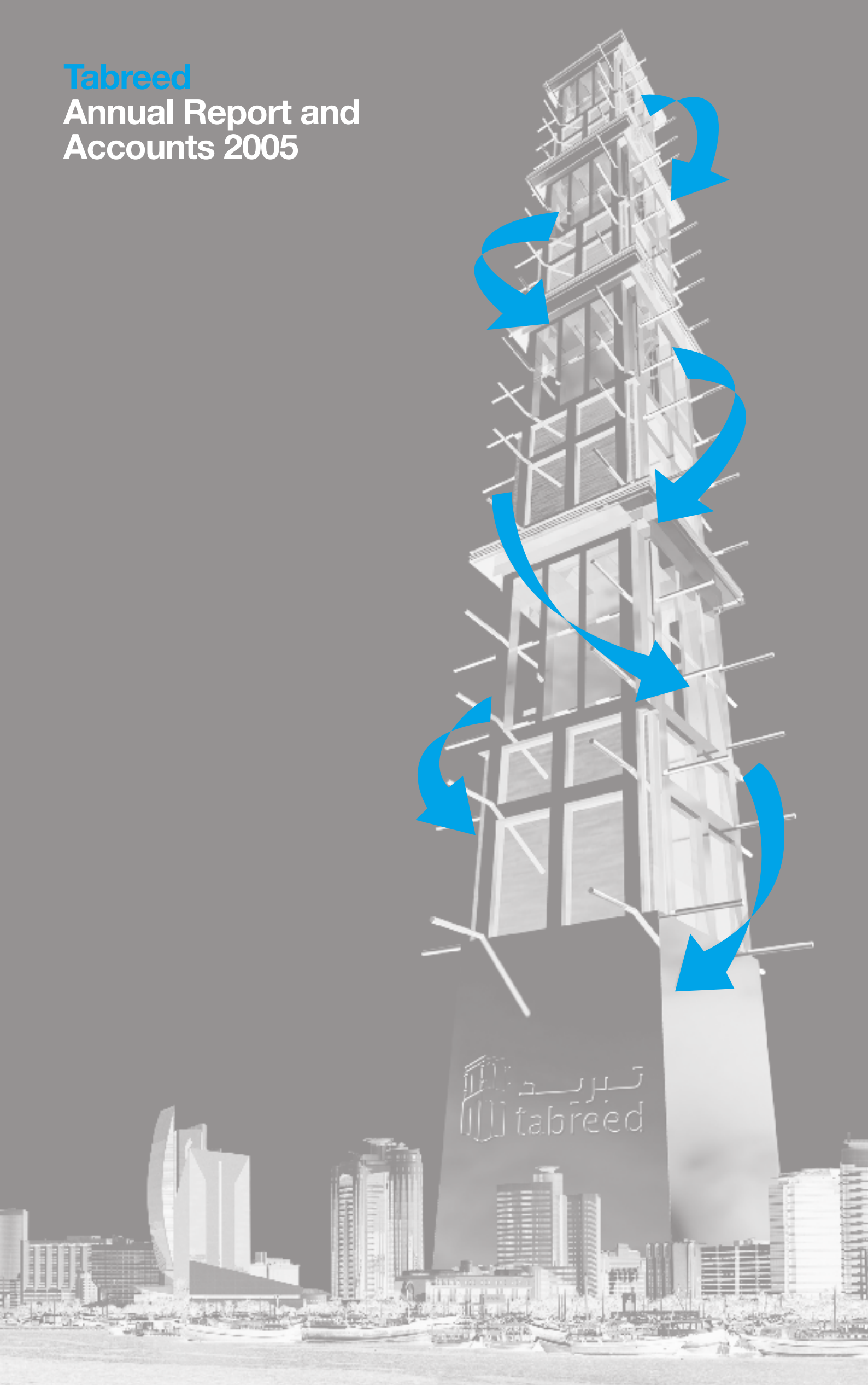


Tabreed
Annual Report and
Accounts 2005



Auditors Report

To the Shareholders of National Central Cooling Company PJSC

We have audited the accompanying consolidated balance sheet of National Central Cooling Company PJSC ("the Company") and its subsidiaries as of 31 December 2005, and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as of 31 December 2005 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

We also confirm that in our opinion 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 in agreement with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit, and to the best of our knowledge and belief no violations of the U.A.E. Commercial Companies Law of 1984 (as amended) or the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Signed by
Bassam E Hage
Partner
Registration No. 258

February 12, 2006
Abu Dhabi

Consolidated Income Statement

Year ended 31 December 2005

| | Notes | 2005 AED '000 | 2004 AED'000 |
|--------------------------------------------------------|-------|------------------|-----------------|
| Revenues | 3 | 400,904 | 242,085 |
| Operating costs | | (248,988) | (150,788) |
| GROSS PROFIT | | 151,916 | 91,297 |
| Salaries and staff related costs | | (30,753) | (21,753) |
| Other administrative expenses | | (37,989) | (20,319) |
| Amortisation and impairment of goodwill and trademarks | 12 | (606) | (862) |
| Finance costs | | (35,433) | (20,401) |
| Other income | 4 | 20,034 | 7,759 |
| Share of results of associates | 10 | 478 | (228) |
| PROFIT FOR THE YEAR | | 67,647 | 35,493 |
| Attributable to: | | | |
| Equity holders of the parent | | 51,140 | 31,585 |
| Minority interests | | 16,507 | 3,908 |
| | | 67,647 | 35,493 |
| Basic earnings per share | 6 | 0.05 | 0.04 |

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

Consolidated Balance Sheet At 31 December 2005

| | Notes | 2005 AED '000 | 2004 AED '000 (Restated) |
|-----------------------------------------------------------------|---------|------------------|--------------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Capital work in progress | 8 | 642,921 | 331,962 |
| Property, plant and equipment | 9 | 1,004,108 | 772,894 |
| Investments in associates | 10 | 46,002 | 18,519 |
| Intangibles | 12 | 38,336 | 30,044 |
| Prepayments | | 18,349 | 21,988 |
| | | 1,749,716 | 1,175,407 |
| Current assets | | | |
| Inventories | | 17,651 | 8,418 |
| Trade and other receivables | 14 | 207,007 | 125,934 |
| Financial assets carried at fair value through income statement | | 76,269 | - |
| Contract work in progress | 15 | 69,211 | 70,457 |
| Prepayments | | 7,453 | 8,184 |
| Bank balances and cash | 16 | 520,032 | 255,390 |
| | | 897,623 | 468,383 |
| Assets classified as held for sale | 2.2 & 9 | 17,867 | - |
| | | 915,490 | 468,383 |
| TOTAL ASSETS | | 2,665,206 | 1,643,790 |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 17 | 1,000,000 | 500,000 |
| Treasury shares | 18 | (10,050) | (5,050) |
| Statutory reserve | 19 | 14,544 | 7,914 |
| Retained earnings | | 22,881 | 28,371 |
| Cumulative changes in fair value of derivatives | 26 | 3,800 | (6,419) |
| Reserve for proposed bonus issue | 20 | 50,000 | - |
| Proposed dividend | 20 | - | 25,000 |
| | | 1,081,175 | 549,816 |
| Minority interests | | 64,601 | 14,530 |
| Total equity | | 1,145,776 | 564,346 |
| Non-current liabilities | | | |
| Accounts payable and accruals | 24 | 10,604 | 1,194 |
| Term loans | 21 | 393,836 | 213,680 |
| Islamic Ijara loans | 22 | 308,809 | 324,323 |
| Islamic Istisna'a loans | 22 | 180,075 | 180,075 |
| Islamic Muqawala loans | 22 | 132,263 | 121,826 |
| Employees' end of service benefits | 23 | 7,884 | 5,604 |
| | | 1,033,471 | 846,702 |
| Current liabilities | | | |
| Accounts payable and accruals | 24 | 318,919 | 161,211 |
| Bank overdrafts | 16 | 111,933 | 27,501 |
| Current portion of term loans | 21 | 25,416 | 26,313 |
| Current portion of Ijara loans | 22 | 15,514 | 9,396 |
| Current portion of Muqawala loans | 22 | 14,177 | 8,321 |
| | | 485,959 | 232,742 |
| Total liabilities | | 1,519,430 | 1,079,444 |
| TOTAL EQUITY AND LIABILITIES | | 2,665,206 | 1,643,790 |

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

Consolidated Statement of Cash Flows At 31 December 2005

| | Notes | 2005 AED '000 | 2004 AED '000 (Restated) |
|---------------------------------------------------------------------------------------------------------------|-------|------------------|--------------------------------|
| OPERATING ACTIVITIES | | | |
| Profit for the year attributable to equity holders of the parent | | 51,140 | 31,585 |
| Adjustment for: | | | |
| Depreciation | 9 | 43,404 | 36,415 |
| Amortisation of goodwill and trademarks | 12 | 12 | 862 |
| Provision for impairment losses relating to goodwill | 12 | 594 | - |
| Provision for employees' end of service benefits | 23 | 2,280 | 2,152 |
| Interest income | 4 | (9,764) | (3,962) |
| Finance costs | | 35,433 | 20,401 |
| Revaluation gain on financial assets carried at fair value through income statement | 4 | (5,486) | - |
| Profit on sale of property, plant and equipment | | (84) | (746) |
| | | 117,529 | 86,707 |
| WORKING CAPITAL CHANGES | | | |
| Inventories | | (9,233) | (3,613) |
| Accounts receivable and prepayments | | (66,484) | (76,725) |
| Contract work in progress | | 1,246 | (41,022) |
| Accounts payable and accruals | | 167,118 | (21,686) |
| Net cash from (used in) operations | | 210,176 | (56,339) |
| Minority interests | | 50,071 | 6,543 |
| Finance costs | | (35,433) | (20,401) |
| Net cash from (used in) operating activities | | 224,814 | (70,197) |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | 9 | (26,088) | (5,701) |
| Proceeds from sale of property, plant and equipment | | 193 | 76,565 |
| Additional goodwill arising on acquisition of subsidiary | 12 | (8,898) | - |
| Investments in associates | | (27,483) | (13,541) |
| Purchase of financial assets carried at fair value through income statement | | (70,783) | - |
| Additions to capital work in progress | | (577,465) | (219,813) |
| Acquisition of subsidiaries, net of cash acquired | | - | (25,103) |
| Interest received | 4 | 9,764 | 3,962 |
| Net cash used in investing activities | | (700,760) | (183,631) |
| FINANCING ACTIVITIES | | | |
| Share capital received | 17 | 500,000 | - |
| Contribution to Treasury shares | 18 | (5,000) | (5,050) |
| Dividends paid | | (25,000) | (15,000) |
| Term loans received | | 208,081 | 250,040 |
| Term loans repaid | | (28,822) | (194,966) |
| Islamic Ijara loans received | | - | 187,425 |
| Islamic Ijara loans repaid | | (9,396) | (94,706) |
| Muqawala loans received | | 18,757 | 86,228 |
| Muqawala loans repaid | | (2,464) | (2,465) |
| Islamic Istisna'a loans received | | - | 180,075 |
| Net cash from financing activities | | 656,156 | 391,581 |
| INCREASE IN CASH AND CASH EQUIVALENTS | | 180,210 | 137,753 |
| Cash and cash equivalents at 1 January | 16 | 227,889 | 90,136 |
| CASH AND CASH EQUIVALENTS AT 31 DECEMBER | 16 | 408,099 | 227,889 |
| Significant non-cash transactions, which have been excluded from the statement of cash flows, are as follows: | | | |
| Accounts payable and accruals – fair value adjustment for derivatives | | - | 1,248 |
| Accounts receivable and prepayments – fair value adjustment for derivatives | | 10,219 | (3,352) |
| Transfer from capital work in progress to property, plant and equipment | | 266,506 | 17,025 |
| Transfer from property, plant and equipment to assets held for sale | | 17,867 | - |

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

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

Attributable to equity holders of the parent

| | Share capital AED 000 | Treasury shares AED 000 | Statutory reserve AED 000 | Retained earnings AED 000 | Cumulative changes in fair value of derivatives AED 000 | Reserve for proposed bonus issue AED 000 | Proposed dividend AED 000 | Total AED 000 | Minority interests AED 000 | Total equity AED 000 |
|----------------------------------------------------------------------|--------------------------|----------------------------|------------------------------|------------------------------|------------------------------------------------------------|---------------------------------------------|------------------------------|------------------|-------------------------------|-------------------------|
| Balance at 1 January 2004 (as previously stated) | 500,000 | - | 5,160 | 25,838 | (4,315) | - | 15,000 | 541,683 | 7,986 | 549,669 |
| Effect of adopting IFRS 2 (note 18) | - | - | - | (1,298) | - | - | - | (1,298) | - | (1,298) |
| Reclassification from advance to employee incentive scheme (note 18) | - | (5,050) | - | - | - | - | - | (5,050) | - | (5,050) |
| At 1 January 2004 (restated) | 500,000 | (5,050) | 5,160 | 24,540 | (4,315) | - | 15,000 | 535,335 | 7,986 | 543,321 |
| Net movement in fair value of cash flow hedges | - | - | - | - | (2,104) | - | - | (2,104) | - | (2,104) |
| Total expense for the year recognised directly in equity | - | - | - | - | (2,104) | - | - | (2,104) | - | (2,104) |
| Profit for the year | - | - | - | 31,585 | - | - | - | 31,585 | 3,908 | 35,493 |
| Total income and expense for the year | - | - | - | 31,585 | (2,104) | - | - | 29,481 | 3,908 | 33,389 |
| Increase in share capital of subsidiaries | - | - | - | - | - | - | - | - | 4,877 | 4,877 |
| Transfer to statutory reserve | - | - | 2,754 | (2,754) | - | - | - | - | - | - |
| Purchase of minority interests during the year | - | - | - | - | - | - | - | - | (1,041) | (1,041) |
| Dividend paid | - | - | - | - | - | - | (15,000) | (15,000) | (1,200) | (16,200) |
| Dividend proposed | - | - | - | (25,000) | - | - | 25,000 | - | - | - |
| Balance at 31 December 2004 (restated) | 500,000 | (5,050) | 7,914 | 28,371 | (6,419) | - | 25,000 | 549,816 | 14,530 | 564,346 |
| Net movement in fair value of cash flow hedges | - | - | - | - | 10,219 | - | - | 10,219 | - | 10,219 |
| Total income for the year recognised directly in equity | - | - | - | - | 10,219 | - | - | 10,219 | - | 10,219 |
| Profit for the year | - | - | - | 51,140 | - | - | - | 51,140 | 16,507 | 67,647 |
| Total income and expense for the year | - | - | - | 51,140 | 10,219 | - | - | 61,359 | 16,507 | 77,866 |
| Increase in share capital | 500,000 | - | - | - | - | - | - | 500,000 | 36,264 | 536,264 |
| Transfer to statutory reserve | - | - | 6,630 | (6,630) | - | - | - | - | - | - |
| Dividend paid | - | - | - | - | - | - | (25,000) | (25,000) | (2,700) | (27,700) |
| Contribution to treasury shares | - | (5,000) | - | - | - | - | - | (5,000) | - | (5,000) |
| Proposed bonus issue | - | - | - | (50,000) | - | 50,000 | - | - | - | - |
| Balance at 31 December 2005 | 1,000,000 | (10,050) | 14,544 | 22,881 | 3,800 | 50,000 | - | 1,081,175 | 64,601 | 1,145,776 |

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

Notes To The Consolidated Financial Statements

31 December 2005

01 Activities

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

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

The consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 12 February 2006.

02 Significant Accounting Policies

2.1 Basis of Preparation

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

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

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

2.2 Changes in Accounting Policies

The accounting policies are consistent with those used in the previous year except that the Company has adopted those new / revised standards mandatory for financial years beginning on or after 1 January 2005.

The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 2 Share-based payment
- IFRS 3 Business Combinations and IAS 36 (revised) Impairment of Assets
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

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

• IFRS 2 Share-based Payment

The accounting policy for share based payment transactions is described in the summary of significant accounting policies. The main impact of IFRS 2 on the Company is the recognition of an expense and a corresponding entry to liability for cash settled notional units of Company's ordinary shares granted to qualifying employees of the Company. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

The Company has applied IFRS 2 retrospectively and the effect of the policy has

decreased consolidated current year profits by AED 1.8 million and retained earnings at 1 January 2004 by AED 1.3 million. A liability of AED 7.2 million representing the fair value of the outstanding cash settled notional units of Company's ordinary shares granted as at 31 December 2005 is carried in the balance sheet (refer to note 18).

- IFRS 3 Business Combinations and IAS 36 (revised) Impairment of Assets
IFRS 3 has been applied for business combinations for which the agreement date is on or after 31 March 2004. Additionally, the adoption of IFRS 3 and IAS 36 (revised) has resulted in the Company ceasing annual goodwill amortisation and commencing testing for impairment at the cash generating unit level annually from 1 January 2005. The transitional provisions of IFRS 3 have required the Company to eliminate at 1 January 2005 the carrying amount of the accumulated amortisation by AED 8.6 million with a corresponding entry to goodwill.

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
IFRS 5 requires a component of an entity to be classified as discontinued when the criteria to be classified as held for sale have been met or it has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

The effect of the policy has resulted in the reclassification of the net carrying amount of AED 17.9 million representing a district cooling plant from non-current assets to the heading of 'assets classified as held for sale' under current assets. The Company has committed to a third party for the sale of the plant at a value expected by the management to be in excess of its carrying amount at 31 December 2005.

2.3 Significant Accounting Estimates

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

Notes To The Consolidated Financial Statements

31 December 2005

Impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Company to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was AED 38 million (2004: AED 30 million). More details are given in note 12.

Impairment of accounts receivable

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

At the balance sheet date, gross trade accounts receivable were AED 168.4 million (2004: AED 114.5 million), and the provision for doubtful debts was AED 7.8 million (2004: AED 6 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

2.4 Significant Accounting Policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and each of its controlled subsidiaries as at 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Where subsidiary financial statements are drawn up to different reporting dates, adjustments are made. All significant inter-company balances, transactions and profits have been eliminated on consolidation.

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

Minority interest principally represents

the interest in subsidiaries not held by the Company and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Revenue recognition

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

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

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

Capital work in progress

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

Property, plant and equipment

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

| | |
|----------------------------------|-------------------|
| Plant and buildings | over 25 years |
| Furniture and fixtures | over 3 to 4 years |
| Office equipment and instruments | over 3 to 4 years |
| Motor vehicles | over 4 to 5 years |

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

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

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

Investments in associates

The Company's investments in associates are accounted for under the equity method of accounting. These are entities in which the Company has between 20% to 50% of the voting power or over which it exercises significant influence and which is neither a subsidiary nor a joint venture. Investments in associates are carried in the balance sheet at cost, plus post-acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The income statement reflects the Company's share of the results of its associates.

The reporting dates of the associates and the Company are identical and the associates' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

Interest in joint venture

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

Notes To The Consolidated Financial Statements

31 December 2005

Intangibles

Goodwill

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

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

- represents the lowest level within the Company at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Company's primary or secondary reporting format determined in accordance with IAS 14 Segment Reporting.

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

Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised (net of interest income on

temporary investment of borrowings) as part of the cost of the asset until the asset is commissioned for use. Borrowing costs in respect of completed assets or not attributable to assets are expensed in the period in which they are incurred.

Contract work in progress

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

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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 a first-in, first-out basis.
- Work in progress and finished goods – costs of direct materials and labour plus attributable overheads based on a normal level of activity.

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

Accounts receivable

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

Cash and cash equivalents

For the purpose of the 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.

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

Term loans and Islamic loans

The term loans and Islamic loans are carried on the balance sheet at their principal amount. Instalments due within one year are shown as a current liability. Interest on term loans and fluctuating profit charges on Islamic loans are charged as an expense or capitalised as part of capital work in progress in accordance with International Accounting Standard No 23 as they accrue, with unpaid amounts included in "accounts payable and accruals".

Financial assets at fair value through income statement

Investments are classified as financial assets at fair value through income statement if the fair value of the investment can be reliably measured. These are re-measured at fair value with all changes in fair value being recorded in the income statement.

Leases

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

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as

Notes To The Consolidated Financial Statements

31 December 2005

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

Employees' end of service benefits

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

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

Derivative financial instruments

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

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement. Any gains or losses on the hedged item attributable to the hedged risk are adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is

amortised to the income statement such that it is fully amortised by maturity.

In relation to cash flow hedges which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in equity and the ineffective portion is recognised in the income statement. The gain or loss on effective cash flow hedges recognised initially in equity is either transferred to the income statement in the period in which the underlying transaction impacts the income statement or capitalised with other borrowing costs directly attributable to the construction of each plant as part of the capital work in progress. The capitalisation of gain or loss ceases when the asset is commissioned for use.

For derivatives that do not qualify for special hedge accounting, any gain or loss arising from changes in fair value is taken to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for special hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

Share-based payment transactions

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

Treasury shares

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

Foreign currencies

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

Financial instruments

Financial instruments comprise receivables, deposits, bank balances and cash, payables and certain other assets and liabilities.

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

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

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

2.5 IASB Interpretation Issued But Not Adopted

The following Interpretation has been issued but is not yet mandatory, and has not yet been adopted by the Company:

IFRIC 4 Determining Whether an Arrangement Contains a Lease

Management is aware of the application of the above interpretation, which will take place during 2006. The Management is in the process of assessing the applicability of the interpretation, if any, to its operations at the balance sheet date.

Notes To The Consolidated Financial Statements

31 December 2005

03 Segmental Analysis

| | Services AED '000 | Chilled water AED '000 | Contracting AED'000 | Manufacturing AED'000 | Eliminations AED'000 | Total AED'000 |
|--------------------------------|----------------------|------------------------------|------------------------|--------------------------|-------------------------|------------------|
| 2005 | | | | | | |
| Revenue | | | | | | |
| External revenue | 37,838 | 133,128 | 109,317 | 120,621 | - | 400,904 |
| Inter-segment sales | 9,690 | - | - | - | (9,690) | - |
| Total revenue | 47,528 | 133,128 | 109,317 | 120,621 | (9,690) | 400,904 |
| Result | | | | | | |
| Segment result | 15,647 | 21,058 | 21,395 | 32,163 | (2,911) | 87,352 |
| Finance costs | - | - | - | - | - | (35,433) |
| Interest income | - | - | - | - | - | 15,250 |
| Share of results of associates | - | 478 | - | - | - | 478 |
| Minority interests | - | - | - | - | - | (16,507) |
| Profit for the year | | | | | | 51,140 |
| 2004 | | | | | | |
| Revenue | | | | | | |
| External revenue | 13,606 | 101,494 | 83,988 | 42,997 | - | 242,085 |
| Inter-segment sales | 1,526 | - | - | - | (1,526) | - |
| Total revenue | 15,132 | 101,494 | 83,988 | 42,997 | (1,526) | 242,085 |
| Result | | | | | | |
| Segment result | 2,803 | 23,364 | 16,499 | 9,540 | (46) | 52,160 |
| Finance costs | - | - | - | - | - | (20,401) |
| Interest income | - | - | - | - | - | 3,962 |
| Share of results of associates | - | (228) | - | - | - | (228) |
| Minority interests | - | - | - | - | - | (3,908) |
| Profit for the year | | | | | | 31,585 |

| | Services AED '000 | Chilled water AED'000 | Contracting AED'000 | Manufacturing AED'000 | Total AED'000 |
|----------------------------|----------------------|-----------------------------|------------------------|--------------------------|------------------|
| 2005 | | | | | |
| Other information | | | | | |
| Segment assets | 57,405 | 2,304,390 | 183,319 | 74,090 | 2,619,204 |
| Investments in associates | - | 46,002 | - | - | 46,002 |
| Total assets | 57,405 | 2,350,392 | 183,319 | 74,090 | 2,665,206 |
| Segment liabilities | 9,627 | 1,349,683 | 138,492 | 21,628 | 1,519,430 |
| 2004 | | | | | |
| Segment assets | 17,729 | 1,429,748 | 140,145 | 37,649 | 1,625,271 |
| Investments in associates | - | 18,519 | - | - | 18,519 |
| Total assets | 17,729 | 1,448,267 | 140,145 | 37,649 | 1,643,790 |
| Segment liabilities | 6,233 | 968,534 | 90,118 | 14,559 | 1,079,444 |

Notes To The Consolidated Financial Statements

31 December 2005

03 Segmental Analysis continued

| | Services AED '000 | Chilled water AED'000 | Contracting AED'000 | Manufacturing AED'000 | Total AED'000 |
|------------------------------------|----------------------|-----------------------------|------------------------|--------------------------|------------------|
| Other information continued | | | | | |
| 2005 | | | | | |
| Capital expenditure: | | | | | |
| Tangible fixed assets | 615 | 22,353 | 79 | 3,041 | 26,088 |
| Depreciation | 358 | 41,947 | 216 | 883 | 43,404 |
| Amortisation | - | 12 | - | - | 12 |
| 2004 | | | | | |
| Capital expenditure: | | | | | |
| Tangible fixed assets | 23 | 3,511 | 1,765 | 402 | 5,701 |
| Depreciation | 160 | 35,387 | - | 868 | 36,415 |
| Amortisation | - | 862 | - | - | 862 |

The Company is organised as one geographical segment and consequently, no secondary information is required to be provided.

04 Other Income

| | 2005 AED '000 | 2004 AED'000 |
|----------------------|------------------|-----------------|
| Bank interest | 9,764 | 3,962 |
| Investment income | 5,486 | - |
| Miscellaneous income | 4,784 | 3,797 |
| | 20,034 | 7,759 |

05 Profit for the Year

The profit for the year is stated after charging:

| | 2005 AED '000 | 2004 AED'000 |
|---------------------------------------------------------------|------------------|-----------------|
| Inventories recognised as expense upon sale of finished goods | 82,696 | 29,884 |

Notes To The Consolidated Financial Statements

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06 Basic Earnings Per Share

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

| | 2005 | 2004 |
|----------------------------------------------------------|---------|---------|
| Profit for the year (AED '000) | 51,140 | 31,585 |
| Weighted average number of ordinary shares issued ('000) | 945,205 | 814,800 |
| Basic earnings per share (AED '000) | 0.05 | 0.04 |

The weighted average number of ordinary shares in issue used in the determination of the earnings per share for the year ended 31 December 2004 have been adjusted for the effect of the split of the nominal value of the Company's ordinary shares from AED 10 to AED 1 per share.

07 Results of Subsidiaries

Included in the consolidated income statement for the years ended 31 December 2005 and 2004 are the following in respect of subsidiary operations:

| | 2005 AED'000 | 2004 AED'000 |
|----------------------------------------------|-----------------|-----------------|
| Revenues | 281,360 | 144,019 |
| Expenses | (215,001) | (116,578) |
| Profit for the year before minority interest | 66,359 | 27,441 |

The above balances represent results prior to eliminations for intercompany transactions.

08 Capital Work In Progress

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

| | 2005 AED'000 | 2004 AED'000 (Restated) |
|----------------------------------------------------|-----------------|-------------------------------|
| Balance at 1 January | 306,106 | 117,357 |
| Additions during the year | 555,777 | 205,774 |
| Transfer to property, plant and equipment (note 9) | (266,506) | (17,025) |
| Balance at 31 December | 595,377 | 306,106 |
| Advances to contractors | 47,544 | 25,856 |
| | 642,921 | 331,962 |

A substantial portion of capital work in progress has been funded under Islamic financing arrangements and term loans (notes 21 and 22). Upon completion of the construction of plants under Istisna'a financing arrangements, the total cost of the plant thereafter is financed under an Islamic Ijara agreement.

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

Notes To The Consolidated Financial Statements

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08 Capital Work In Progress continued

In addition, AED 178.3 million (2004: AED 220.4 million) is included in capital work in progress which has been funded under a separate Islamic financing arrangement.

Included in additions to capital work in progress are capitalised financing costs amounting to AED 29.5 million (2004: AED 23.3 million).

09 Property, Plant and Equipment

| | Plant and buildings AED | Furniture and fixtures AED | Office equipment and instruments AED | Motor vehicles AED | Total AED |
|-------------------------------------------------|----------------------------|-------------------------------|-----------------------------------------|-----------------------|------------------|
| Cost: | | | | | |
| At 1 January 2005 | 825,495 | 5,242 | 11,641 | 2,031 | 844,409 |
| Additions | 23,328 | 1,369 | 1,198 | 193 | 26,088 |
| Transfer from capital work in progress (note 8) | 264,155 | - | 2,351 | - | 266,506 |
| Transfer of assets held for sale (note 2.2) | (19,748) | - | - | - | (19,748) |
| Disposals | (96) | (12) | (21) | (125) | (254) |
| At 31 December 2005 | 1,093,134 | 6,599 | 15,169 | 2,099 | 1,117,001 |
| Depreciation: | | | | | |
| At 1 January 2005 | (63,159) | (2,779) | (4,675) | (902) | (71,515) |
| Charge for the year | (40,275) | (1,117) | (1,651) | (361) | (43,404) |
| Transfer of assets held for sale | 1,881 | - | - | - | 1,881 |
| Disposals | 5 | 7 | 8 | 125 | 145 |
| At 31 December 2005 | (101,548) | (3,889) | (6,318) | (1,138) | (112,893) |
| Net carrying amount: | | | | | |
| At 31 December 2005 | 991,586 | 2,710 | 8,851 | 961 | 1,004,108 |
| At 31 December 2004 | 762,336 | 2,463 | 6,966 | 1,129 | 772,894 |

The depreciation charge for the year has been dealt with as follows:

| | 2005 AED '000 | 2004 AED '000 |
|-------------------------------------------|------------------|------------------|
| Included in operating costs | 39,401 | 32,981 |
| Included in other administrative expenses | 3,630 | 3,343 |
| Included in capital work in progress | 373 | 91 |
| | 43,404 | 36,415 |

At 31 December 2005, the net book value of plants financed by an Islamic Ijara loan under sale and leaseback Ijara financing arrangements amounted to AED 563.9 million (2004: AED 407.9 million). The plants are constructed on land which has been granted to the Company and one of its subsidiaries at nominal or no cost to them.

Included in land, plant and buildings is an amount of AED 11.1 million relating to freehold land purchased by the Company in the Emirate of Ajman for the purpose of constructing a district cooling plant.

Notes To The Consolidated Financial Statements

31 December 2005

10 Investments in Associates

The Company has the following investments in associates:

| | Country of incorporation | 2005 Ownership | 2004 |
|------------------------------------------|--------------------------|----------------|-------|
| Industrial City Cooling Company | Emirate of Abu Dhabi | 20% | 20% |
| Qatar Central Cooling Company PJSC | State of Qatar | 44.5% | 44.5% |
| Tabreed District Cooling Company (Saudi) | Kingdom of Saudi Arabia | 25% | - |

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

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

| | 2005 AED'000 | 2004 AED'000 |
|-------------------------------------------------------|-----------------|-----------------|
| Share of the associates' balance sheets: | | |
| Current assets | 38,239 | 12,856 |
| Non-current assets | 75,446 | 18,315 |
| Current liabilities | (21,068) | (1,402) |
| Non-current liabilities | (46,615) | (11,250) |
| Net assets | 46,002 | 18,519 |
| Share of the associates' revenues and results: | | |
| Revenues | 2,791 | 839 |
| Results | 478 | (228) |
| Carrying amount of the investments | 46,002 | 18,519 |

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

The Company invested an amount of AED 27.4 million representing its share of additional share capital issued by the associates during the year as follows:

| | AED'000 |
|------------------------------------------|---------|
| Qatar Central Cooling Company PJSC | 26,980 |
| Tabreed District Cooling Company (Saudi) | 491 |

Tabreed District Cooling Company (Saudi) was incorporated during the year and recently commenced operations. Hence, there were no significant operating activities during the year ended 31 December 2005.

Notes To The Consolidated Financial Statements

31 December 2005

11 Interest in Joint Venture

The Company's share of the assets and liabilities of the joint venture, SNC – Lavalin Gulf Contractors, a limited liability company incorporated in the Emirate of Abu Dhabi, included in the consolidated financial statements are as follows:

| | 2005 AED'000 | 2004 AED'000 |
|-------------------------|-----------------|-----------------|
| Current assets | 140,342 | 20,392 |
| Non-current assets | 572 | 2,599 |
| | 140,914 | 22,991 |
| Current liabilities | 125,147 | 17,774 |
| Non-current liabilities | 226 | 58 |
| | 125,373 | 17,832 |

There are no revenues or expenses of the joint venture for the years ended 31 December 2005 and 2004 included in the consolidated financial statements.

12 Intangibles

| | Goodwill | | Trademarks | | Total | |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 2005 AED'000 | 2004 AED'000 | 2005 AED'000 | 2004 AED'000 | 2005 AED'000 | 2004 AED'000 |
| Balance at 1 January | 30,030 | 11,059 | 14 | 75 | 30,044 | 11,134 |
| Additions during the year | 8,898 | 19,772 | - | - | 8,898 | 19,772 |
| Provision for impairment losses | (594) | - | - | - | (594) | - |
| Amortisation for the year | - | (801) | (12) | (61) | (12) | (862) |
| Balance at 31 December | 38,334 | 30,030 | 2 | 14 | 38,336 | 30,044 |

13 Impairment Testing of Goodwill

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

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

Ian Banham & Associates

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

Notes To The Consolidated Financial Statements

31 December 2005

13 Impairment Testing of Goodwill continued

Tabreed 1 District Cooling Plant

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

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

| | 2005 AED'000 | 2004 AED'000 |
|----------------------------------|-----------------|-----------------|
| Ian Banham & Associates | 27,711 | 18,811 |
| Tabreed 1 District Cooling Plant | 9,712 | 9,712 |

Key assumptions used in value in use calculation of Ian Banham & Associates and Tabreed 1 District Cooling Plant for the years ended 31 December 2005 and 2004:

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

Ian Banham & Associates:

Terminal Value of business is based on the estimate provided by the external consultant in the year ended 31 December 2004 and updated by the management as at 31 December 2005.

Tabreed 1:

Price Inflation: 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.

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

14 Trade and Other Receivables

| | 2005 AED'000 | 2004 AED'000 (Restated) |
|---------------------------|-----------------|-------------------------------|
| Trade accounts receivable | 160,617 | 108,523 |
| Other receivables | 46,390 | 17,411 |
| | 207,007 | 125,934 |

15 Contract Work in Progress

| | 2005 AED'000 | 2004 AED'000 |
|-------------------------------|-----------------|-----------------|
| Cost plus attributable profit | 261,291 | 158,844 |
| Less: progress billings | (192,080) | (88,387) |
| | 69,211 | 70,457 |

Notes To The Consolidated Financial Statements

31 December 2005

16 Cash and Cash Equivalents

Cash and cash equivalents included in the statement of cash flows include the following balance sheet amounts:

| | 2005 AED'000 | 2004 AED'000 |
|------------------------|-----------------|-----------------|
| Bank balances and cash | 520,032 | 255,390 |
| Bank overdrafts | (111,933) | (27,501) |
| | 408,099 | 227,889 |

Bank balances and cash include bank deposits of AED 104.2 million (2004: AED 144.1 million) placed with commercial banks in the United Arab Emirates. These are denominated in AED with effective rates in the range of 1.7% to 5.0% (2004: 0.875% to 3.5%).

17 Share Capital

| | 2005 AED'000 | 2004 AED'000 |
|----------------------------------------------------------------------------------------------------------|------------------|-----------------|
| Authorised and issued share capital | | |
| 1,000,000,000 ordinary shares at AED 1 each (31 December 2004: 500,000,000 ordinary shares of 1 each) | 1,000,000 | 500,000 |

The Company's authorised share capital was increased to 100,000,000 ordinary shares at the Extra-Ordinary General Meeting held in March 2005 by way of a rights issue. The rights issue was fully subscribed to at 19 April 2005.

Further, at the Extra-Ordinary General meeting held in July 2005, the shareholders approved the split of the nominal value of the Company's ordinary shares from AED 10 to AED 1. The comparative figures have been adjusted accordingly.

18 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 analysed as follow

| | AED'000 |
|---------------------------------------------------------------|---------------|
| Balance at 1 January 2004 (as previously reported) | - |
| Amount reclassified from advance to employee incentive scheme | 5,050 |
| | 5,050 |
| Balance at 1 January 2004 and 31 December 2004 (restated) | 5,050 |
| Contribution during the year | 5,000 |
| | 10,050 |
| Balance at 31 December 2005 | 10,050 |

Notes To The Consolidated Financial Statements

31 December 2005

18 Treasury Shares and Share-Based Payments continued

Previously the balance at 31 December 2004 was shown as an advance to employee incentive scheme under non-current assets. The Company retains the significant risks and rewards associated with the Company's ordinary shares held by a custodian. Accordingly, the amount of AED 5.05 million has been reclassified from advance to employee incentive scheme to treasury shares (shown under equity) as restatement of the balance at 1 January 2004.

The advance during the year represents the consideration paid by the Company to the custodian in respect of the rights issue (refer to note 17).

Share based payments

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

At 31 December 2005, the employee incentive scheme had outstanding notional units of the Company's ordinary shares analysed as follows:

| | No. of shares |
|-------------------------------------------------------------------------|----------------------|
| At 1 January 2005 | 1,254,485 |
| Notional units of the Company's ordinary shares granted during the year | 517,990 |
| Exercised during the year | (568,935) |
| At 31 December 2005 | 1,203,540 |

The weighted average fair value of notional units granted during the year was AED 3.6 (2004: AED 1.24).

IFRS 2 became effective from 1 January 2005. The main impact of IFRS 2 on the Company is that the fair value of cash settled notional units of Company's ordinary shares granted to qualifying employees during the year is expensed with recognition of a liability (note 2.2). The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement and capital work in progress, as applicable (refer below).

The portion of expense arising from the grant and subsequent remeasurement at each balance sheet is included in the consolidated financial statements as follows:

| | 2005 AED '000 |
|-----------------------------------------------------------------|--------------------------|
| Other administrative expenses (included under income statement) | 1,815 |
| Capital work in progress | 2,268 |

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

Notes To The Consolidated Financial Statements

31 December 2005

18 Treasury Shares and Share-Based Payments continued

The Company has applied IFRS 2 retrospectively and the effect of the policy has been recorded as restatement of the following prior year balances:

| | AED '000 |
|------------------------------------------------------------------------|-----------------|
| Advance to employee incentive scheme | (7,366) |
| Retained earnings at 1 January 2004 | (1,298) |
| Capital work in progress at 1 January 2004 | 1,093 |
| Liability for cash settled notional units of Company's ordinary shares | 4,158 |
| Other payables | (9,133) |

The amount of AED 9.1 million represents the reversal of the cumulative changes in value of advance to employee incentive scheme due to movements in the market value of the Company's ordinary shares. The changes in value were previously recorded under the balance sheet headings of 'advance to employee incentive scheme' and 'accounts payable and accruals'.

19 Statutory Reserve

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

20 Proposed Bonus Share Dividend

The Board of Directors has proposed a bonus share dividend (2004: cash dividend) amounting to AED 50 million (2004: AED 25 million). The bonus share dividend will be submitted for approval at the Annual General Meeting in 2006.

Notes To The Consolidated Financial Statements

31 December 2005

21 Term Loans

| | 2005 AED '000 | 2004 AED '000 |
|-----------------------------------|------------------|------------------|
| Term loans | 419,097 | 239,705 |
| Other loan | 155 | 288 |
| | 419,252 | 239,993 |
| <i>Due in less than one year:</i> | | |
| Term loans | 25,291 | 26,180 |
| Other loan | 125 | 133 |
| | 25,416 | 26,313 |
| <i>Due in more than one year:</i> | | |
| Term loans | 393,806 | 213,525 |
| Other loan | 30 | 155 |
| | 393,836 | 213,680 |
| | 419,252 | 239,993 |

The term loans are secured by pledges over plant and capital work in progress and a corporate guarantee in accordance with the facility agreements and are summarised as follows:

On 24 November 2003, the Company entered into a 12 year, AED 700 million term loan facility agreement (the "new facility") with a syndicate of international and UAE based banks. This facility agreement is to acquire new central cooling plants, and was used to refinance the term loan amounting to AED 135 million, which is secured over previously constructed central cooling plants (Note 9), along with the repayment of the bilateral bridging loan of AED 44 million. As at 31 December 2005, the Company has drawn down an amount of AED 424 million under the new facility, repayable in 24 semi annual instalments commencing 1 October 2004 in accordance with an agreed upon schedule.

On 26 April 2005, one of the subsidiaries of the Company entered into an 11.5 year, US \$20.8 million (AED: 76.4 million) term loan facility agreement with Sumitomo Mitsui Banking Corporation. This facility agreement is to construct a new central cooling plant. As at 31 December 2005 the Company has drawn an amount of AED 32.6 million under the facility, repayable in 20 semi annual instalments commencing 24 months after the date of agreement, in accordance with an agreed upon schedule.

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

At 31 December 2005, unutilised term loan facilities available to the Company amounted to AED 319.8 million (2004: AED 450 million).

Notes To The Consolidated Financial Statements

31 December 2005

22 Islamic Financing Arrangements

| | 2005 AED '000 | 2004 AED '000 |
|-----------------------------------|------------------|------------------|
| Ijara loans | 324,323 | 333,719 |
| Istisna'a loans | 180,075 | 180,075 |
| Muqawala loans | 146,440 | 130,147 |
| | 650,838 | 643,941 |
| <i>Due in more than one year:</i> | | |
| Ijara loans | 308,809 | 324,323 |
| Istisna'a loans | 180,075 | 180,075 |
| Muqawala loans | 132,263 | 121,826 |
| | 621,147 | 626,224 |
| <i>Due in less than one year:</i> | | |
| Ijara loans | 15,514 | 9,396 |
| Muqawala loans | 14,177 | 8,321 |
| | 29,691 | 17,717 |
| | 650,838 | 643,941 |

Ijara and Istisna'a loans:

The Islamic Ijara and Istisna'a loans consist of a number of facilities, which are secured by an assignment of the plant purchased under the Islamic financing arrangement and a joint credit and Islamic loan facility agreement.

Facility 1

The first facility of AED 150 million is repayable in 16 fixed semi-annual instalments commencing from 18 March 2004 and a fluctuating profit charge is paid under the Islamic financing agreements, which is based on EIBOR plus a margin. The amount outstanding at 31 December 2005 is AED 136.9 million (2004: AED 146.3 million).

Facility 2 (Sukuk Financing)

On 2 March 2004, the Company entered into Purchase and Ijara Agreements ('the Agreement') with Tabreed Financing Corporation for the sale and leaseback of certain assets of the Company as specified in the Agreement with a total cost of US \$51 million (AED 187.4 million).

Furthermore, the Company entered into an Istisna'a Agreement dated 2 March 2004 with Tabreed Financing Corporation for the manufacture and commission of certain assets as specified in the Istisna'a Agreement amounting to US \$49 million (AED 180 million). On completion, the specified assets will be sold and leased back from Tabreed Financing Corporation under similar arrangements as specified in the existing Ijara Agreement above.

In March 2009, the Company will purchase the assets leased back under the Ijara Agreement from Tabreed Financing Corporation for an amount of US \$100 million, which is the full repayment of the Ijara and Istisna'a loans referred to above.

The Ijara Agreement carries 10 semi-annual rental payments of AED 5.1 million commencing 2 September 2004. In respect of the Istisna'a assets, the Company is obligated to make 10 semi-annual pre-rental payments of AED 4.9 million commencing 2 September 2004.

Notes To The Consolidated Financial Statements

31 December 2005

22 Islamic Financing Arrangements continued

Muqawala loans:

The Company has entered into two Islamic Muqawala loan arrangements as follows:

The first Muqawala loan amounting to AED 26.4 million (31 December 2004: AED 28.9 million) is in respect of the procurement and manufacturing of certain items for use in the construction of plants under an Islamic loan facility agreement dated 31 July 2002. The facility is repayable in 14 semi-annual instalments commencing from 29 January 2003. A fluctuating profit charge is paid under the Islamic financing agreement which is based on market rates.

The second Muqawala loan amounting to AED 120 million (31 December 2004: AED 101.2 million) is in respect of the construction of a project under an Islamic loan facility dated 25 March 2003. The facility is repayable in 16 semi-annual rental instalments commencing on 1 May 2006. A variable element is payable with each instalment which is based on market rates plus a mark up.

At 31 December 2005, unutilised Islamic funding available to the Company amounted to nil (31 December 2004: AED 18.7 million).

23 Employees' End of Service Benefits

The Company and its subsidiaries provide for employees' end of service benefits in accordance with the employees' contracts of employment. The movements in the provision recognised in the balance sheet are as follows:

| | 2005 AED '000 | 2004 AED '000 |
|------------------------------|------------------|------------------|
| Balance at 1 January | 5,604 | 3,452 |
| Net movement during the year | 2,280 | 2,152 |
| Balance at 31 December | 7,884 | 5,604 |

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

Notes To The Consolidated Financial Statements

31 December 2005

24 Accounts Payable and Accruals

| | 2005 AED '000 | 2004 AED '000 (Restated) |
|-------------------------------------------|------------------|--------------------------------|
| Amounts due in more than one year: | | |
| Retentions payable | 10,604 | 1,194 |
| Amounts due in less than one year: | | |
| Accounts payable | 153,339 | 70,545 |
| Retentions payable | 20,790 | 17,798 |
| Negative fair value of derivatives | - | 1,248 |
| Other payables | 48,159 | 47,349 |
| Payable to former shareholders | 6,906 | 13,006 |
| Due to related parties | 5,076 | 1,693 |
| Accrued expenses | 84,649 | 9,572 |
| | 318,919 | 161,211 |

25 Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Company's management.

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

| | 2005 | | | 2004 | |
|-----------------------|-------------------|---------------------|-----------------------------------------------|---------------------|-----------------------------------------------|
| | Income AED'000 | Expenses AED'000 | Fees for management services AED'000 | Expenses AED'000 | Fees for management services AED'000 |
| Associated companies | 840 | - | 2,447 | - | 1,252 |
| Other related parties | - | 18,330 | - | 9,439 | - |
| | 840 | 18,330 | 2,447 | 9,439 | 1,252 |

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

| | 2005 | | 2004 | |
|-----------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| | Trade receivables AED'000 | Accounts payable AED'000 | Trade receivables AED'000 | Accounts payable AED'000 |
| Associated companies | 5,456 | - | 1,794 | - |
| Other related parties | 4,853 | 5,076 | - | 1,693 |
| | 10,309 | 5,076 | 1,794 | 1,693 |

Notes To The Consolidated Financial Statements

31 December 2005

25 Related Party Transactions continued

Compensation of key management personnel

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

| | 2005 AED'000 | 2004 AED'000 |
|------------------------------------|-----------------|-----------------|
| Short-term benefits | 20,815 | 11,968 |
| Employees' end of service benefits | 1,495 | 1,369 |
| | 22,310 | 13,337 |
| Number of key management personnel | 49 | 39 |

26 Derivative Financial Instruments

The movement in fair value of cash flow hedges was as follows:

| | 2005 AED'000 | 2004 AED'000 |
|----------------------------------------------|-----------------|-----------------|
| Fair value included in equity at 1 January | (6,419) | (4,315) |
| Movement in fair value of cash flow hedges | 10,219 | (2,104) |
| Fair value included in equity at 31 December | 3,800 | (6,419) |

27 Contingencies

The Company and its subsidiaries' bankers have issued guarantees on their behalf as follows:

| | 2005 AED'000 | 2004 AED'000 (Restated) |
|------------------------------|-----------------|-------------------------------|
| Performance guarantees | 22,728 | 18,756 |
| Advance payment guarantees | 70 | 1,525 |
| Letter of credit | 40,699 | 10,785 |
| Retention release guarantees | - | 4,507 |
| Financial guarantees | 3,617 | 13,204 |
| | 67,114 | 48,777 |

28 Capital Commitments

The Board of Directors have authorised future capital expenditure amounting to AED 1,393 million (2004: AED 1,179.3 million). Included in this amount is AED 1,255 million (2004: AED 778.8 million) which is expected to be incurred within one year from the balance sheet date.

Notes To The Consolidated Financial Statements

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29 Subsidiaries

| | Country of incorporation | Percentage of holding |
|-----------------------------------------------------|-----------------------------|--------------------------|
| Gulf Energy Systems LLC | U.A.E. | 100 |
| National Central Cooling Company Ras Al Khaimah LLC | U.A.E. | 100 |
| Emirates Preinsulated Pipes Industries LLC | U.A.E. | 60 |
| Installation Integrity 2000 LLC | U.A.E. | 60 |
| BAC Balticare Gulf LLC | U.A.E. | 100 |
| Summit District Cooling Company | U.A.E. | 51 |
| Bahrain District Cooling Company | Bahrain | 55 |
| Ian Banham and Associates | U.A.E. | 70 |
| Tabreed Holdings WLL | Bahrain | 100 |
| Tabreed LLC Oman | Oman | 100 |

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

National Central Cooling Company Ras Al Khaimah LLC was registered on 22 November 1999 and commenced its commercial activities thereafter. Effective 1 July 2004, the Company became a wholly owned subsidiary. Prior to that date it was a 60% owned subsidiary.

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

Installation Integrity 2000 LLC, which was acquired in 2002, was registered on 15 May 2000 and commenced its commercial activities thereafter.

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

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

The Company acquired a 55% interest in Bahrain District Cooling Company (BDCC) on 31 October 2004. BDCC commenced its commercial activities thereafter. During the year, the Company invested an additional amount of AED 25.6 million representing its share of the additional share capital issued by the Company.

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

Tabreed Holdings WLL was incorporated in the Kingdom of Bahrain registered as a limited liability company. The Company has a 100% equity interest in Tabreed Holdings WLL. Tabreed Holdings WLL has recently commenced commercial activities.

Tabreed LLC Oman was incorporated in the Sultanate of Oman registered as a limited liability company. The Company has a 100% equity interest in Tabreed LLC Oman. Tabreed LLC Oman has not started commercial activities as at 31 December 2005.

Notes To The Consolidated Financial Statements 31 December 2005

30 Risk Management

Interest rate risk

The Company and its subsidiaries are exposed to interest rate risk on their interest bearing assets and liabilities (bank overdrafts and loans). Whilst current interest rates and fluctuating profit on Islamic loans (rates) are low, management has sought to limit the exposure of the Company and its subsidiaries to any adverse future movements in rates by entering into various interest rate swap and cap deals during the year. The notional amount outstanding at 31 December 2005 was AED 1,062 million (2004: AED 1,080 million). Included in this amount is AED 601 million (2004: AED 619 million) relating to instruments which have effective dates after 31 December 2005. The derivative financial instruments entered into for the purposes of a cash flow hedge had positive (2004: negative) changes in their values amounting to AED 3.8 million (2004: Unrealised losses of AED 6.4 million) which have been recognised within equity under cumulative changes in fair values of derivatives. Management is therefore of the opinion that the Company and its subsidiaries' exposure to interest rate risk is limited.

Credit risk

The Company and its subsidiaries seek to limit their credit risk with respect to customers by monitoring outstanding receivables. The Company and its subsidiaries sell their services and products to a number of institutions in the UAE. Their three largest customers account for approximately 69% of outstanding accounts receivable at 31 December 2005 (2004: 3 customers - 63%). As amounts receivable are stated net of any required provision and are short term in nature, fair value approximates carrying value. The Company limits its credit risk with regard to bank deposits by only dealing with reputable banks. Credit risk is limited to the carrying values of financial assets in the balance sheet.

Liquidity risk

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

Currency risk

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

31 Fair Values of Financial Instruments

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of bank overdrafts, term loans, payables, and accrued expenses. Derivatives consist of interest rate swap and cap deals.

The fair values of the financial assets and liabilities of the Company and its subsidiaries, are not materially different from their carrying values at the balance sheet date except for certain Islamic financing arrangements (facility 2 – Sukuk financing) as more detailed in note 22.

32 Comparative Information

Refer to note 18 for the balances which have been restated in light of changes in International Financial Reporting Standards and to improve the quality of information presented.