NATIONAL CENTRAL COOLING COMPANY PJSC

Review report and condensed consolidated interim financial information for the three-month period ended 31 March 2019

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Review report on condensed consolidated interim financial information to the Board of Directors of National Central Cooling Company PJSC

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of National Central Cooling Company PJSC and its subsidiaries (the 'Group') as at 31 March 2019 and the related condensed consolidated interim statements of profit or loss, comprehensive income, changes in equity and cash flows for the three-month period then ended and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 and the condensed consolidated interim financial information for the three-month period ended 31 March 2018 were audited and reviewed, respectively, by another auditor whose report dated 30 January 2019 and 25 April 2018, expressed an unqualified opinion and review conclusion, respectively.

PricewaterhouseCoopers
01 May 2019

Rami Sarhan
Registered Auditor Number 1152
Abu Dhabi, United Arab Emirates

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NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Condensed consolidated interim statement of profit or loss (unaudited)

		Three-month period ended 31 March	
	Note	**2019 AED '000**	2018 AED '000
Revenues	5	**296,769**	274,421
Operating costs	5	**(135,035)**	(128,726)
Gross profit		**161,734**	145,695
Administrative and other expenses	5	**(52,130)**	(49,130)
Operating profit		**109,604**	96,565
Finance costs	14	**(45,409)**	(40,655)
Finance income	5	**778**	145
Other gains and losses	5	**265**	314
Share of results of associates and joint ventures	5	**15,544**	21,764
Profit for the period		**80,782**	78,133
Attributable to:			
Equity holders of the parent		**80,033**	77,743
Non-controlling interests		**749**	390
		80,782	78,133
Basic and diluted earnings per share attributable to equity holders of the parent (AED)	6	**0.03**	0.03

The accompanying notes on pages 7 to 23 form an integral part of this condensed consolidated interim financial information.

Condensed consolidated interim statement of comprehensive income (unaudited)

	Three-month period ended 31 March	
	2019	2018
	AED '000	AED '000
Profit for the period	**80,782**	78,133
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Net movement in fair value of derivatives in cash flow hedges	**(2,536)**	12,255
Share of changes in fair value of derivatives of associates and joint ventures in cash flow hedges	**(7,092)**	8,369
Exchange differences arising on translation of foreign operations	**(48)**	270
Total other comprehensive (loss)/income for the period	**(9,676)**	**20,894**
Total comprehensive income for the period	**71,106**	**99,027**
Attributable to:		
Equity holders of the parent	**70,357**	98,637
Non-controlling interests	**749**	390
	71,106	**99,027**

The accompanying notes on pages 7 to 23 form an integral part of this condensed consolidated interim financial information.

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NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Condensed consolidated interim statement of financial position

		As at	
		31 March 2019 (unaudited)	31 December 2018 (audited)
ASSETS	Note	**AED '000**	AED '000
Non-current assets			
Capital work in progress	7	**114,658**	104,270
Property, plant and equipment		**4,015,285**	4,051,993
Right-of-use asset	8	**216,488**	-
Goodwill		**28,527**	28,527
Investment in associates and joint ventures		**585,649**	579,280
Finance lease receivables	9	**2,722,180**	2,625,050
		7,682,787	7,289,120
Current assets			
Inventories		**32,080**	32,806
Trade and other receivables		**470,296**	568,482
Finance lease receivables	9	**305,067**	244,916
Cash and bank balances	11	**433,536**	248,946
		1,240,979	1,095,150
TOTAL ASSETS		**8,923,766**	8,484,270
EQUITY AND LIABILITIES			
Equity			
Issued capital		**2,715,529**	2,715,529
Treasury shares		**(2,016)**	(2,016)
Statutory reserve		**316,867**	316,867
Retained earnings		**865,308**	955,960
Foreign currency translation reserve		**(2,416)**	(2,368)
Cumulative changes in fair value of derivatives in cash flow hedges		**(30,514)**	(20,886)
Other reserve		**706,920**	706,920
Equity attributable to the equity holders of the parent		**4,569,678**	4,670,006
Non – controlling interests		**67,611**	67,462
Total equity		**4,637,289**	4,737,468
Non-current liabilities			
Trade and other payables		**99,857**	102,917
Interest bearing loans and borrowings	12	**1,006,571**	1,016,526
Non-convertible Sukuk	13	**1,828,957**	1,828,794
Lease liabilities	10	**252,675**	-
Provision for employees' end of service benefits		**29,870**	29,255
		3,217,930	2,977,492
Current liabilities			
Trade and other payables		**876,780**	625,645
Interest bearing loans and borrowings	12	**146,760**	143,665
Lease liabilities	10	**45,007**	-
		1,068,547	769,310
Total liabilities		**4,286,477**	3,746,802
TOTAL EQUITY AND LIABILITIES		**8,923,766**	8,484,270

Khaled Abdulla Al Qubaisi	**Bader Al Lamki**	**Stephen John Ridlington**
Chairman	Chief Executive Officer	Chief Financial Officer

The accompanying notes on pages 7 to 23 form an integral part of this condensed consolidated interim financial information.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Condensed consolidated interim statement of changes in equity

	Attributable to owners of the parent									
	Issued capital AED '000	Treasury shares AED '000	Statutory reserve AED '000	Retained earnings AED '000	Foreign currency translation reserve AED '000	Cumulative changes in fair value of derivatives AED '000	Other reserve AED '000	Total AED '000	Non-controlling interests AED '000	Total equity AED '000
Balance at 1 January 2018 (as previously reported) (audited)	2,715,529	(2,016)	274,104	1,071,952	(2,780)	(37,774)	706,920	4,725,935	71,085	4,797,020
Effect of changes in accounting policy for IFRS 15	-	-	-	(194,030)	-	-	-	(194,030)	-	(194,030)
Effect of changes in accounting policy for IFRS 9	-	-	-	(81,499)	-	-	-	(81,499)	-	(81,499)
Balance at 1 January 2018 (restated) (audited)	2,715,529	(2,016)	274,104	796,423	(2,780)	(37,774)	706,920	4,450,406	71,085	4,521,491
Profit for the period	-	-	-	77,743	-	-	-	77,743	390	78,133
Other comprehensive income for the period	-	-	-	-	270	20,624	-	20,894	-	20,894
Total comprehensive income for the period	-	-	-	77,743	270	20,624	-	98,637	390	99,027
Dividends payable to ordinary shareholders (note 17)	-	-	-	(217,242)	-	-	-	(217,242)	-	(217,242)
Effect of additional ownership in a subsidiary	-	-	-	(8,216)	-	-	-	(8,216)	(932)	(9,148)
Balance at 31 March 2018 (unaudited)	2,715,529	(2,016)	274,104	648,708	(2,510)	(17,150)	706,920	4,323,585	70,543	4,394,128
Balance at 1 January 2019 (as previously reported) (audited)	**2,715,529**	**(2,016)**	**316,867**	**955,960**	**(2,368)**	**(20,886)**	**706,920**	**4,670,006**	**67,462**	**4,737,468**
Effect of changes in accounting policy for IFRS 16	-	-	-	87,290	-	-	-	87,290	-	87,290
Balance at 1 January 2019 (restated)	**2,715,529**	**(2,016)**	**316,867**	**1,043,250**	**(2,368)**	**(20,886)**	**706,920**	**4,757,296**	**67,462**	**4,824,758**
Profit for the period	-	-	-	80,033	-	-	-	80,033	749	80,782
Other comprehensive income for the period	-	-	-	-	(48)	(9,628)	-	(9,676)	-	(9,676)
Total comprehensive income for the period	-	-	-	**80,033**	**(48)**	**(9,628)**	-	**70,357**	**749**	**71,106**
Dividend payable to ordinary shareholders (note 17)	-	-	-	**(257,975)**	-	-	-	**(257,975)**	**(600)**	**(258,575)**
Balance at 31 March 2019 (unaudited)	**2,715,529**	**(2,016)**	**316,867**	**865,308**	**(2,416)**	**(30,514)**	**706,920**	**4,569,678**	**67,611**	**4,637,289**

The accompanying notes on pages 7 to 23 form an integral part of this condensed consolidated interim financial information.

NATIONAL CENTRAL COOLING COMPANY PJSC AND ITS SUBSIDIARIES

Condensed consolidated interim statement of cash flows (unaudited)

	Note	Three-month period ended 31 March 2019 AED '000	2018 AED '000
Operating activities			
Profit for the period		**80,782**	78,133
Non-cash adjustments to reconcile profit for the period to net cash flows:			
Depreciation of property, plant and equipment and right-of-use assets		**46,223**	35,434
Finance lease income	9	**(76,654)**	(46,202)
Share of results of associates and joint ventures	5	**(15,544)**	(21,764)
Net movement in provision for employees' end of service benefits		**615**	884
Finance income	5	**(778)**	(145)
Finance costs	14	**45,409**	40,655
Other gains and losses	5	**(265)**	(314)
Operating cash flows before changes in working capital		**79,788**	86,681
Working capital adjustments:			
Inventories		**726**	2,425
Trade and other receivables		**98,181**	18,810
Trade and other payables		**(31,550)**	427
Lease rentals received		**91,015**	62,721
Net cash flows from operating activities		**238,160**	171,064
Investing activities			
Purchase of property, plant and equipment		**(2,537)**	(6,322)
Payments for capital work in progress		**(14,149)**	(18,897)
Dividends from associates		**-**	12,513
Payment for acquisition of additional share in a subsidiary		**-**	(4,946)
Net cash inflow on acquisition of subsidiary		**-**	15,135
Interest received		**783**	-
Net cash flows from investing activities		**(15,903)**	(2,517)
Financing activities			
Interest bearing loans and borrowings received		**-**	4,802
Interest bearing loans and borrowings repaid		**(6,724)**	(5,405)
Principal elements of lease payments		**(14,333)**	-
Payment for obligations under finance lease		**-**	(1,848)
Interest paid		**(16,010)**	(36,868)
Dividend paid to non-controlling interests		**(600)**	-
Net cash flows from financing activities		**(37,667)**	(39,319)
Net increase in cash and cash equivalents		**184,590**	129,228
Cash and cash equivalents at 1 January		**248,946**	418,280
Cash and cash equivalents at 31 March	11	**433,536**	547,508

Non-cash transactions are disclosed in note 11.

The accompanying notes on pages 7 to 23 form an integral part of this condensed consolidated interim financial information.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019

1 General information

National Central Cooling Company PJSC ("Tabreed" or the "Company") is registered in the United Arab Emirates as a Public Joint Stock Company pursuant to the UAE Federal Law No. (2) of 2015 and is listed on the Dubai Financial Market. The principal activities of the Company and its subsidiaries (the "Group") are supply of chilled water, operation and maintenance of plants, construction of secondary networks, manufacturing of pre-insulated pipes and design and supervision consultancy.

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

The Group's non-convertible sukuk is listed in the London Stock Exchange (Note 13).

The Group does not have any exposure to Abraaj Group and/or any of the funds managed by Abraaj Group.

2 Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 New and revised IFRS effective for accounting periods beginning on or after January 1, 2019

The following new and revised IFRS, which became effective for annual periods beginning on or after January 1 2019, have been adopted in this condensed consolidated interim financial information.

The Group applies, for the first time, IFRS 16 Leases that is required to be applied retrospectively with adjustment to made in the opening balance of equity of the year of initial application. As required by IAS 34, the nature and effect of these changes are disclosed in notes 9 and 10 of the condensed consolidated interim financial information.

In the current period, the Group has also applied the following amendments to IFRS issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2019. The application of these amendments to IFRS has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- Amendments to IFRS 9 Financial Instruments relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.
- Amendments to IAS 19 Employee Benefits: The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period. Further, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).
- Amendments in IAS 28 Investments in Associates and Joint Ventures relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Annual Improvements to IFRS 2014–2017 Cycle to address uncertainty over Income Tax Treatment.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.1 New and revised IFRS effective for accounting periods beginning on or after January 1, 2019 (continued)

Other than the above, there are no other significant IFRS and amendments that were effective for the first time for the financial year beginning on or after January 1, 2019.

2.2 Standards and Interpretations in issue but not yet effective

The Group has not early adopted new and revised IFRS that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:	Effective for periods beginning on or after
IFRS 17 Insurance Contracts requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	January 1, 2021
Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.	January 1, 2020
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these IFRS and amendments will be adopted in the condensed consolidated interim financial information in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

3 Summary of significant accounting policies

3.1 Basis of preparation

The condensed consolidated interim financial information of the Group is prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The condensed consolidated interim financial information has been presented in United Arab Emirates Dirhams (AED), which is the functional currency of the Group. All values are rounded to the nearest thousand (AED '000) except otherwise indicated.

The condensed consolidated interim financial information does not include all information and disclosures required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018. In addition, results for the three-month period ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

3.2 Significant accounting policies

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and amended standards. The significant impact in this condensed consolidated interim financial information resulted from the new accounting policies form the application of IFRS 16. The lease accounting policies for the comparatives are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018.

3.2.1 Application of IFRS 16 – Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option and lease contracts for which the underlying asset is of low value.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

3.2 Significant accounting policies (continued)

3.2.1 Application of IFRS 16 – Leases (continued)

The effect of adoption of IFRS 16 as at 1 January 2019 resulted in an increase is as follows:

	AED '000
Increase in right-of-use asset	223,464
Increase in lease liabilities	307,816
Increase in finance lease receivables	171,642
Increase in retained earnings	87,290

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	AED '000
Plant	186,364
Land	22,816
Building	8,852
Motor vehicles	5,432
Total	**223,464**

For leases previously classified as operating leases the Group recognised the lease liabilities on the date of initial application of the standard as follows:

	AED '000
Operating lease commitments at the initial application date	397,106
Discounted using the Group's incremental borrowing rate of 5.5% at the date of initial application	(89,290)
Lease liability recognised as at 1 January 2019	**307,816**
Of which are:	
Current lease liabilities	45,007
Non-current lease liabilities	262,809
	307,816

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

3.2 Significant accounting policies (continued)

3.2.1 Application of IFRS 16 – Leases (continued)

a) Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of land, building, plant and vehicles. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as expense in profit or loss on a straight-line basis over the lease term. Any prepaid accrued were recognised under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

Leases previously accounted for as operating leases
The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

3.2 Significant accounting policies (continued)

3.2.1 Application of IFRS 16 – Leases (continued)

b) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets
The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates are included in the lease payments and are remeasured using the prevailing index or rate at the measurement date.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

3.2 Significant accounting policies (continued)

3.2.1 Application of IFRS 16 – Leases (continued)

b) Summary of new accounting policies (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Lease payments are payments made by a lessee to a lessor relating to the right to use an underlying asset during the lease term, comprising the fixed payments (including in-substance fixed payments), less any lease incentives (for e.g. reimbursement of maintenance fee); variable lease payments that depend on an index or a rate; the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate or payments that vary to reflect changes in market rental rates. The payments are included in the lease payments and are measured/remeasured using the prevailing index or rate at the measurement date (e.g. lease commencement date for initial measurement or at the time when new CPI rate is available).

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

As an accounting policy choice, management has opted to remeasure the lease payments, being a lessor, to effect the subsequent changes resulting from variable lease payments that depend on an index or a rate, in accordance with the guidance provided by IFRS 16 for a lessee. Management has applied the effect of the catch-up adjustment of this remeasurement in the opening retained earnings as at 1 January 2019, in accordance with the guidance provided by IFRS 16 for a lessee.

3.2 Significant accounting policies (continued)

3.2.1 Application of IFRS 16 – Leases (continued)

b) Summary of new accounting policies (continued)

The Group has the option, under some of its leases to lease the assets for additional terms of three to five years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

4 Critical accounting judgements and key sources of estimation uncertainty

The preparation of condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2018, except as presented in note 3.2.1.

5 Segment information

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

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

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

Notes to the condensed consolidated interim financial information
for the three-month period ended 31 March 2019 (continued)

5 Segment information (continued)

	Three-month period ended 31 March 2019 (unaudited)				Three-month period ended 31 March 2018 (unaudited)			
	Chilled water AED '000	Value chain Business AED '000	Eliminations AED '000	Total AED '000	Chilled water AED '000	Value chain business AED '000	Eliminations AED '000	Total AED '000
Revenue								
External revenue	276,133	20,636	-	296,769	258,696	15,725	-	274,421
Inter–segment revenue	-	3,394	(3,394)	-	-	2,989	(2,989)	-
Total revenue	276,133	24,030	(3,394)	296,769	258,696	18,714	(2,989)	274,421
Operating costs	(120,626)	(14,753)	344	(135,035)	(117,542)	(12,531)	1,347	(128,726)
Gross profit	155,507	9,277	(3,050)	161,734	141,154	6,183	(1,642)	145,695
Administrative and other expenses	(46,540)	(6,717)	1,127	(52,130)	(43,248)	(6,610)	728	(49,130)
Operating profit	108,967	2,560	(1,923)	109,604	97,906	(427)	(914)	96,565
Finance costs	-	-	-	(45,409)	-	-	-	(40,655)
Finance income	-	-	-	778	-	-	-	145
Other gains and losses	-	-	-	265	-	-	-	314
Share of results of associates and joint ventures	15,544	-	-	15,544	21,764	-	-	21,764
Profit for the period				80,782				78,133

Inter-segment revenues and expenses are eliminated on consolidation.

	31 March 2019				*31 December 2018*			
	Chilled water AED'000	*Value chain business AED'000*	*Unallocated AED'000*	*Total AED'000*	*Chilled water AED'000*	*Value chain business AED'000*	*Unallocated AED'000*	*Total AED'000*
Total assets	8,770,229	143,337	10,200	8,923,766	8,328,324	143,419	12,527	8,484,270
Total Liabilities	942,428	64,079	3,279,970	4,286,477	692,741	65,017	2,989,044	3,746,802

Notes to the condensed consolidated interim financial information
for the three-month period ended 31 March 2019 (continued)

6 Basic and diluted earnings per share attributable to equity holders of the parent

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

	Three-month period ended 31 March	
	2019 (unaudited)	2018 (unaudited)
Profit for the period attributable to equity holders of the parent for basic earnings (AED '000)	**80,033**	77,743
Weighted average number of shares (excluding treasury shares) outstanding during the period (AED '000)	**2,713,513**	2,713,513
Basic and dilutive earnings per share (AED)	**0.03**	0.03

7 Capital work in progress

During the three-month period ended 31 March 2019, the Group has incurred capital expenditure of AED 10.3 million (31 March 2018: AED 21.6 million) primarily relating to construction of district cooling plants and distribution networks.

8 Right-of-use asset

The movement of the right-of-use asset is summarized as follows:

	AED '000
Net book value	
At 31 December 2018	-
Adoption of IFRS 16	223,464
At 1 January 2019	**223,464**
Depreciation	(6,976)
At 31 March 2019	**216,488**

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

9 Finance lease receivables

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

	AED '000
At 1 January 2019 (audited)	**2,869,966**
Adoption of IFRS 16	171,642
At 1 January 2019 (amended)	**3,041,608**
Finance lease income	76,654
Lease rentals received	(91,015)
At 31 March 2019	**3,027,247**

Finance lease receivable is allocated in this condensed consolidated interim statement of financial position as follows:

	At 31 March 2019 AED '000 (unaudited)	At 31 December 2018 AED '000 (audited)
Current	**305,067**	244,916
Non-current	**2,722,180**	2,625,050
	3,027,247	2,869,966

10 Lease liabilities

Movement in the lease liabilities during the period is as follows:

Lease liabilities are allocated in the consolidated statement of financial position as follows:

	AED '000
At 1 January 2019	-
Adoption of IFRS 16	307,816
At 1 January 2019 (amended)	**307,816**
Accretion	4,199
Repayment	(14,333)
At 31 March 2019	**297,682**

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

10 Lease liabilities (continued)

	31 March 2019 AED '000 (unaudited)	31 December 2018 AED '000 (audited)
Current	**45,007**	-
Non current	**252,675**	-
	297,682	-

11 Cash and cash equivalents

For the purposes of the condensed consolidated interim statement of cash flows, cash and cash equivalents include cash on hand and in banks. Cash and cash equivalents at the end of the reporting period as shown in the condensed consolidated interim statement of cash flows can be reconciled to the related items in the condensed consolidated interim statement of financial position as follows:

	31 March 2019 AED '000 (unaudited)	31 December 2018 AED '000 (audited)	31 March 2018 AED '000 (unaudited)
Bank balances and cash	**283,336**	231,419	526,057
Bank deposits	**150,200**	17,527	21,451
Cash and cash equivalents	**433,536**	248,946	547,508

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

11 Cash and cash equivalents (continued)

Geographical concentration of bank balances and cash and bank deposits is as follows:

	31 March 2019 AED '000 (unaudited)	31 December 2018 AED '000 (audited)	31 March 2018 AED '000 (unaudited)
Within UAE	**398,653**	222,716	531,035
Outside UAE	**34,883**	26,230	16,473
	433,536	248,946	547,508

Non-cash transactions in the condensed consolidated interim statement of cash flows:

- AED 257.9 million of dividend payable to shareholders.
- AED 216.5 million of right-of-use assets.
- AED 297.7 million of lease liabilities.

12 Interest bearing loans and borrowings

	Effective interest rate %	***31 March 2019 AED '000*** **(unaudited)**	*31 December 2018 AED '000* (audited)
Term loan 1 (i)	LIBOR + margin	**840,937**	840,417
Term loan 2 (ii)	5.25%	**69,481**	72,702
Term loan 3 (iii)	EIBOR + margin	**170,399**	174,095
Term loan 4 (iv)	EIBOR + margin	**72,514**	72,977
		1,153,331	1,160,191

Interest bearing loans and borrowings are allocated in the consolidated statement of financial position as follows:

	31 March 2019 AED '000 **(unaudited)**	*31 December 2018 AED '000* (audited)
Current portion	**146,760**	143,665
Non-current portion	**1,006,571**	1,016,526
	1,153,331	1,160,191

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

12 Interest bearing loans and borrowings (continued)

(i) Term loan 1
Facility of US$ 250 million from the local banks. The facility carries interest rate of LIBOR plus a margin, payable in cash on a quarterly basis, the facility is repayable in 10 fixed semi-annual instalments commencing with a bullet payment of 30% on 31 December 2023.

(ii) Term loan 2
Term loan 2 relates to a subsidiary and represents borrowing with a local commercial bank. The loan is repayable in quarterly instalments and carries fixed interest of 5.25% per annum (December 2018: 5.15% per annum).

(iii Term loan 3
Term loan 3 relates to a subsidiary and represents borrowing facility from a local commercial bank. The facility carries interest rate of EIBOR plus a margin, payable in cash on a quarterly basis. The facility is repayable in 23 semi-annual instalments which commenced on March 2017 with a bullet payment of AED 48.1 million in March 2028.

(iv) Term loan 4
Term loan 4 relates to a subsidiary and represents borrowing facility from a local commercial bank. The facility carries interest rate of EIBOR plus a margin, payable in cash on a quarterly basis. The facility is repayable in 60 quarterly instalments with the last instalment due on 30 June 2031.

13 Non-convertible sukuk

In 2018, the Group issued 7 year investment grade Islamic Bonds (Sukuk) of US$ 500 million which are listed on the London Stock Exchange. The bonds carry a profit rate of 5.5% payable semi-annually. The bonds are repayable on 31 October 2025.

The bonds are stated net of discount and transaction costs incurred in connection with the arrangements, amounting to AED 7.8 million, which are amortised to the condensed consolidated interim statement of profit or loss over the repayment period of the bonds using effective interest rate method.

14 Finance costs

	Three-month period ended 31 March	
	2019	2018
	AED '000	AED '000
Interest charged to condensed consolidated interim statement of profit or loss during the period	**45,409**	40,655
Interest charged to condensed consolidated interim statement of profit or loss comprises of:		
Interest on interest bearing loans, sukuk, amortisation and other charges	**41,210**	40,655
Accretion on lease liabilities (upon adoption of IFRS 16)	**4,199**	-
	45,409	40,655

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

15 Commitments and contingencies

Capital commitments

The authorised capital expenditure contracted for at 31 March 2019 but not provided for amounted to AED 188.1 million (31 December 2018: AED 174.6 million) related to capital work in progress (note 7).

Contingencies

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

	At 31 March 2019 AED '000 (unaudited)	At 31 December 2018 AED '000 (audited)
Performance guarantees	**122,288**	112,130
Advance payment guarantees	**633**	633
Financial guarantees	**50**	2,585
	122,971	115,348

16 Related party transactions and balances

Related parties represent associated companies, joint ventures, majority shareholder, directors, key management personnel of the Group and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the condensed consolidated interim statement of profit or loss are as follows:

	Three-month period ended			
	31 March 2019		*31 March 2018*	
	Revenue AED '000	***Operating costs AED '000***	*Revenue AED '000*	*Operating costs AED '000*
Associated companies	**1,263**	**15,481**	1,239	24,578
Joint Venture	**1,201**	**-**	1,218	-

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16 Related party transactions and balances (continued)

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

	31 March 2019	
	Trade receivable	***Trade payables and advances***
	AED '000	***AED '000***
Associated companies	**10,857**	**41,034**
Joint venture	**2,870**	**-**
	13,727	**41,034**

	31 March 2018	
	Trade receivable	*Trade payables and advances*
	AED '000	*AED '000*
Associated companies	14,863	40,340
Joint venture	1,561	-
	16,424	40,340

Compensation of key management personnel

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

	Three-month period ended 31 March	
	2019	2018
	AED'000	AED'000
	(unaudited)	(unaudited)
Short-term benefits	**2,006**	1,956
Employees' end of service benefits	**60**	56
	2,066	2,012
Number of key management personnel	**5**	5

Notes to the condensed consolidated interim financial information for the three-month period ended 31 March 2019 (continued)

17 Dividends and board remuneration

The Board of Directors proposed a cash dividend of 9.5 fils per share pertaining to the shareholders in respect of the fiscal year ended 31 December 2018. The shareholders at the Annual General Meeting held on 6 March 2019 approved the dividends. The dividends comprised of AED 257.9 million to the shareholders and was paid in April 2019.

In 2018, the Board of Directors proposed a cash dividend of 8.0 fils per share pertaining to the shareholders in respect of the fiscal year ended 31 December 2018. The dividend was approved by the shareholders at the Annual General Meeting held on 7 March 2018. The dividend comprised of AED 217.2 million to the shareholders and was paid in April 2018.

Furthermore, Board of Directors' remuneration of AED 7.1 million for the year ended 31 December 2018 was also approved at the Annual General Meeting held on 6 March 2019. Board remuneration of AED 7.1 million for the year ended 31 December 2017 was approved at the previous Annual General Meeting on 7 March 2018.

18 Seasonality of operations

Interim results fluctuate due to the seasonal demands for chilled water, in line with the average temperatures in the region. Tabreed's operations generally produce higher revenues in the summer due to increased customer consumption, while certain expenses such as depreciation, interest and operating expenses remain more evenly distributed throughout the fiscal year. As a result, interim net profits are not indicative of net profits on an annual basis.

19 Fair value measurement

The carrying values of the Group's financial assets and financial liabilities as at 31 March 2019 are not materially different from their fair values as at 31 December 2018.

20 Approval of condensed consolidated interim financial information

The condensed consolidated interim financial information of the Group was authorised for issuance by the Board of Directors on 1 May 2019.