Emirates Central Cooling Systems Corporation

Consolidated financial statements for the year ended 31 December 2020

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for the year ended 31 December 2020

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Independent auditor's report to the shareholders of Emirates Central Cooling Systems Corporation

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Emirates Central Cooling Systems Corporation ("the Corporation") and its subsidiaries (together "the Group") as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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Mohamed ElBorno, Jacques Fakhoury, Douglas O'Mahony and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy

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Independent auditor's report to the shareholders of Emirates Central Cooling Systems Corporation (continued)

Responsibilities of management and those charged with governance for the consolidated financial statements (continued)

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated` financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent auditor's report to the shareholders of Emirates Central Cooling Systems Corporation (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers

PricewaterhouseCoopers
United Arab Emirates
19 January 2021

Emirates Central Cooling Systems Corporation
Consolidated statement of financial position

	Notes	As at 31 December 2020 AED'000	2019 AED'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	6,713,255	6,199,101
Right-of-use assets	6	18,529	24,368
Financial assets at fair value through other comprehensive income	7	57,653	-
Investment in a joint venture		307	307
		6,789,744	6,223,776
Current assets			
Inventories	8	35,081	41,852
Trade and other receivables	9	306,601	270,740
Due from related parties	10	14,471	2,756
Cash and cash equivalents	11	1,086,696	331,247
		1,442,849	646,595
Total assets		8,232,593	6,870,371
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to owners of the parent			
Capital	12	1,000,000	1,000,000
Statutory reserve	13	500,000	500,000
Other reserves		2,281	-
Retained earnings		3,208,164	2,707,214
Contributed capital	14	82,190	64,690
		4,792,635	4,271,904
Non-controlling interests		2,115	1,803
Total equity		4,794,750	4,273,707
LIABILITIES			
Non-current liabilities			
Bank borrowings	15	1,154,860	352,397
Government grant	16	373,670	376,450
Lease liabilities	6	14,595	19,860
Provision for employees' end of service benefits	17	45,450	37,316
		1,588,575	786,023
Current liabilities			
Trade and other payables	18	1,473,914	1,584,291
Due to related parties	10	199,246	148,141
Bank borrowings	15	167,179	68,277
Government grant	16	2,780	2,780
Lease liabilities	6	6,149	7,152
		1,849,268	1,810,641
Total liabilities		3,437,843	2,596,664
Total equity and liabilities		8,232,593	6,870,371

These consolidated financial statements were approved by the Board of Directors on 19 January 2021 and signed on their behalf by:

Chief Executive Officer

Chairman

Consolidated statement of comprehensive income

	Notes	Year ended 31 December 2020 AED'000	2019 AED'000
Revenue	19	2,255,115	2,189,340
Cost of sales	20	(1,216,084)	(1,220,327)
Gross profit		1,039,031	969,013
General and administrative expenses	21	(189,036)	(170,594)
Other income	23	58,527	85,133
Operating profit		908,522	883,552
Finance income	24	4,618	7,226
Finance costs	24	(11,878)	(19,767)
Finance costs – net		(7,260)	(12,541)
Share of profit of joint venture		-	124
Net profit for the year		901,262	871,135
Profit attributable to:			
Owners of the parent		900,950	870,602
Non-controlling interests		312	533
		901,262	871,135
Profit for the year		901,262	871,135
Other comprehensive income for the year	7	2,281	-
Total comprehensive income for the year		903,543	871,135
Total comprehensive income for the year attributable to:			
Owners of the parent		903,231	870,602
Non-controlling interests		312	533
		903,543	871,135

Emirates Central Cooling Systems Corporation

Consolidated statement of changes in equity

		Attributable to owners of the parent							
	Notes	Capital AED'000	Statutory reserve AED'000	Other reserves AED'000	Retained earnings AED'000	Contributed capital AED'000	Total equity AED'000	Non-controlling interests AED'000	Total AED'000
At 1 January 2019		1,000,000	439,915	-	2,199,571	64,690	3,704,176	1,270	3,705,446
Adjustment from the adoption of IFRS 16		-	-	-	(2,874)	-	(2,874)	-	(2,874)
Adjusted balance as at 1 January 2019		1,000,000	439,915	-	2,196,697	64,690	3,701,302	1,270	3,702,572
Comprehensive income									
Profit for the year		-	-	-	870,602	-	870,602	533	871,135
Transactions with owners									
Transfer to statutory reserve	13	-	60,085	-	(60,085)	-	-	-	-
Dividends declared		-	-	-	(300,000)	-	(300,000)	-	(300,000)
At 31 December 2019		1,000,000	500,000	-	2,707,214	64,690	4,271,904	1,803	4,273,707
Balance as at 1 January 2020		1,000,000	500,000	-	2,707,214	64,690	4,271,904	1,803	4,273,707
Additions during the year		-	-	-	-	17,500	17,500	-	17,500
Comprehensive income									
Profit for the year		-	-	-	900,950	-	900,950	312	901,262
Other comprehensive Income for the year	7	-	-	2,281	-	-	2,281	-	2,281
Transactions with owners									
Dividends declared		-	-	-	(400,000)	-	(400,000)	-	(400,000)
At 31 December 2020		1,000,000	500,000	2,281	3,208,164	82,190	4,792,635	2,115	4,794,750

The notes on pages 8 to 42 are an integral part of these consolidated financial statements.

Emirates Central Cooling Systems Corporation

Consolidated statement of cash flows

	Notes	Year ended 31 December 2020 AED'000	2019 AED'000
Cash flows from operating activities			
Profit for the year		901,262	871,135
Adjustments for:			
Depreciation of property, plant and equipment	5	284,960	255,054
Depreciation of right-of-use assets	6	7,017	6,620
Impairment reversal of project cost		(53,529)	(80,294)
Amortisation of arrangement fee		1,510	1,582
Share of profit of joint venture		-	(124)
Provision for impairment of trade receivables	9	13,823	351
Provision for employees' end of service benefits	17	8,823	5,748
Interest on lease liabilities		1,146	1,214
Finance income	24	(4,618)	(7,226)
Finance costs	24	9,222	16,971
Government grant income	16	(2,780)	(2,780)
Changes in working capital:			
Inventories	8	6,771	(4,170)
Trade and other receivables, net of write-off of receivables and advances to CAPEX suppliers	9,18	(62,438)	(8,488)
Due from related parties	10	(11,715)	5,663
Trade and other payables, excluding project-related payables, project accruals and retention payables	18	(50,236)	(21,069)
Due to related parties, net of dividends declared	10	(18,895)	(16,676)
Cash generated from operations		1,030,323	1,023,511
Payment of employees' end of service benefits	17	(689)	(834)
Net cash generated from operating activities		1,029,634	1,022,677
Cash flows from investing activities			
Payment for property, plant and equipment, net of project accruals, retention payables and advances to CAPEX suppliers	5,9,18	(775,473)	(676,661)
Finance income received	24	4,618	7,226
Short-term deposits (more than 3 months) encashed / (invested)		(17,500)	-
Financial assets acquired	7	(55,372)	-
Changes in the fair value of debt instruments			-
Net cash generated from/used in investing activities		(843,727)	(669,435)
Cash flows from financing activities			
Proceeds from bank borrowings		969,645	488,881
Repayment of bank borrowings	15	(69,789)	(69,789)
Dividends paid to shareholders		(330,000)	(470,000)
Payment of lease liabilities		(8,592)	(8,064)
Finance costs paid	24	(9,222)	(16,971)
Net cash used in financing activities		552,042	(75,943)
Net increase in cash and cash equivalents		737,949	277,299
Cash and cash equivalents at the beginning of the year		331,247	53,948
Cash and cash equivalents at the end of the year	11	1,069,196	331,247

The notes on pages 8 to 42 are an integral part of these consolidated financial statements.

1 Establishment and operations

Emirates Central Cooling Systems Corporation ("EMPOWER") ("the Corporation") was established on 23 November 2003 as a corporate entity in accordance with Article 3 of Law No. (10) "Emirates Central Cooling System Corporation Incorporation Law for the year 2003" ("the Decree") and commenced commercial operations on 15 February 2004. The Corporation was established as a joint venture between Dubai Electricity and Water Authority ("DEWA"), which is ultimately owned by the Government of Dubai, and the Dubai Development Authority (formerly known as Dubai Creative Clusters Authority) ("the authority"). However, the beneficial interest of the authority was transferred to Tecom Investments FZ-LLC ("TECOM") effective from inception. The ultimate majority shareholder of TECOM is His Highness Mohammed Bin Rashid Al Maktoum.

On 23 November 2009, a letter was issued by the Ruler's Court allowing DEWA to increase its shareholding to 70% in the Corporation and to dilute TECOM's interest to 30%. This change in the shareholding structure has been formalised through Decree No. 3 of 2010 issued by the Ruler's Court.

The principal activities of the Corporation are the provision of district cooling services and management, operation and maintenance of central cooling plants and related distribution networks. The principal office of the Corporation is P.O. Box 8081, Al Hudaiba Awards Building, Dubai, United Arab Emirates.

These consolidated financial statements relate to the Corporation and its subsidiaries (jointly referred to as "the Group").

The Corporation has the following subsidiaries:

Subsidiary	Principal activities	Beneficial holding	
		2020	2019
Empower Logstor LLC ("ELIPS")	Manufacturing of pre-insulated pipes, mainly for district cooling	97.0%	97.0%
Palm District Cooling LLC	Establish and operate district cooling projects and provide air-conditioning, ventilation and refrigeration services	99.9%	99.9%
Palm Utilities LLC	Establish and operate district cooling projects and provide air-conditioning, ventilation and refrigeration services	99.5%	99.5%
Empower FM LLC	Air-conditioning, ventilation, and air filtration systems installation and maintenance	100%	-
Empower Engineering & Consultancy LLC	Project development consultant	100%	-

ELIPS was established during the year 2007 with the Corporation having a 51% shareholding and Logstor Holding, Denmark having a 49% shareholding. During 2012, the Corporation increased its shareholding to 97% in ELIPS and diluted Logstor Holding, Denmark's interest to 3%.

During 2013, EMPOWER acquired a 99.5% interest in Palm Utilities LLC ("PU") and a 99.9% interest in its subsidiary Palm District Cooling LLC ("PDC").

During 2020, the Corporation established two subsidiaries, namely Empower FM LLC and Empower Engineering & Consultancy LLC with a 100% shareholding in each. The principal activities of Empower FM LLC and Empower Engineering & Consultancy LLC are shown in the table above.

The consolidated financial statements of the Group for the year ended 31 December 2020 were authorised for issue in accordance with a resolution of the Board of Directors on 19 January 2021.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all of the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(a) New and amended standards adopted by the Group during the year

There were no new or amended standards that were required to be adopted by the Group during the year that had a material impact on the Group's consolidated financial statements.

(b) New standards, amendments and interpretations – not effective for the financial year beginning 1 January 2020 and not early adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group.

The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income.

Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Joint arrangements

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligation's of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of significant accounting policies (continued)

2.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial year in which they are incurred.

Land is not depreciated. Depreciation on other assets is computed, using the straight-line method, at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful lives as follows:

	Years
Plant, equipment and machinery	2 to 30
Buildings	25
Furniture and fixtures	3 to 5
Leasehold improvements	3 to 4
Computer equipment	3
Vehicles	3 to 5

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognized within profit and loss in the consolidated statement of comprehensive income.

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to property, plant and equipment and depreciated in accordance with the Group's policies.

2.4 Impairment of non-financial assets

Assets that have an indefinite useful life, for example, land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies (continued)

2.5 Financial assets

(i) Classification

The Group classifies its financial assets as at amortised cost. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows except for financial assets which are considered as equity instrument.

Business model: The business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at Fair Value through Profit or Loss ("FVPL"). Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely Payments of Principal and Profit ("SPPI"): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent SPPI.

In making this assessment, the Group considers whether contractual cash flows present a nature consistent with a basic lending arrangement (i.e. profit includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with basic lending arrangement).

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

Classification of financial assets at amortised cost

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- The asset is held within a business model whose objective is to collect the contractual cash flows; and
- The contractual terms give rise to cash flows that are solely payments of principal and interest.

The Group determines the amount of fair value changes which are attributable to credit risk, by first determining the changes due to market conditions which give rise to market risk, and then deducting those changes from the total change in fair value of the convertible debentures. Market conditions which give rise to market risk include changes in the benchmark interest rate.

2 Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(i) Classification (continued)

Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprise of equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

The financial assets of the Group are as follows:

	Carrying amount	
	2020 AED '000	**2019 AED'000**
Trade and other receivables	306,601	270,740
Cash and bank balances	1,086,696	331,247
Due from related parties	14,471	2,756
Financial assets at fair value through other comprehensive income	57,653	-

The Group holds the following financial assets with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less loss allowance.

- Cash and bank balances, which include cash in hand and balances in current accounts.

- Trade receivables, other receivables and due from related parties. Trade receivables are amounts due from customers for goods and services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. Other receivables generally arise from transactions outside the usual operating activities of the Group. Collateral is not normally obtained for other receivables. Further information relating to due from related parties are disclosed in Note 9.

2 Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(ii) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset, including trade receivables, at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in the consolidated statement of comprehensive income. Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for financial assets measured at amortised cost and at fair value through other comprehensive income (FVOCI), which results in accounting loss being recognised in profit or loss when an asset is newly originated. When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Group recognises the difference as follows:

a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

b) In all other cases, the difference is deferred and the time of recognition of deferred day one profit or loss is determined individually. It is either amortised over life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(iii) Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- *Amortised cost*: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and profit are measured at amortised cost. A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Profit income from these financial assets, if any, is included in finance income using the effective profit rate method.

2. Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(iii) Subsequent measurement (continued)

- *Fair value through other comprehensive income (FVOCI)*: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and profit, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, profit income, if any and foreign exchange gains and losses which are recognised in profit and loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Profit income, if any, from these financial assets is included in finance income using the effective profit rate method.

- *Fair value through profit or loss (FVTPL)*: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognised in the statement of comprehensive income and presented net in the statement of comprehensive income within other gains/(losses) in the year in which it arises. Profit income, if any, from these financial assets is included in the finance income.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the statement of comprehensive income as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other income/(losses) in the consolidated statement of comprehensive income, as applicable.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2. Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(iv) Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk and is computed based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

As trade receivables held by the Group have short credit period (i.e. tenor less than or equal to 12 months and does not comprise significant financing component), the Group applies simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised for receivables.

For all other receivables, at the end of each year the Group applies a three stage impairment approach to measure the expected credit losses (ECL) on all debt instruments carried at amortised cost.

The ECL three stage impairment is based on the change in the credit quality of financial assets since initial recognition. If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded. When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and an allowance for credit losses that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to Stage 1 (i.e. recognition of 12-month expected credit losses).

When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance for credit losses equal to lifetime expected losses continues to be recorded or the financial asset is written off. The profit income, if any, is calculated on the gross carrying amount for financial assets in Stages 1 and 2 and on the net carrying amount for financial assets in Stage 3.

2 Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(iv) Impairment (continued)

Significant increase in credit risk

In assessing whether the credit risk on its financial instrument has increased significantly since initial recognition, the Group compares the probability of a default occurring on the financial instrument as at the reporting date with the probability of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate.

Definition of default

The definition of default used by the Group to measure ECLs and transfer financial instruments between stages is consistent with the definition of default used for internal credit risk management purposes. The Group considers a financial asset to be credit-impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The Group considers the customer to be in default if the outstanding balance is 90 days past due.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, and all the efforts for collection of the receivables are exhausted. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

ECLs for all financial instruments are recognised in other expenses in the consolidated statement of comprehensive income. In the case of debt instruments measured at amortised cost, they are presented net of the related allowance for expected credit loss on the consolidated statement of financial position.

2 Summary of significant accounting policies (continued)

2.5 Financial assets (continued)

(v) Derecognition

Financial assets (or, where applicable, a part of a financial asset) are derecognised when:

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

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

2.6 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method and includes expenditures incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.7 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less the provision for impairment.

2 Summary of significant accounting policies (continued)

2.8 Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash in hand, current accounts with banks and bank deposits with an original maturity of less than three months, less bank overdrafts.

2.9 Bank Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.10 Government grants

The Government of Dubai granted certain plots of land to the Corporation for use in its principal activities as set out in Note 1. The land is recorded in the books, as and when the grant is made, at the fair market value on the date of grant, carried out by an independent firm of real estate consultants. These grants are credited to deferred government grants in the consolidated statement of financial position and are recognised as income over the useful life of the plant constructed on the land. Return of land to the Government of Dubai prior to commencement of construction of the plant is adjusted against deferred government grants in the consolidated statement of financial position.

As set out in Note 1, the Corporation became an entity controlled by DEWA effective from 23 November 2009. All land plots received by the Corporation from the Government of Dubai after 23 November 2009 are accounted for as contributed capital in the consolidated statement of changes in equity as DEWA is wholly owned by the Government of Dubai.

2.11 Employees end of service benefits

An accrual is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to the statement of financial position date. A provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labour Law for their periods of service up to the statement of financial position date. The accrual relating to annual leave and leave passage is disclosed as a current liability and included in trade and other payables, while the provision relating to end of service benefits is disclosed as a non-current liability.

2 Summary of significant accounting policies (continued)

2.11 Employees end of service benefits (continued)

The Group has also joined the pension scheme operated by the Federal Pension General and Society Security Authority. Accordingly, contributions for eligible UAE National employees are made and charged to the consolidated statement of comprehensive income, in accordance with the provisions of Federal Law No. 7 for 1999 relating to Pension and Society Security Law. The Group has no further payment obligation once the contribution has been made.

2.12 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a rate that reflects current market assessments of the time value of money and risks specific to the obligation. Increases in provisions due to the passage of time are recognised as interest expense.

2.13 Lease liabilities

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involved the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

2 Summary of significant accounting policies (continued)

2.13 Lease liabilities (continued)

- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where all the decisions about how and for what purpose the asset is used are predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At the inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liabilities.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discounted rate, which is determined to be 4.01% per annum.

Lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and

2 Summary of significant accounting policies (continued)

2.13 Lease liabilities (continued)

As a lessee (continued)

- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee or if the Group changes its assessment of whether it will exercise a purchase, extension or terminate option.

Lease liabilities are subsequently increased by the finance costs on the lease liabilities and decreased by lease payments made.

Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statement of comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

When the Group acts as a lessor, it determines at the lease commencement 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 to the lessee substantially all of the risk and rewards of ownership 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.

When assets are leased out under an operating lease, the asset is included in the consolidated statement of financial position based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'Revenue'.

2 Summary of significant accounting policies (continued)

2.14 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the functional currency of the Corporation and its subsidiaries, and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

2.15 Revenue recognition

The Group recognises revenue from contracts with customers based on a five step model as set out in IFRS 15:

Step 1. Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5. Recognise revenue when (or as) the Group satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
3. The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

2 Summary of significant accounting policies (continued)

2.15 Revenue recognition (continued)

Revenue comprises the fair value of consideration received or receivable for the sales of goods and services in the ordinary course of the Group's activities and is shown net of discounts and allowances.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below:

(a) District cooling services

Demand and consumption charges revenue comprises of available capacity and variable output provided to customers and is recognized when services are provided.

Network integration charges revenue relate to integrating the Group's system with the customer's system and are recognized at the time that the network integration services are completed.

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(b) Pre-insulated pipes

Revenue from the sale of pre-insulated pipes is recognised when goods are sold.

2.16 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group's exposure to market risk arises from:

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group does not have any significant foreign currency exposure, as majority of the transactions are denominated in AED or currencies pegged to AED.

(ii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all the instruments traded in the market. The Group has no significant exposure to price risk.

(iii) Cash flow and fair value interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (floating rate borrowings). Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its consolidated statement of financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. Management monitors on a daily basis and sets limits on the level of mismatch of interest rate repricing that may be undertaken. The Group does not hedge its exposure to interest rate risk.

At 31 December 2020, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, profit for the year would have been AED 4,861 thousand (2019: AED 5,097 thousand) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

Further, at 31 December 2020, if interest rates on lease liabilities had been 1% higher/lower with all other variables held constant, profit for the year would have been lower by AED 233 thousand (2019: AED 887 thousand), mainly as a result of higher interest expense, and would have been higher by AED 252 thousand (2019: AED 951 thousand), mainly as a result of lower interest expense.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

The Group's exposure to credit risk arises from cash equivalents and outstanding receivables from corporate and retail customers. Deposits for district cooling services are obtained from customers before the provision of any services, which are held as security in order to mitigate credit risk in case of default by customers.

For bank and financial institutions, the Group only deals with reputable local and international banks, which are considered to have a good credit rating.

	2020 AED'000	2019 AED'000
Cash at bank and short-term bank deposits		
A	26	26
A+	14	14
A1	4,556	4,816
A3	643,062	317,718
AA3	8,321	3,795
Baa1	26,500	4,855
BBB+	304,099	-
Caa1	100,118	23
	1,086,696	331,247

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group maintains flexibility in funding by keeping committed credit lines available.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Total	**Less than 1 year**	**Between 1 to 5 years**	**More than 5 years**
	AED'000	AED'000	AED'000	AED'000
At 31 December 2020				
Bank borrowings (including interest)	1,403,595	190,162	1,213,433	-
Trade and other payables (excluding deferred revenues)	1,177,883	1,177,883	-	-
Lease liabilities	20,744	6,149	6,864	7,731
Due to related parties	199,246	199,246	-	-
	2,801,468	**1,573,440**	**1,220,297**	**7,731**

	Total	**Less than 1 year**	**Between 1 to 5 years**	**More than 5 years**
	AED'000	AED'000	AED'000	AED'000
At 31 December 2019				
Bank borrowings (including interest)	477,392	83,612	310,958	82,822
Trade and other payables (excluding deferred revenues)	1,233,083	1,233,083	-	-
Lease liabilities	27,012	7,152	11,521	8,339
Due to related parties	148,141	148,141	-	-
	1,885,628	**1,471,988**	**322,479**	**91,161**

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Compared to the previous year-end, there has been no material change in the contractual undiscounted cash outflows for financial liabilities during the period. There is no material impact of COVID-19 on the Group's business as detailed in Note 28 of these consolidated financial statements. Net cash generated from operating activities have increased by AED 6,957 thousand from AED 1,023 million for 2019 to AED 1,030 million for the year 2020.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for the other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by the total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The gearing ratios as at 31 December 2020 and 31 December 2019 were as follows:

	2020 AED'000	2019 AED'000
Total borrowings	1,322,039	420,674
Less: Cash and cash equivalents	(1,086,696)	(331,247)
Net debt	235,343	89,427
Total equity	4,792,635	4,271,904
Total capital	5,027,978	4,361,331
Gearing ratio	5%	2%

3.3 Fair value estimation

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and cash equivalents, trade and other receivables and due from related parties. Financial liabilities consist of trade and other payables, bank borrowings and due to related parties. The fair values of financial instruments approximate their carrying values.

4 Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements 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.

(a) Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are charged to the statement of comprehensive income.

The impairment provisions are determined as the difference between the carrying value of these assets (before impairment charge) and the recoverable amount. The recoverable amount is determined as the higher of "value-in-use" calculations, using pre-tax cash flow projections as approved by the management or fair value less cost to sell.

No impairment charges has been recognised against non-financial assets during the year ended 31 December 2020 (2019: Nil), following management's impairment review.

5 Property, plant and equipment

	Land AED'000	Plant, equipment and machinery AED'000	Buildings AED'000	Furniture and fixtures AED'000	Leasehold improvements AED'000	Computer equipment AED '000	Vehicles AED'000	Capital work-in-progress AED'000	Total AED'000
Cost									
At 1 January 2019	476,782	6,216,922	70,709	14,158	10,702	37,128	5,522	486,465	7,318,388
Additions	-	27	-	795	203	1,213	573	714,042	716,853
Transfers	-	444,454	-	-	-	-	-	(444,454)	-
Impairment reversal *	-	-	-	-	-	-	-	80,294	80,294
Disposals	-	-	-	(6)	-	(574)	-	-	(580)
At 31 December 2019	476,782	6,661,403	70,709	14,947	10,905	37,767	6,095	836,347	8,114,955
Additions**	17,500	-	-	862	31	1,892	383	724,917	745,585
Transfers	-	988,954	-	-	-	-	-	(988,954)	-
Impairment reversal *	-	-	-	-	-	-	-	53,529	53,529
Disposals	-	(17,242)	-	(6)	-	(21)	(141)	-	(17,410)
At 31 December 2020	494,282	7,633,115	70,709	15,803	10,936	39,638	6,337	625,839	8,896,659
Accumulated depreciation and impairment									
At 1 January 2019	-	1,555,419	20,565	12,853	10,149	28,344	4,229	29,821	1,661,380
Charge for the year	-	247,504	2,828	1,053	322	2,730	617	-	255,054
Disposals	-	-	-	(6)	-	(574)	-	-	(580)
At 31 December 2019	-	1,802,923	23,393	13,900	10,471	30,500	4,846	29,821	1,915,854
Charge for the year	-	278,652	2,828	905	185	1,818	572	-	284,960
Disposals	-	(17,242)	-	(6)	-	(21)	(141)	-	(17,410)
At 31 December 2020	-	2,064,333	26,221	14,799	10,656	32,297	5,277	29,821	2,183,404
Net book value									
31 December 2020	494,282	5,568,782	44,488	1,004	280	7,341	1,060	596,018	6,713,255
31 December 2019	476,782	4,858,480	47,316	1,047	434	7,267	1,249	806,526	6,199,101

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

5 Property, plant and equipment (continued)

* Prior to its acquisition by EMPOWER, PDC had impaired costs relating to projects that did not develop as anticipated. During 2017, the Group commenced services to the Jumeirah Village Project. This resulted in the reduction of impairment of pipe network costs. Accordingly, as at 31 December 2020, EMPOWER assessed the reversal of impairment corresponding to the upcoming buildings in the Jumeirah Village Project and reversed AED 53 million during 2020 (2019: AED 80 million).

** During the year, the Group received 2 plots of land from Meydan City Corporation. One of the plot has already constructed with a district cooling plant, which has been acquired during the year and another is a vacant plot. The valuation of the plant is provisionally estimated at AED 17,500,000 and accordingly booked under Land.

Depreciation expense of AED 278,652 thousand (2019: AED 247,504 thousand) has been charged to 'cost of sales' (Note 20) and AED 6,308 thousand (2019: AED 7,549 thousand) to 'general and administrative expenses' (Note 21).

Capital work-in-progress balances include costs of constructing district cooling plants and networks at various projects.

6 Right-of-use assets and lease liabilities

The Group mainly leases equipment for a period of 15 years with an extension option and a head office for a period of 1 year (since a new head office is currently under construction and is expected be completed after 1 year).

	Equipment AED'000	Buildings AED'000	Total AED'000
Cost			
At 1 January 2019	24,259	4,924	29,183
Additions	1,805	-	1,805
At 31 December 2019	26,064	4,924	30,988
Additions	1,178	-	1,178
At 31 December 2020	27,242	4,924	32,166
Depreciation			
At 1 January 2019	-	-	-
Charge for the year	4,582	2,038	6,620
At 31 December 2019	4,582	2,038	6,620
Charge for the year	4,979	2,038	7,017
At 31 December 2020	9,561	4,076	13,637
Net book amount			
31 December 2020	17,681	848	18,529
31 December 2019	21,482	2,886	24,368

Equipment represents semi-permanent plant (SPP) equipment rented from DEWA.

6 Right-of-use assets and lease liabilities (continued)

The Group recognised lease liabilities as follows:

	2020 AED'000	2019 AED'000
At 1 January	27,012	32,057
Additions during the year	1,178	1,804
Released during the year	(7,446)	(6,849)
At 31 December	20,744	27,012
Less: current portion	(6,149)	(7,152)
Non-current portion	14,595	19,860

Interest expense included in finance costs for 2020 was AED 1,146,000 (2019: AED 1,214,000) (Note 24).

There are no expenses relating to variable lease payments.

Expenses relating to short-term leases included in general and administrative expenses and to leases of low-value assets that are shown as short-term leases included in general and administrative expenses are as follows:

	2020 AED'000	2019 AED'000
Expense relating to short-term leases	738	637

7 Financial assets at fair value through other comprehensive income

	2020 AED'000	2019 AED'000
Financial assets at fair value through other comprehensive income	57,653	-

Financial assets at fair value through other comprehensive income pertains to an investment in Tier 1 Capital Certificates ("Bonds") issued at their par value. The Bonds are listed perpetual instruments and carry non-cumulative interest at a rate of 6% per annum payable every six months at the discretion of the issuer.

The Group has classified them as financial assets at fair value through other comprehensive income under IFRS 9 as the Bonds is not held for trading.

During the year, gains recognised in other comprehensive income amounted to AED 2,281,000

8 Inventories

	2020 AED'000	2019 AED'000
Spares and consumables for district cooling services	26,809	25,361
Pre-insulated pipes	8,272	16,491
	35,081	41,852

The cost of inventories recognised as expense and included in 'cost of sales' is AED 5,191,000 (2019: AED 3,674,000).

The inventories provision for the year amounted to Nil (2019: AED 806,000).

9 Trade and other receivables

	2020 AED'000	2019 AED'000
Trade receivables	193,275	135,610
Less: Loss allowance	(48,264)	(34,441)
	145,011	101,169
Other financial assets at amortised cost		
Accrued revenues	19,576	20,606
Other receivables	10,278	8,122
	29,854	28,728
Other assets		
Advance to contractors / suppliers	116,699	129,453
Prepayments	15,037	11,390
	131,736	140,843
	306,601	270,740

As at 31 December 2020, the movement in the allowance for impairment of receivables is as follows:

	2020 AED'000	2019 AED'000
At 1 January	34,441	34,090
Increase in expected credit losses recognised in the consolidated statement of comprehensive income during the year	13,823	351
Balance at the end of the year	48,264	34,441

9 Trade and other receivables (continued)

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

	2020 (AED'000)		2019 (AED'000)	
	Trade receivables	Loss allowance	Trade receivables	Loss allowance
Up to 3 months	88,088	3,267	77,578	3,690
3 to 6 months	38,875	12,580	15,977	6,704
6 to 12 months	24,137	12,158	8,047	4,912
12 months and above	42,175	20,259	34,008	19,135
	193,275	48,264	135,610	34,441

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group holds security deposits of AED 340,875 thousand (2019: AED 323,218 thousand) (Note 18) as collateral against receivables. Other classes of trade and other receivables do not contain impaired assets.

10 Transactions and balances with related parties

Related parties include the shareholders, key management personnel, subsidiaries, joint venture, directors and businesses which are controlled directly or indirectly by the shareholders or directors or over which they exercise significant management influence.

Transactions with related parties	2020 AED'000	2019 AED'000
Services rendered to entities under common control of shareholder		
Dubai Properties Group	131,835	121,004
Meraas Group	64,341	-
Jumeira Group	39,927	62,378
Tecom Investment	62,389	59,929
Global Village	640	710
	299,132	244,021
Services received from Shareholder		
Dubai Electricity and Water Authority (DEWA)	(805,585)	(879,495)
Key management remuneration		
Board of Directors remuneration (Note 21)	6,250	6,250
Key management personnel remuneration includes end of service benefits amounting to AED 472,500 (2019: AED 472,500)	12,198	12,166

10 Transactions and balances with related parties (continued)

Balances with related parties

	2020 AED'000	2019 AED'000
Due from related parties		
Entities under common control of shareholder		
Others	14,471	2,756
Due to related parties		
Shareholders		
Dubai Electricity and Water Authority (DEWA)	142,879	58,985
Tecom Investment	41,636	25,395
	184,515	84,380
Entities under common control of shareholder		
Dubai Properties Group	2,064	54,975
Dubai Holding LLC	3,708	3,708
	5,772	58,683
Others		
Board of directors	5,050	5,050
Others	3,909	28
	199,246	148,141

11 Cash and cash equivalents

	2020 AED'000	2019 AED'000
Cash at bank	210,196	156,247
Short-term bank deposits – less than 3 months	859,000	175,000
Short-term bank deposits – more than 3 months	17,500	-
	1,086,696	331,247

Bank balances are held with branches of local and international banks. Short-term bank deposits bear an effective interest rate of 1.12 % per annum (2019: 2.52% per annum).

For purposes of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	2020 AED'000	2019 AED'000
Cash and cash equivalents	1,086,696	331,247
Less: Short term deposit more than 3 months	(17,500)	-
	1,069,196	331,247

12 Capital

	2020 AED'000	2019 AED'000
Authorised capital	1,000,000	1,000,000
Paid up capital	1,000,000	1,000,000

As at 31 December 2020, the authorised and paid up capital of the Corporation amounted to AED 1,000,000,000 (2019: AED 1,000,000,000), of which AED 700,000,000 (2019: AED 700,000,000) was contributed by DEWA and AED 300,000,000 (2019: AED 300,000,000) was contributed by TECOM. The capital comprises 1,000,000 shares of AED 1,000 each.

13 Statutory reserve

As required by the Decree of the Corporation and the Articles of Association of the subsidiaries, 10% of the profit for the year is required to be transferred to the statutory reserve. The Corporation and its subsidiaries may resolve to discontinue such transfers when the reserve equals 50% of the issued capital. During 2019, an amount of AED 60 million was transferred to meet the AED 500 million requirement (50% of share capital). The reserve is not available for distribution.

14 Contributed capital

In prior years, the Group received certain plots of land from the Government of Dubai, the valuation of which has been carried out by an independent firm. As disclosed in Note 2.10, the value of such land has been treated as capital contribution form the shareholders as the Corporation is an entity controlled by DEWA, which is wholly-owned by the Government of Dubai.

During the year, the Group received 2 plots of land from Meydan City Corporation. One of the plot has already constructed with a district cooling plant, which has been acquired during the year and another is a vacant plot. The valuation of the plant is provisionally estimated at AED 17,500,000 and accordingly considered as contributed capital.

15 Bank borrowings

	2020 AED'000	2019 AED'000
Term loan	1,329,582	429,726
Unamortised loan cost	(7,543)	(9,052)
Total	1,322,039	420,674
Less: current portion	(167,179)	(68,277)
Non-current portion	1,154,860	352,397

The Group's borrowings are denominated in USD. Interest rates on the Group's borrowings ranged between 1.62% and 3.3% (2019: 3.2% and 4.01%). Repayment terms are 7 years from June 2019 and the borrowings are unsecured.

The maturity profile of the borrowings is as follows:

	2020 AED'000	2019 AED'000
Within one year	167,179	68,277
After one year but not more than five years	1,154,860	273,106
More than five years	-	79,291
	1,322,039	420,674

On 13 December 2018, the Group entered into a new syndicated loan facility with ENBD as the facility agent amounting to US$ 400m (AED 1,469m) at an interest rate of Libor+150bps margin with a 7 years repayment facility scheduled from June 2019 to December 2020.

The Group had fully drawndown the total facility of US$ 400m (AED 1,469m) as of 31-Dec-2020 (US$ 136m in 2019 and US$ 264m in 2020).The scheduled repayment of US$ 9.5m (AED 34.9m) each in June 2020 and Dec 2020 has been duly paid.

The undrawn term loan and facilities is Nil as at 31 December 2020 (2019: AED 993,728 thousand) at a floating rate linked to LIBOR plus margin. The Group has complied with the financial covenants of its borrowing facilities during the 2020 and 2019 reporting periods.

The exposure of the Group's borrowings to interest rate changes and the contractual repricing ranges between one to six months. The fair value of current borrowings equals their carrying amount, as the impact of discounting is nullified with the floating rate interest arrangement for such borrowings.

16 Government grants

Government grants received prior to 23 November 2009 are recognised as income over the useful life of the plant constructed on the granted land. The current portion represents the expected release of government grant for the plants currently in operation and those which are expected to be completed during next year. The actual amount of release may vary due to delay in completion/commencement of the operations of these plants.

	2020 AED'000	2019 AED'000
At 1 January	379,230	382,010
Released during the year	(2,780)	(2,780)
At 31 December	376,450	379,230
Less: current portion	(2,780)	(2,780)
Non-current portion	373,670	376,450

17 Provision for employees' end of service benefits

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2020 and 2019, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Under this method, an assessment has been made of the employee's expected service life with the Group and the expected basic salary at the date of leaving the service. Future salary increases have been estimated on a basis consistent with the natural progression of an employee's salary in-line with the Group's salary scales, past experience and market conditions.

	2020	2019
The principal assumptions used were as follows:		
Discount rate per year	2.21%	2.21%
Salary increase per year	5%	5%

18 Trade and other payables

	2020 AED'000	2019 AED'000
Refundable customers' security deposits (Note 9)	340,875	323,218
Deferred revenue	296,031	351,208
Project cost accruals	295,099	410,018
Project payables	148,786	103,028
Retentions payable	101,914	92,894
Other liabilities	291,209	303,925
	1,473,914	1,584,291

19 Revenue

	2020 AED'000	2019 AED'000
District cooling services	2,268,649	2,182,770
Less: discounts (Note 28)	(21,479)	-
Sale of pre-insulated pipes	7,945	6,570
	2,255,115	2,189,340

20 Cost of sales

	2020 AED'000	2019 AED'000
Utilities costs	846,609	886,007
Depreciation (Note 5)	278,652	247,504
Depreciation - Right-of-use assets (Note 6)	4,979	4,582
Materials	5,191	3,674
Staff costs (Note 22)	38,355	35,450
Others	42,298	43,110
	1,216,084	1,220,327

21 General and administrative expenses

	2020 AED'000	2019 AED'000
Staff costs (Note 22)	136,073	128,115
Impairment charges on trade receivables (Note 9)	13,823	351
Depreciation (Note 5)	6,308	7,549
Directors' remuneration (Note 10)	6,250	6,250
Communication expenses	5,260	3,785
Depreciation - Right-of-use assets (Note 6)	2,038	2,038
Advertising and marketing expenses	1,580	4,019
Rent	738	637
Others	16,966	17,850
	189,036	170,594

22 Staff costs

	2020 AED'000	2019 AED'000
Salaries	106,590	101,220
Staff benefits	59,015	56,597
End of service benefits (Note 17)	8,823	5,748
	174,428	163,565
Staff costs have been charged to:		
Cost of sales (Note 20)	38,355	35,450
General and administrative expenses (Note 21)	136,073	128,115
	174,428	163,565

23 Other income

	2020 AED'000	2019 AED'000
Government grant	2,780	2,780
Impairment reversal of project cost	53,529	80,294
Others	2,218	2,059
	58,527	85,133

24 Finance costs – net

	2020 AED'000	2019 AED'000
Interest income on short-term bank deposits	4,618	7,226
Interest on lease liabilities	(1,146)	(1,214)
Interest expense on bank borrowings	(10,732)	(18,553)
Finance costs, net	(7,260)	(12,541)

25 Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

Amortised cost	2020 AED'000	2019 AED'000
Trade and other receivables, excluding prepayments (Note 9)	291,564	259,350
Due from related parties (Note 10)	14,471	2,756
Cash and cash equivalents (Note 11)	1,086,696	331,247
Total	1,392,731	593,353

Fair value through other comprehensive income (FVOCI)	2020 AED'000	2019 AED'000
Financial assets at fair value through other comprehensive income	57,653	-

	2020 AED'000	2019 AED'000
Other financial liabilities at amortised cost		
Trade and other payables excluding deferred revenue (Note 18)	1,177,883	1,233,083
Due to related parties (Note 10)	199,246	148,141
Bank borrowings (Note 15)	1,322,039	420,674
Total	2,699,168	1,801,898

26 Guarantees

As at 31 December 2020, the Group had outstanding bank guarantees and letters of credits amounting to AED 621,007 (2019: AED 10,472,273), which were issued by the Group's bankers in the normal course of business.

27 Commitments

Capital commitments

As at 31 December 2020, the Group had project commitments of AED 821,729 thousand (2019: AED 716,238 thousand) for projects-in-progress. These commitments represent the value of contracts issued as at 31 December 2020 and as at 31 December 2019, net of invoices recorded and accruals made as at that date.

28 COVID-19's impact on the Group's operations

The COVID-19 pandemic has developed rapidly in 2020, with a significant number of cases. Measures taken by various governments to contain the virus have affected economic activity. We have taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for our people (such as social distancing and working from home) and securing the supply of materials that are essential to avoid disruption to our operations.

At this stage, the impact on our business and results has not been significant, and based on our experience to date, we expect this to remain the case. As we operate in the district cooling sector, being an essential service in the country, we have not found a significant impact on the demand for our services and expect this to continue.

All of the Group's plants were operational throughout the period, even during the government-imposed lockdown and there was no disruption to services provided.

Below are some of the measures that the Group has taken in order to provide relief to its customers:

1) A general discount of up to 10% on consumption charges and fuel surcharges provided to all customers during the period of 3 months (mid-March 2020 to mid-June 2020) amounting to AED 18,292,040, which was offset by a similar discount received in the amount of AED 11,965,333 on electricity and water costs for 3 months.
2) Payment plans for specific customers during the lockdown period.
3) Specific discounts for hotels used as COVID-19 support facilities amounting to AED 3,187,162.

We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

For further information refer to note 3.1 (c).

29 Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and judgements 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.

(a) Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated in order to determine the extent of impairment loss, if any. Impairment losses are charged to the statement of comprehensive income.

The impairment provisions are determined as the difference between the carrying value of these assets (before impairment charge) and the recoverable amount. The recoverable amount is determined as the higher of "value-in-use" calculations, using pre-tax cash flow projections as approved by the management or fair value less cost to sell.

No impairment charges has been recognised against non-financial assets during the year ended 31 December 2020 (2019: Nil), following management's impairment review.

30 Subsequent events

A final dividend of AED 300 million (2019: AED 300 million) has been approved by the Board of Directors through resolution dated 19 January 2021. Dividend per share AED 300 (2019: AED 300)