liabilities are managed on a group basis.

	Chilled water AED '000	*Contracting AED '000*	*Manufacturing AED'000*	*Services AED'000*	*Total AED'000*
Other information:					
2009:					
Capital expenditure:					
Property, plant and equipment	**3,814**	-	**3,361**	**377**	**7,552**
Capital work in progress	**2,355,680**	-	-	-	**2,355,680**
Intangible asset	**316**	-	-	-	**316**
2008:					
Capital expenditure:					
Property, plant and equipment	82,162	-	966	29	83,857
Capital work in progress	2,047,602	-	15,412	-	2,063,014
Intangible asset	221	-	-	-	221

3 OPERATING SEGMENTS continued

Geographic information

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

Non-current assets

	2009 *AED '000*	*2008* *AED '000*
United Arab Emirates	**4,863,272**	4,820,254
Others	**309,298**	609,628
	5,172,570	5,429,882

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

Revenue from external customers

The Group earns 99.5 % of its revenue from customers located in United Arab Emirates (2008: 99.2 %).

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

	Chilled water AED '000	*Contracting AED '000*	*Manufacturing AED'000*	*Services AED'000*	*Total AED'000*
Year ended 31 December 2009:					
Customer 1	166,110	48,013	-	-	214,123
Customer 2	-	79,998	-	-	79,998
	166,110	128,011	-	-	294,121
Year ended 31 December 2008:					
Customer 1	158,387	87,418	-	-	245,805

4 FINANCE COSTS

	2009 *AED '000*	*2008* *AED '000*
Interest on interest bearing loans and borrowings and overdrafts	**49,731**	21,237
Rental charges on Islamic financing arrangements	**54,392**	56,129
Interest element of finance lease	**3,444**	3,671
	107,567	81,037

5 INTEREST INCOME

	2009 *AED '000*	*2008* *AED '000*
Interest income on loan to an associate (note 16)	**701**	1,045
Interest income on bank deposits	**3,475**	22,702
	4,176	23,747

6 PROFIT FROM OPERATIONS

6.1 Operating costs

	2009 *AED '000*	*2008* *AED '000*
Costs of inventories recognised as an expense	**89,447**	142,195
Contract costs	**143,119**	96,522
Depreciation	**80,083**	56,866
Utility costs	**81,283**	71,447
Others	**56,291**	48,679
	450,223	415,709

6.2 Administrative and other expenses

	2009 *AED '000*	*2008* *AED '000*
Staff costs	**93,981**	74,840
Other administrative and general expenses	**47,019**	58,885
Depreciation and amortisation	**7,156**	5,258
	148,156	138,983

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

	2009 *AED '000*	*2008* *AED '000*
Impairment of property, plant and equipment (note 11)	**127,675**	-
Impairment of capital work in progress (note 10)	**1,108,220**	-
	1,235,895	-

The above impairment relates to certain plant and related distribution network included in the Group's chilled water segment. Impairment is assessed at the level of the cash generating unit which represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Typically, a cash generating unit is an individual plant and its related distribution network.

Management determines at each balance sheet date whether there are any indicators of impairment relating to the Group's property, plant and equipment and capital work in progress. These indicators include a broad range of external and internal factors.

The unprecedented events in the global economy have had a significant impact on the real estate sector in the UAE and GCC. As a result, the management undertook a strategic review of all its projects with the view of assessing the impact of the global downturn on the recoverable amount of the Group's property, plant and equipment and capital work in progress. The Company applies the value in use methodology using cash flow projections to estimate the recoverable amount of its property, plant and equipment and capital work in progress approved by the Company's management and Board of Directors.

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

Key assumptions used in value in use calculations

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

- Estimated use of the plant measured by its Equivalent Full Load Hours (EFLH) defined as annual ton-hours of cooling actually supplied divided by the supplying chiller's design capacity in tons;
- Revenue and inflation rate used to extrapolate cash flows beyond the period of the initial agreement with the respective customer;
- Cost of construction relating to plant and equipment under construction;
- Discount rate; and
- Terminal value of distribution assets.

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

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

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

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

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

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

	2009	*2008*
(Loss) profit for the year attributable to ordinary equity holders of the parent for basic and diluted (loss) earnings (*AED '000*)	**(1,118,499)**	72,958
Weighted average number of ordinary shares (excluding treasury shares) outstanding during the year ('000)	**1,203,330**	1,203,330
Effect of convertible bond ('000)	**674,603**	417,699
Weighted average number of ordinary shares (excluding treasury shares) adjusted for the effect of convertible bond ('000)	**1,877,933**	1,621,029
Basic and diluted (loss) earnings per share *(AED)*	**(0.60)**	0.04

Basic and diluted (loss) earnings per share has been calculated on the basis of maximum number of shares that may be issued for mandatory convertible bond (note 28).

9 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* **2009**	*2008*
Gulf Energy Systems LLC	UAE	**100**	100
National Central Cooling Company Ras Al Khaimah LLC	UAE	**100**	100
Emirates Preinsulated Pipes Industries LLC	UAE	**60**	60
Installation Integrity 2000 LLC	UAE	**60**	60
CoolTech Energy Water Treatment LLC (formerly BAC Balticare Gulf LLC)	UAE	**100**	100
Summit District Cooling Company	UAE	**100**	100
Bahrain District Cooling Company	Bahrain	**74**	74
Ian Banham and Associates	UAE	**70**	70
Tabreed Holdings WLL	Bahrain	**100**	100
Tabreed LLC Oman	Oman	**100**	100
Tabreed Captive Insurance Company B.S.C.	Bahrain	**100**	100
Installation Integrity 2006 WLL	Qatar	**52**	52
Tabreed Oman SAOC	Oman	**60**	60
Sahara Cooling and Air Conditioning LLC	UAE	**51**	51

10 CAPITAL WORK IN PROGRESS

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

	2009 AED '000	*2008 AED '000*
Balance at 1 January	**2,600,065**	1,123,746
Additions during the year	**2,355,680**	2,063,014
Impairment during the year (note 7)	**(1,108,220)**	-
Transfer to finance lease receivable (note 17)	**(1,169,624)**	-
Transfer to a joint venture (note 13)	**(22,407)**	-
Transfer to property, plant and equipment (note 11)	**(891,309)**	(586,695)
	1,764,185	2,600,065
Advances to contractors	**60,682**	164,668
Balance at 31 December	**1,824,867**	2,764,733

The receivables relating to capital work in progress balance have been assigned as security against certain interest bearing loans and borrowings and Islamic financing arrangements. The capital work in progress balance subject to this arrangement amounts to AED 1,229 million (2008: AED 324 million).

Included in additions to capital work in progress are capitalised financing costs amounting to AED 109 million (2008: AED 61.5 million).

11 PROPERTY, PLANT AND EQUIPMENT

	Land, plant and buildings AED '000	*Distribution network AED '000*	*Furniture and fixtures AED '000*	*Office equipment and instruments AED '000*	*Motor vehicles AED '000*	*Total AED '000*
2009						
Cost:						
At 1 January 2009	2,110,565	705,120	9,359	24,209	2,737	2,851,990
Additions	3,785	-	233	3,534	-	7,552
Transfer from capital work in progress (note 10)	576,158	315,151	-	-	-	891,309
Disposals	-	-	-	-	(1,064)	(1,064)
At 31 December 2009	**2,690,508**	**1,020,271**	**9,592**	**27,743**	**1,673**	**3,749,787**
Depreciation:						
At 1 January 2009	162,973	40,860	6,843	13,047	1,483	225,206
Depreciation for the year	61,797	19,316	893	4,737	493	87,236
Depreciation relating to disposals	-	-	-	-	(630)	(630)
At 31 December 2009	**224,770**	**60,176**	**7,736**	**17,784**	**1,346**	**311,812**
Net carrying amount before impairment:						
At 31 December 2009	2,465,738	960,095	1,856	9,959	327	3,437,975
Impairment:						
At 1 January 2009	197	-	-	-	-	197
Impairment during the year (note 7)	89,353	38,322	-	-	-	127,675
At 31 December 2009	**89,550**	**38,322**	**-**	**-**	**-**	**127,872**
Net carrying amount after impairment:						
At 31 December 2009	**2,376,188**	**921,773**	**1,856**	**9,959**	**327**	**3,310,103**
2008						
Cost:						
At 1 January 2008	1,601,719	547,428	8,190	21,850	2,780	2,181,967
Additions	79,843	-	1,169	2,359	486	83,857
Transfer from capital work in progress (note 10)	429,003	157,692	-	-	-	586,695
Disposals	-	-	-	-	(529)	(529)
At 31 December 2008	2,110,565	705,120	9,359	24,209	2,737	2,851,990
Depreciation:						
At 1 January 2008	114,570	30,041	6,022	11,244	1,705	163,582
Depreciation for the year	48,403	10,819	821	1,803	275	62,121
Depreciation relating to disposals	-	-	-	-	(497)	(497)
At 31 December 2008	162,973	40,860	6,843	13,047	1,483	225,206
Net carrying amount before impairment at:						
31 December 2008	1,947,592	664,260	2,516	11,162	1,254	2,626,784
Impairment:						
At 31 December 2008	197	-	-	-	-	197
Net carrying amount after impairment at:						
31 December 2008	1,947,395	664,260	2,516	11,162	1,254	2,626,587

11 PROPERTY, PLANT AND EQUIPMENT continued

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

	2009 ***AED '000***	*2008* *AED '000*
Included in operating costs (note 6.1)	**80,083**	56,866
Included in administrative and other expenses (note 6.2)	**7,153**	5,255
	87,236	62,121

The receivables relating to plant and distribution network have been assigned as security against certain interest bearing loans and borrowings and Islamic financing arrangements. The plant and distribution network balance subject to this arrangement amounts to AED 2,364 million (2008: AED 1,252 million).

Net book value of plant amounting to AED 54.3 million (2008: AED 55.3 million) are held under finance lease. The leased assets are pledged as security for the related finance lease (note 29).

12 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

		Ownership	
	Country of incorporation	***2009***	*2008*
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%
Sahara Cooling Limited	United Arab Emirates	**40%**	40%
Cool Tech Qatar	State of Qatar	**49%**	-

Movement in investment in associates is as follows:

	2009 ***AED '000***	*2008* *AED '000*
At 1 January	**243,232**	193,690
Capital injection	**100**	55,933
Share of results for the year	**27,208**	13,009
Share of cumulative changes in fair value in effective cash flow hedges	**9,378**	(19,400)
Transfer to asset held for sale (note 22)	**(33,800)**	-
Impairment during the year	**(6,463)**	-
At 31 December	**239,655**	243,232

The Company recognised an impairment loss of AED 6.5 million on its investment in Jordanian Company for Central Energy (PLS) based on recoverable amount from a sale transaction finalised in March 2010. At 31 December 2009, the investment has been classified as held for sale (note 22).

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

12 INVESTMENTS IN ASSOCIATES continued

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

	2009	*2008*
	AED '000	*AED '000*
Share of the associates' statement of financial position:		
Current assets	**198,168**	163,247
Non-current assets	**739,982**	720,860
Current liabilities	**(126,812)**	(77,965)
Non-current liabilities	**(562,705)**	(556,518)
Net assets	**248,633**	249,624
Share of the associates' revenues and results:		
Revenues	**103,597**	76,962
Results (as adjusted by profit resulting from transactions between the Company and the associates amounting to AED 2.6 million (2008: 3.8 million)	**29,794**	16,901

Net assets of associates include the Company's share of negative fair value of derivatives of associates amounting to AED 10 million (2008: AED 19.4 million).

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

Tabreed invested an amount of AED 100 thousand (2008: AED 55,933 thousand) representing its share of share capital issued by the associates during the year as follows:

	2009	*2008*
	AED '000	*AED '000*
Tabreed District Cooling Company (Saudi)	**-**	24,514
Jordanian Company for Central Energy (PLS)	**-**	31,419
Cool Tech Qatar	**100**	-
	100	55,933

13 INTEREST IN JOINT VENTURES

The Company has the following investments in joint ventures:

		Ownership	
	Country of incorporation	***2009***	*2008*
SNC Lavalin Gulf Contractors LLC	United Arab Emirates	**51%**	51%
S&T Cool District Cooling Company LLC	United Arab Emirates	**50%**	-

Tabreed has a 51% equity interest in SNC Lavalin Gulf Contractors LLC (SLGC), a jointly controlled limited liability company which is involved in engineering, procurement, construction and construction management in the field of District Cooling.

13 INTEREST IN JOINT VENTURES continued

The Company has an investment of AED 2.5 million (2008: AED nil) in 50% equity interest in S&T Cool District Cooling Company LLC, a jointly controlled limited liability company, incorporated in Emirate of Abu Dhabi. The joint venture is involved in the same business activity as Tabreed. The reporting date for the joint venture is identical to Tabreed.

On 27 May 2009, the Company transferred certain plants and related distribution network with a carrying amount of AED 22.4 million to S&T Cool District Cooling Company LLC for an amount of AED 25.2 million realising a profit of AED 2.8 million (i.e 50% share) recognised in the consolidated income statement for the year ended 31 December 2009. (note 10)

Tabreed's share of the assets and liabilities of the joint ventures included in the consolidated statement of financial position are as follows:

	2009	*2008*
	AED '000	*AED '000*
Current assets	**328,012**	449,308
Non-current assets	**102,789**	-
	430,801	449,308
Current liabilities	**(300,564)**	(380,444)
Non-current liabilities	**(2,196)**	(1,836)
Total net assets	**128,041**	67,028
Share of the joint ventures' revenues and profits:		
Revenues	**249,866**	594,994
Operating costs	**(241,875)**	(506,522)
Administrative and other expenses	**(6,443)**	(5,075)
Finance income	**428**	2,107
Profit for the year	**1,976**	85,504

An amount of AED 5.3 million (2008: AED nil) relating to the Company's share of the profit from the Joint Ventures has been recognized in the consolidated income statement for the year ended 31 December 2009.

The balance amount of AED 3.3 million (loss) (2008: Profit of AED 85.5 million) has been debited (2008: credited) to the capital work in progress balance as at 31 December 2009 as it relates to construction activity for the Company's plants.

14 INTANGIBLE ASSETS

	Goodwill		*Trademarks*		*Total*	
	2009	*2008*	***2009***	*2008*	***2009***	*2008*
	AED '000	*AED '000*	***AED '000***	*AED '000*	***AED '000***	*AED '000*
Balance at 1 January	**38,555**	38,334	**7**	10	**38,562**	38,344
Additions during the year	**316**	221	**-**	-	**316**	221
Impairment during the year	**(1,275)**	-	**-**	-	**(1,275)**	-
Amortisation for the year	**-**	-	**(3)**	(3)	**(3)**	(3)
Balance at 31 December	**37,596**	38,555	**4**	7	**37,600**	38,562

15 IMPAIRMENT TESTING OF GOODWILL

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

	2009	*2008*
	AED '000	*AED '000*
Ian Banham & Associates	**27,711**	27,711
Tabreed 1 District Cooling Plant	**9,712**	9,712
Other	**173**	1,132
Total	**37,596**	38,555

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

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

Ian Banham & Associates

The recoverable amount of Ian Banham & Associates unit has been determined based on a value in use calculation using revenue and cost cash flow projections approved by the board of directors to cover a five-year period ending 31 December 2014. The discount rate applied to the cash flow projections is 25% (2008: 25%). Revenue is earned from projects supervision and study and design contracts. The revenue in the five year cash flow model reflects management estimates of projected revenue on a conservative basis. Contract costs primarily represent salaries and related benefits of technical staff such as engineers and other administrative costs. Such costs are included in the model based on current expected market trend. The cash flow projections include an estimate of terminal value based on inflation related growth rate of 3 % (2008: 3%).

Tabreed 1 District Cooling Plant

The recoverable amount of Tabreed 1 District Cooling Plant unit is determined based on a value in use calculation using cash flow projections. Revenue comprises of available capacity and variable output based on signed contract with customer for a period of 20 years. As the useful life of the plant is assessed as 30 years, the Company has used the remaining useful life of the plant of 22 years at the year end in the model based on rates currently agreed with the customer. The management is confident that the current 20 year contract with the customer will be extended for the remaining useful life of the plant. The operating costs mainly represent cost of utilities to operate the plant and salaries and related benefits of staff and are determined based on management's approved financial forecast. The discount rate applied to the cash flow projections is 8.5 % representing the Company's WACC (weighted average cost of capital). A general price inflation level of 3% has been applied to the cash flows. The basis used to determine the value assigned to the price inflation is management's estimate of the long term average forecast for the United Arab Emirates.

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

16 LOAN TO AN ASSOCIATE

The loan was granted to Sahara Cooling Limited, an associate company. The loan is unsecured and interest is charged at LIBOR + 0.85%. Sahara Cooling Limited repaid an amount of AED 11.16 million (2008: nil) during the year. An amount of AED 9.8 million (2008: nil) is expected to be repaid within twelve months from the balance sheet reporting date and accordingly has been classified as current assets in the consolidated statement of financial position.

17 FINANCE LEASE RECEIVABLE

On 4 October 2009, the Company signed a long term Master Cooling Agreement ("the agreement") with a customer for a period of 30 years. Management has determined the Master Cooling Agreement to contain a lease in accordance with IFRIC 4 and based on the terms of the agreement, the Company has accounted for the agreement as a finance lease, since in the opinion of the management, the significant risks and rewards of ownership of the related plant and distribution network ("the asset") have been passed to the customer.

The discount rate used to determine the present value of the finance lease receivable at inception of the lease is 6.5%. This rate is assessed based on the risk associated with the asset and the credit rating of the customer.

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

	2009	
	Minimum lease receivables AED '000	***Present value of minimum lease receivable AED '000***
Within one year	**36,238**	**33,862**
After one but no more than five years	**405,941**	**309,932**
More than five years	**2,527,577**	**825,830**
	2,969,756	**1,169,624**
Unearned revenue	**(1,800,132)**	**-**
	1,169,624	**1,169,624**

Analysed in the consolidated statement of financial position as follows:

	AED '000
Current assets	**33,862**
Non-current assets	**1,135,762**
	1,169,624

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

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

No revenue (finance income) has been recognised in respect of this agreement in the consolidated income statement for the year ended 31 December 2009 as the related asset is under construction as at 31 December 2009.

18 TRADE AND OTHER RECEIVABLES

	2009	*2008*
	AED '000	*AED '000*
Trade receivables	**474,465**	357,491
Amounts due from related parties (note 33)	**61,520**	25,600
Advances to contractors and employees	**30,322**	54,133
Deposits and other receivables	**15,541**	12,055
	581,848	449,279

As at 31 December 2009, trade receivables at nominal value of AED 27.5 million (2008: AED 5.2 million) were impaired and fully provided for. Movements in the provision for impairment of trade receivables were as follows:

	2009	*2008*
	AED '000	*AED '000*
At 1 January	**5,229**	3,771
Charge for the year	**34,777**	5,359
Amounts written off	**(12,478)**	(3,901)
At 31 December	**27,528**	5,229

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

			Past due but not impaired					
	Total AED'000	*Neither past due nor impaired AED'000*	*< 30 days AED'000*	*30 – 60 days AED'000*	*60 – 90 days AED'000*	*90 – 120 days AED'000*	*120 – 365 days AED'000*	*>365 days AED'000*
2009	**474,465**	**117,916**	**67,928**	**38,181**	**36,130**	**34,958**	**159,770**	**19,582**
2008	357,491	169,143	37,961	38,842	35,702	29,385	33,217	13,241

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

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

An amount of AED 11.8 million (2008: AED 1.2 million) representing impairment of amounts due from related parties is recognised in the consolidated income statement for the year ended 31 December 2009.

For terms and conditions relating to related party receivables, refer to note 33.

19 INVESTMENTS

19.1 Available for sale investments

Available for sale investments consist of investment in a listed equity with a carrying amount of AED 3.5 million (2008: AED 2.3 million) and investment in a managed fund with a carrying amount of AED 65 million (2008: AED 56.7million). Changes in fair value of these investments are recognised directly in the statement of comprehensive income (note 25).

During the year, an impairment loss of AED 4.8 million (2008: AED nil) was recognised in the consolidated income statement.

The fair value of investment in listed equity is determined by reference to published price available in an active market. The fair value of the investment in a managed fund has been estimated using a discounted cash flow model. The valuation requires making certain assumptions about the model inputs, including credit risk and volatility.

Geographical concentration of available for sale investments is as follows:

	2009	*2008*
	AED '000	*AED '000*
Within UAE	**3,450**	2,281
Outside UAE	**64,971**	56,692
	68,421	58,973

19.2 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 outside UAE. 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.

During the year, the Company sold its investment in financial assets carried at fair value through income statement realising a loss of AED 79 thousand (2008: loss of AED 60 thousand) in the consolidated income statement.

20 CONTRACT WORK IN PROGRESS

	2009	*2008*
	AED '000	*AED '000*
Cost plus attributable profit	**393,974**	509,740
Less: progress billings	**(363,161)**	(302,177)
	30,813	207,563

21 CASH AND CASH EQUIVALENTS

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

	2009	*2008*
	AED '000	*AED '000*
Bank balances and cash	**262,807**	291,558
Bank deposits	**81,147**	410,401
	343,954	701,959
Bank overdrafts	**(52,007)**	(233,326)
Bank deposits with original maturities in excess of three months	**-**	(226,788)
	291,947	241,845

Bank deposits attract a fixed rate of interest ranging from 1.00% to 3.25% per annum (2008: 1.14% to 4.85% per annum).

The bank overdraft facility is secured against corporate guarantee and letter of awareness from the Company and pledge over short term deposits of AED nil (2008: AED 29.2 million).

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

	2009	*2008*
	AED '000	*AED '000*
Within UAE	**263,958**	610,284
Outside UAE	**79,996**	91,675
	343,954	701,959

22 ASSETS CLASSIFIED AS HELD FOR SALE

On 23 November 2009, the Board of Directors resolved to sell the Company's 50% equity interest in Jordanian Company for Central Energy (PLS), an associate (note 12). The sale transaction has been completed in March 2010 for a value of AED 33.8 million.

As at 31 December 2009, the carrying value of the investment in Jordanian Company for Central Energy (PLS) amounting to AED 33.8 million was classified as asset held for sale.

23 ISSUED CAPITAL

	2009	*2008*
	AED '000	*AED '000*
Authorised, issued and fully paid up share capital		
1,213,380,000 ordinary shares at AED 1 each	**1,213,380**	1,213,380

24 TREASURY SHARES AND SHARE-BASED PAYMENTS

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

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

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

	No. of shares	
	2009	*2008*
At 1 January	**1,722,139**	1,615,990
Notional units of the Company's ordinary shares granted during the year	**-**	702,540
Exercised during the year	**(634,835)**	(596,391)
At 31 December	**1,087,304**	1,722,139

The weighted average fair value of notional units granted during the year was AED nil (2008: AED 2.59).

The employee incentive scheme liability is re-measured at each reporting date up to and including the settlement date with changes in fair value recognised in the consolidated income statement or capital work in progress, as applicable (refer below). The carrying amount of liability as at 31 December 2009 was AED 2.8 million (2008: AED 0.9 million).

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

	2009	*2008*
	AED '000	*AED '000*
Credit (charge) to administrative and other expenses	**(706)**	1,119
Credit (charge) to capital work in progress	**(1,230)**	1,595

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

25 STATUTORY AND OTHER RESERVES

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

Other reserves

	Cumulative changes in fair value of derivatives AED '000	*Cumulative changes in available for sale investments AED '000*	*Total AED '000*
Balance at 1 January 2008	(15,116)	6,607	(8,509)
Net movement in fair value of cash flow hedges	(64,960)	-	(64,960)
Share of net changes in fair value of derivatives of associate	(19,400)	-	(19,400)
Net movement in fair value of available for sale investments	-	(19,320)	(19,320)
Balance at 31 December 2008	(99,476)	(12,713)	(112,189)
Net movement in fair value of cash flow hedges	9,083	-	9,083
Fair value of derivative reclassified to consolidated income statement	1,780	-	1,780
Share of net changes in fair value of derivatives of associate	9,378	-	9,378
Impairment of available for sale investments	-	4,797	4,797
Net movement in fair value of available for sale investments	-	9,448	9,448
Balance at 31 December 2009	**(79,235)**	**1,532**	**(77,703)**

26 INTEREST BEARING LOANS AND BORROWINGS

	Effective interest rate %	***2009 AED '000***	*2008 AED '000*
Current			
Term loan 1	EIBOR + margin	-	125
Term loan 2	EIBOR + margin	**9,000**	3,000
Term loan 3	LIBOR + margin	**176,895**	4,427
Term loan 4	EIBOR + margin	**91,500**	91,500
Term loan 6	3.03%	-	29,237
Term loan 7	EIBOR + margin	-	29,756
Term loan 8	LIBOR + margin	**125,664**	-
Term loan 9	LIBOR + margin	**29,378**	-
Term loan 10	EIBOR + margin	**742,007**	-
		1,174,444	158,045
Non-current			
Term loan 2	EIBOR + margin	-	9,000
Term loan 3	LIBOR + margin	-	176,465
		-	185,465

Term loan 3 amounting to AED 170.5 million, term loan 10 amounting to AED 742 million (net of prepaid finance costs) and term loan 2 amounting to AED 6 million have been reclassified to current liability as at 31 December 2009 as a result of technical breach of financial covenants (note 2.1).

27 ISLAMIC FINANCING ARRANGEMENTS

	Profit charge %	***2009 AED '000***	*2008 AED '000*
Current			
Islamic financing arrangement 1	5.50%	**-**	367,077
Islamic financing arrangement 2	EIBOR + margin	**941,761**	28,154
Islamic financing arrangement 3	11.7%	**-**	8,345
Islamic financing arrangement 4	LIBOR + margin	**730,256**	-
Islamic financing arrangement 5	EIBOR + margin	**362,660**	-
Islamic financing arrangement 6	EIBOR + margin	**295,650**	-
		2,330,327	403,576
Non-current			
Islamic financing arrangement 2	EIBOR + margin	-	941,826
Islamic financing arrangement 4	LIBOR + margin	-	727,383
		-	1,669,209

Islamic financing arrangement 2 amounting to AED 903.6 million (net of prepaid finance costs), Islamic financing arrangement 4 amounting to AED 730.3 million (net of prepaid finance costs), Islamic financing arrangement 5 amounting to AED 362.7 million (net of prepaid finance costs) and Islamic financing arrangement 6 amounting to AED 295.6 million have been reclassified to current liability as at 31 December 2009 as a result of technical breach of financial covenants (note 2.1).

28 MANDATORY CONVERTIBLE BOND

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

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

The liability component of the bond of AED 278.7 million (2008: AED 375.1 million) represents present value of annual coupon payments due at the rate of 7.25%, payable in arrears annually. On inception the present value was calculated using a market interest rate for a bond with similar characteristics, but without the condition of mandatory conversion into ordinary shares of the Company at the redemption date. Also included in the liability component of mandatory convertible bond is fair value of a derivative liability of AED 43.9 million (2008: AED 29.5 million), representing the element of variation in the number of shares that will be issued at the conversion date, based on the market price of Company's shares. Total liability in the consolidated statement of financial position has been presented, net of allocated transaction costs of AED 4.4 million (2008: AED 7.5 million).

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

28 MANDATORY CONVERTIBLE BOND continued

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

	2009			2008		
	Convertible bond-liability component AED '000	**Convertible bond-equity component AED '000**	**Total AED '000**	*Convertible bond-liability component AED '000*	*Convertible bond-equity component AED '000*	*Total AED '000*
At 1 January/inception	**375,060**	**1,301,679**	**1,676,739**	354,467	1,301,679	1,656,146
Changes in fair value of derivative liability	**14,400**	-	**14,400**	12,200	-	12,200
Accretion expense	**9,386**	-	**9,386**	6,743	-	6,743
Amortisation of transactions costs	**3,127**	-	**3,127**	1,650	-	1,650
Coupon payment during the year	**(123,250)**	**-**	**(123,250)**	-	-	-
Balance at 31 December	**278,723**	**1,301,679**	**1,580,402**	375,060	1,301,679	1,676,739

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

	2009 AED '000	*2008 AED '000*
Current	**117,876**	118,463
Non-current	**160,847**	256,597
	278,723	375,060

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

	2009 AED '000	*2008 AED '000*
Charged to consolidated income statement	**774**	-
Charged to capital work in progress	**8,612**	6,743
	9,386	6,743

29 OBLIGATIONS UNDER FINANCE LEASE

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

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

	2009		2008	
	Minimum lease payments AED '000	**Present value of payments AED '000**	*Minimum lease payments AED '000*	*Present value of payments AED '000*
Within one year	**7,749**	**7,364**	7,749	7,364
After one year but not more than five years	**30,994**	**23,384**	30,994	23,384
After five years	**27,765**	**14,620**	35,514	17,888
	66,508	**45,368**	74,257	48,636
Less: amounts representing finance charges	**(21,140)**	**-**	(25,621)	-
Present value of minimum lease payments	**45,368**	**45,368**	48,636	48,636

29 OBLIGATIONS UNDER FINANCE LEASE continued

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

	2009 AED '000	2008 AED '000
Current	**7,364**	7,364
Non-current	**38,004**	41,272
	45,368	48,636

30 EMPLOYEES' END OF SERVICE BENEFITS

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

	2009 AED '000	2008 AED '000
Balance at 1 January	**17,254**	11,267
Net movement during the year	**(1,138)**	5,987
Balance at 31 December	**16,116**	17,254

31 ACCOUNTS PAYABLE AND ACCRUALS

Retentions payable and deferred income

	2009 AED '000	2008 AED '000
Non-current liabilities		
Retentions payable for capital expenditure	**31,192**	19,887
Others:		
Retentions payable for non capital expenditure	**21,076**	10,944
Deferred income	**24,340**	24,341
	45,416	35,285
	76,608	55,172

Accounts payable and accruals

	2009 AED '000	2008 AED '000
Current liabilities		
Relating to capital expenditure:		
Contractor payable and retentions	**441,821**	469,641
Due to a related party – joint venture	**130,362**	174,971
Accrued expenses and provisions	**832,779**	376,476
	1,404,962	1,021,088
Others:		
Accounts payable	**165,737**	152,751
Deferred income	**734**	898
Due to related parties - associates	**29,042**	25,978
Due to a related party – joint venture	**28,851**	-
Accrued expenses	**75,299**	102,281
Other payables	**188,347**	155,055
	488,010	436,963
	1,892,972	1,458,051

31 ACCOUNTS PAYABLE AND ACCRUALS continued

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 33.

32 ADVANCES

This represents advance received from a customer relating to funding support for the construction of property, plant and equipment. The advance is expected to be repaid / settled in 2010.

33 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:

	2009				*2008*		
	Revenue AED'000	***Other expenses AED'000***	***Interest revenue AED'000***	***Other income AED'000***	*Other expenses AED'000*	*Interest revenue AED'000*	*Other income AED'000*
Associated companies	**-**	**82,846**	**3,956**	**701**	75,746	8,465	1,045
Joint venture	**42,788**	**-**	**-**	**-**	-	-	-

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

	2009			*2008*		
	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	**30,865**	**12,862**	**29,042**	42,029	15,535	25,978
Joint venture	**-**	**47,369**	**159,213**	-	-	174,971
Other related parties	**-**	**1,289**	**-**	-	10,065	-
	30,865	**61,520**	**188,255**	42,029	25,600	200,949

Terms and conditions of transactions with related parties

Transactions with related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free, except for loan to an associate (note 16), and 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 2009, the Group recorded an impairment of AED 11.8 million (2008: AED 1.2 million) relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

33 RELATED PARTY TRANSACTIONS continued

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

	2009	*2008*
	AED '000	*AED '000*
Short-term benefits	**17,129**	15,795
Employees' end of service benefits	**642**	973
	17,771	16,768
Number of key management personnel	**20**	18

34 CONTINGENCIES

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

	2009	*2008*
	AED '000	*AED '000*
Performance guarantees	**64,462**	45,686
Advance payment guarantees	**20,471**	12,776
Financial guarantees	**9,248**	45,137
	94,181	103,599

The Company's share of contingencies of the joint venture as of 31 December 2009 impacting the consolidated income statement amounted to AED 0.4 million (2008: AED 0.4 million).

The Company's share of contingencies of the associates as of 31 December 2009 impacting the consolidated income statement amounted to AED 2.3 million (2008: AED 1.1 million).

35 CAPITAL COMMITMENTS

The Board of Directors has authorised future capital expenditure amounting to AED 1,108 million as of 31 December 2009 (2008: AED 1,884 million).

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

It is, and has been throughout 2009 and 2008 the Group's policy that no trading in derivatives shall be undertaken.

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

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

Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2009 and 2008.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2009.

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

- The statement of financial position sensitivity relates to derivatives and available-for-sale equity instruments.

- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2009 and 2008 including the effect of hedge accounting.

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

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

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Interest rate risk continued
To manage the risk relating to its variable interest borrowings, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2009, after taking into account the effect of interest rate swaps, approximately 38 % of the Group's borrowings are at a fixed rate of interest (2008: 79%).

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

	Effect on profit AED '000
2009	
+100 increase in basis points	**(8,654)**
-100 decrease in basis points	**8,654**
2008	
+100 increase in basis points	(3,148)
-100 decrease in basis points	3,148

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

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

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

Equity price risk
The Group's investment classified as available for sale investments are susceptible to market price arising from uncertainties about future values of the investment.

The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

At the reporting date, the exposure to the investment in managed funds at fair value was AED 65 million. A change of 10% in the overall earnings stream of the valuations performed could have an impact of approximately AED 6.5 million (2008: AED 5.7 million) on the equity of the group.

At the reporting date, the exposure to listed equity securities at fair value was AED 3.5 million (2008: AED 2.3 million). A decrease of 10% on the Dubai Financial Market index could have an impact of approximately AED 0.3 million (2008: AED 0.2 million) on the income or equity attributable to the Group, depending on whether or not the decline is significant or prolonged. An increase of 10% in the value of the listed securities would only impact equity but would not have an effect on profit or loss.

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

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

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The maximum exposure is the carrying amount as disclosed in notes 17 and 18. The Group's three largest customers account for approximately 64% of outstanding trade receivable balance at 31 December 2009 (2008: 3 customers - 26%). Amounts due in respect of finance lease receivable are from one customer.

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

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

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, loans, bonds and finance leases. As at 31 December 2009, as a result of the technical breach of covenants, all the Company's interest bearing loans and borrowings and Islamic financial arrangements have become payable on demand and accordingly, reclassified under the heading of "on demand" for the purpose of the maturity profile analysed below.

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

At 31 December 2009, the Group has no unutilised interest bearing loans and borrowings facilities and Islamic financial arrangements (2008: nil).

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued
The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2009 based on undiscounted payments and current market interest rates.

	On demand AED '000	*Less than 3 months AED '000*	*3 to 12 months AED '000*	*1 to 5 years AED '000*	*> 5 years AED '000*	*Total AED '000*
At 31 December 2009						
Derivative financial instruments	**-**	**-**	**15,663**	**96,690**	**5,438**	**117,791**
Convertible bond – liability component	**-**	**-**	**123,250**	**123,250**	**-**	**246,500**
Interest bearing loans and borrowings	**1,186,969**	**21,641**	**38,775**	**41,117**	**21,624**	**1,310,126**
Obligations under finance leases	**-**	**1,937**	**5,812**	**30,994**	**27,765**	**66,508**
Islamic financing arrangements	**2,362,600**	**36,399**	**61,145**	**157,903**	**83,237**	**2,701,284**
Accounts and retention payable, due to related parties and other financial liabilities	**-**	**547,450**	**1,673,795**	**52,268**	**-**	**2,273,513**
Bank overdraft	**52,007**	**-**	**-**	**-**	**-**	**52,007**
	3,601,576	**607,427**	**1,918,440**	**502,222**	**138,064**	**6,767,729**
At 31 December 2008						
Derivative financial instruments	-	-	486	74,102	38,892	113,480
Convertible bond – liability component	-	-	123,250	246,500	-	369,750
Interest bearing loans and borrowings	-	133,073	31,961	55,307	169,389	389,730
Obligations under finance leases	-	1,937	5,812	30,994	35,514	74,257
Islamic financing arrangements	-	395,625	104,424	1,203,234	942,208	2,645,491
Accounts and retention payable, due to related parties and other financial liabilities	-	306,162	1,067,011	30,831	-	1,404,004
Bank overdraft	233,326	-	-	-	-	233,326
	233,326	836,797	1,332,944	1,651,968	1,186,003	5,230,038

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

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

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

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

36 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Capital management continued

	2009 AED '000	*2008 AED '000*
Interest bearing loans and borrowings	**1,174,444**	343,510
Islamic financing arrangements	**2,330,327**	2,072,785
Mandatory convertible bond – liability component	**278,723**	375,060
Obligation under finance lease	**45,368**	48,636
	3,828,862	2,839,991
Less: cash and cash equivalents	**(291,947)**	(468,633)
Net debt	**3,536,915**	2,371,358
Equity	**1,428,281**	2,512,322
Adjustment for cumulative changes in fair values of derivatives and available for sale investments	**77,703**	112,189
Total capital	**1,505,984**	2,624,511
Capital and net debt	**5,042,899**	4,995,869
Gearing ratio	**70%**	47%

The increase in the gearing ratio is mainly attributable to decrease in equity as a result of loss for the year and increase in net debt due to new borrowings during the year.

37 FINANCIAL INSTRUMENTS

Fair values

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

	Carrying amount		*Fair value*	
	2009 AED '000	*2008 AED '000*	***2009 AED '000***	*2008 AED '000*
Obligations under finance lease	**45,368**	48,636	**39,000**	52,004
Islamic financing arrangements	**-**	375,422	**-**	390,975
Convertible bond – liability component	**278,723**	375,060	**234,823**	332,830
Finance lease receivable	**1,169,624**	-	**946,894**	-

The fair value of finance lease receivable has been calculated by discounting the expected future cash flows at market interest rates.

37 FINANCIAL INSTRUMENTS continued

Fair value hierarchy
As at 31 December 2009, the Group held the following financial instruments measured at fair value.

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

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	31 December 2009 AED '000	*Level 1 AED '000*	*Level 2 AED '000*	*Level 3 AED '000*
Assets measured at fair value				
Available for sale investments	**68,421**	3,450	64,971	-
Interest rate swaps	**2,898**	-	2,898	-
Liabilities measured at fair value				
Derivatives - Mandatory convertible bonds	**43,900**	-	43,900	-
Interest rate swaps	**73,897**	-	73,897	

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

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

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

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

	Within 1 year AED '000	*1–3 years AED '000*	*3–8 years AED '000*	*Total AED '000*
2009:				
Cash inflows (assets)	**692**	**466**	**1,740**	**2,898**
Cash outflows (liabilities)	**(15,663)**	**(43,572)**	**(14,662)**	**(73,897)**
Net cash inflow (outflow)	**(14,971)**	**(43,106)**	**(12,922)**	**(70,999)**
2008:				
Cash inflows (assets)	-	1,864	2,040	3,904
Cash outflows (liabilities)	-	(43,607)	(40,373)	(83,980)
Net cash inflow (outflow)	-	(41,743)	(38,333)	(80,076)

37 FINANCIAL INSTRUMENTS continued

Hedging activities continued
Cash flow hedges continued

All derivative contracts are with counterparty banks in UAE.

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

	2009			2008		
	Assets AED '000	***Liabilities AED '000***	***Notional amount AED '000***	*Assets AED '000*	*Liabilities AED '000*	*Notional amount AED '000*
Interest rate swaps	**2,898**	**73,897**	**1,777,213**	3,904	83,980	1,718,352

38 EVENTS AFTER THE BALANCE SHEET DATE

(1) Refer to Note 2.1 for details of recapitalisation plan launched by the Company's Board of Directors on 7 March, 2010 approved short term funding from a shareholder amounting to AED 1.3 billion and status of loans and borrowings payable on demand due to technical breach of financial covenant.
(2) Refer to note 22 for details on the sale of an investment in an associate.

39 COMPARATIVE INFORMATION

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

Statement of cash flows

- Interest paid amounting to AED 113.5 million for the year ended 31 December 2008 previously shown as part of Operating activities has now been reclassified to Financing activities.

- Non-cash adjustment relating to payables and accruals for capital work in progress amounting to AED 228.9 million has been adjusted against movement in the accounts payable under Operating activities.

Notes to the financial statements

- Contractor payable and retentions, accrued expenses and amount due to a related party – joint venture have been split between amounts payable in respect of operating expenditure and amounts payable in respect of capital expenditure.