

Mamoura Diversified Global Holding PJSC

UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2020

Mamoura Diversified Global Holding PJSC

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the six-month period ended 30 June 2020

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF

MAMOURA DIVERSIFIED GLOBAL HOLDING PJSC

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SHAREHOLDER OF MAMOURA DIVERSIFIED GLOBAL HOLDING PJSC

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Mamoura Diversified Global Holding PJSC (“MDGH” or “the Company”) and its subsidiaries (together the “Group”) as at 30 June 2020, comprising of the interim consolidated statement of financial position as at 30 June 2020 and the related interim consolidated statement of comprehensive income, changes in equity and cash flows for the six month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

For Ernst & Young

Signed by:
Anthony O’Sullivan
Partner
Ernst & Young
Registration No 687

12 November 2020
Abu Dhabi

Mamoura Diversified Global Holding PJSC

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six-month period ended 30 June 2020 (Unaudited)

	<i>Notes</i>	<i>Six-month period ended 30 June 2020 AED millions</i>	<i>Six-month period ended 30 June 2019 AED millions</i>
CONTINUING OPERATIONS			
Revenue	7	22,344	24,657
Cost of sales		<u>(22,104)</u>	<u>(22,465)</u>
Gross profit		240	2,192
Research and development and exploration expenses		(1,072)	(1,230)
General and administrative expenses		(3,417)	(3,254)
Investment (loss) / income (<i>net</i>)	8	(5,105)	6,595
(Loss) / income from equity accounted investees	11	(1,864)	3,492
Other income (<i>net</i>)		1,790	562
Impairment losses related to financial assets at amortised cost (<i>net</i>)		(343)	(57)
Impairment of goodwill		(19)	(98)
Impairment of investments in equity accounted investees (<i>net</i>)		<u>-</u>	<u>(983)</u>
(Loss) / profit before net finance expense and taxes		(9,790)	7,219
Finance income		994	908
Finance costs		(2,456)	(1,883)
Net foreign exchange (losses) / gains (<i>net</i>)		<u>(24)</u>	<u>45</u>
Net finance expense		<u>(1,486)</u>	<u>(930)</u>
(Loss) / profit before income tax from continuing operations		(11,276)	6,289
Income tax expense (<i>net</i>)		<u>(57)</u>	<u>(50)</u>
(Loss) / profit for the period from continuing operations		(11,333)	6,239
DISCONTINUED OPERATIONS			
Profit for the period from discontinued operations	5	<u>3,619</u>	<u>4,241</u>
(Loss) / profit for the period		<u>(7,714)</u>	<u>10,480</u>
(Loss) / profit for the period attributable to the:			
Owner of the Group		(7,970)	9,694
Non-controlling interests		<u>256</u>	<u>786</u>
		<u>(7,714)</u>	<u>10,480</u>

Mamoura Diversified Global Holding PJSC

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME continued For the six-month period ended 30 June 2020 (Unaudited)

	<i>Six-month period ended 30 June 2020</i>	<i>Six-month period ended 30 June 2019</i>
	<i>Note</i>	<i>AED millions</i>
Other comprehensive loss		
<i>Items that may be reclassified to profit or loss in subsequent periods</i>		
Exchange difference on translation of foreign operations		(498)
(Loss) / profit on hedge of net investments		(344)
in foreign operations (<i>net</i>)	16	(53)
Share of other comprehensive loss of equity accounted investees		138
Effective portion of changes in fair values of cash flow hedges and other reserves (<i>net of tax</i>)		(589)
		<u>(541)</u>
		(1,681)
		(495)
<i>Items that will not be reclassified to profit or loss in subsequent periods</i>		
Net movement in defined benefit plan (<i>net of tax</i>)		(44)
		<u>(317)</u>
Other comprehensive loss for the period, net of income tax		<u>(1,725)</u>
Total comprehensive (loss) / income for the period		<u>9,668</u>
Total comprehensive (loss) / income for the period attributable to the:		
Owner of the Group		(9,523)
Non-controlling interests		84
		<u>9,028</u>
		<u>640</u>
		<u>(9,439)</u>
		<u>9,668</u>

The attached notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Mamoura Diversified Global Holding PJSC

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 (Unaudited)

	<i>Notes</i>	30 June 2020 AED millions (unaudited)	31 December 2019 AED millions (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	81,937	98,245
Intangible assets	10	9,676	12,372
Investment properties		9,610	9,555
Investment in equity accounted investees	11	61,716	81,067
Other receivables and prepayments	12	17,050	15,124
Other financial assets	13	53,465	53,310
Derivative financial instruments		37	92
Defined benefit plan assets		411	1,031
Deferred tax assets		<u>1,844</u>	<u>2,077</u>
Total non-current assets		<u>235,746</u>	<u>272,873</u>
Current assets			
Inventories		5,217	10,060
Trade receivables		5,517	9,430
Other receivables and prepayments	12	50,985	62,999
Other financial assets	13	1,445	1,626
Derivative financial instruments		398	169
Cash and cash equivalents	14	<u>44,565</u>	<u>20,337</u>
		108,127	104,621
Assets classified as held for sale	5	<u>44,866</u>	<u>900</u>
Total current assets		<u>152,993</u>	<u>105,521</u>
TOTAL ASSETS		<u>388,739</u>	<u>378,394</u>
EQUITY AND LIABILITIES			
Equity			
Share capital		56,136	56,136
Additional shareholder contributions		123,155	123,155
Shareholder current account		6,918	6,918
Retained earnings		11,867	19,807
Other reserves	16	(320)	1,219
Government grants		<u>367</u>	<u>367</u>
Total equity attributable to the Owner of the Group		198,123	207,602
Non-controlling interests		<u>11,233</u>	<u>11,064</u>
Total equity		<u>209,356</u>	<u>218,666</u>

Mamoura Diversified Global Holding PJSC

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION continued At 30 June 2020 (Unaudited)

	<i>Notes</i>	30 June 2020 AED millions (unaudited)	31 December 2019 AED millions (audited)
EQUITY AND LIABILITIES			
Non-current liabilities			
Interest bearing borrowings	15	111,288	106,468
Derivative financial instruments		1,746	1,396
Provisions		3,159	3,359
Employees' benefit liabilities		849	3,469
Deferred tax liabilities		3,141	4,040
Other liabilities		<u>3,446</u>	<u>3,749</u>
Total non-current liabilities		<u>123,629</u>	<u>122,481</u>
Current liabilities			
Interest bearing borrowings	15	22,590	13,851
Trade payables		3,559	6,548
Income tax payable		179	447
Derivative financial instruments		222	385
Provisions		1,399	1,420
Other liabilities		<u>10,594</u>	<u>14,596</u>
Liabilities directly associated with assets classified as held for sale	5	<u>17,211</u>	<u>-</u>
Total current liabilities		<u>55,754</u>	<u>37,247</u>
Total liabilities		<u>179,383</u>	<u>159,728</u>
TOTAL EQUITY AND LIABILITIES		<u>388,739</u>	<u>378,394</u>

Waleed Al Mokarrab Al Muhairi
Chairman

Carlos Obeid
Group Chief Financial Officer

The attached notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Mamoura Diversified Global Holding PJSC

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Period ended 30 June 2020 (Unaudited)

	<i>Equity attributable to the Owner of the Group</i>								
	<i>Share capital</i> <i>AED millions</i>	<i>Additional shareholder contributions</i> <i>AED millions</i>	<i>Shareholder current account</i> <i>AED millions</i>	<i>Retained earnings</i> <i>AED millions</i>	<i>Other reserves</i> <i>AED millions</i>	<i>Government grants</i> <i>AED millions</i>	<i>Total attributable to the Owner of the Group</i> <i>AED millions</i>	<i>Non-controlling interests</i> <i>AED millions</i>	<i>Total equity</i> <i>AED millions</i>
At 1 January 2019 (audited)	56,136	123,155	27,024	7,530	452	367	214,664	11,630	226,294
Adjustment on initial application of IFRS 16	-	-	-	(8)	-	-	(8)	(2)	(10)
Adjusted balance at 1 January 2019	<u>56,136</u>	<u>123,155</u>	<u>27,024</u>	<u>7,522</u>	<u>452</u>	<u>367</u>	<u>214,656</u>	<u>11,628</u>	<u>226,284</u>
Profit for the period	-	-	-	9,694	-	-	9,694	786	10,480
Other comprehensive loss	-	-	-	-	(666)	-	(666)	(146)	(812)
Total comprehensive income / (loss)	-	-	-	<u>9,694</u>	<u>(666)</u>	-	<u>9,028</u>	<u>640</u>	<u>9,668</u>
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(685)	(685)
Acquisition of additional interests in subsidiaries	-	-	-	16	-	-	16	(16)	-
Disposal of partial interest in subsidiary	-	-	-	246	-	-	246	408	654
Other movements	-	-	-	9	-	-	9	(6)	3
At 30 June 2019 (unaudited)	<u>56,136</u>	<u>123,155</u>	<u>27,024</u>	<u>17,487</u>	<u>(214)</u>	<u>367</u>	<u>223,955</u>	<u>11,969</u>	<u>235,924</u>

Mamoura Diversified Global Holding PJSC

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued Period ended 30 June 2020 (Unaudited)

	<i>Equity attributable to the Owner of the Group</i>						<i>Total attributable to the Owner of the Group</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
	<i>Share capital</i>	<i>Additional shareholder contributions</i>	<i>Shareholder current account</i>	<i>Retained earnings</i>	<i>Other reserves</i>	<i>Government grants</i>			
	<i>AED millions</i>	<i>AED millions</i>	<i>AED millions</i>	<i>AED millions</i>	<i>AED millions</i>	<i>AED millions</i>	<i>AED millions</i>	<i>AED millions</i>	<i>AED millions</i>
At 1 January 2020 (audited)	<u>56,136</u>	<u>123,155</u>	<u>6,918</u>	<u>19,807</u>	<u>1,219</u>	<u>367</u>	<u>207,602</u>	<u>11,064</u>	<u>218,666</u>
(Loss) / profit for the period	-	-	-	(7,970)	-	-	(7,970)	256	(7,714)
Other comprehensive loss	-	-	-	-	(1,553)	-	(1,553)	(172)	(1,725)
Total comprehensive (loss) / income	-	-	-	(7,970)	(1,553)	-	(9,523)	84	(9,439)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(547)	(547)
Acquisition of interests in subsidiaries	-	-	-	-	-	-	-	234	234
Contribution by non-controlling interest	-	-	-	-	-	-	-	398	398
Other movements	-	-	-	30	14	-	44	-	44
At 30 June 2020 (unaudited)	<u>56,136</u>	<u>123,155</u>	<u>6,918</u>	<u>11,867</u>	<u>(320)</u>	<u>367</u>	<u>198,123</u>	<u>11,233</u>	<u>209,356</u>

The attached notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Mamoura Diversified Global Holding PJSC

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

Period ended 30 June 2020 (Unaudited)

	<i>Notes</i>	<i>Six-month period ended 30 June 2020 AED millions</i>	<i>Six-month period ended 30 June 2019 AED millions</i>
Cash flows from operating activities			
(Loss) / profit for the period from continuing operations		(11,333)	6,239
Profit for the period from discontinued operations		3,619	4,241
Adjustments for:			
Depreciation, amortisation and net impairment of property, plant and equipment, right-of-use and intangible assets		7,776	9,417
Investment loss / (income) (<i>net</i>)	8	5,105	(6,595)
Other income (<i>net</i>)		(396)	(532)
Net impairment charges on investments in equity accounted investees and financial assets at amortised costs		343	1,040
Loss / (income) from equity accounted investees	11	1,864	(3,492)
Net finance expense		1,486	930
Income tax expense (<i>net</i>)		57	50
Net decommissioning and other provisions		90	449
Non-cash income and expenses from discontinued operations		(2,620)	<u>324</u>
		5,991	12,071
Change in inventories		1,088	(221)
Change in trade and other receivable and prepayments		8,797	(71)
Change in trade payables and other liabilities		(2,540)	(1,565)
Income taxes paid		(59)	<u>(1,837)</u>
Net cash generated from operating activities		<u>13,277</u>	<u>8,377</u>
Cash flows from investing activities			
Acquisition of financial investments		(8,094)	(6,269)
Proceeds from disposal of financial investments		3,004	5,861
Acquisition of subsidiaries and equity accounted investees (<i>net of cash acquired</i>)		(432)	(1,936)
Proceeds from disposal of equity accounted investees and subsidiaries (<i>net of cash disposed</i>)		2,076	2,960
Acquisition of non-current assets (<i>see note (i)</i>)		(5,613)	(7,982)
Proceeds from disposal of non-current assets (<i>see note (i)</i>)		909	559
Loans recovered		259	90
Loans disbursed		(1,624)	(1,247)
Dividend income received		2,554	4,809
Interest income received		1,004	<u>1,163</u>
Net cash used in investing activities		<u>(5,957)</u>	<u>(1,992)</u>

Mamoura Diversified Global Holding PJSC

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS continued Period ended 30 June 2020 (Unaudited)

	<i>Six-month period ended 30 June 2020 AED millions</i>	<i>Six-month period ended 30 June 2019 AED millions</i>
Cash flows from financing activities		
Proceeds from government grants	803	942
Proceeds from borrowings	32,068	22,000
Repayments of borrowings and lease liabilities	(11,938)	(25,944)
Interest paid	(2,702)	(1,125)
Dividends paid to non-controlling interests	<u>(547)</u>	<u>(685)</u>
Net cash generated from / (used in) financing activities	<u>17,684</u>	<u>(4,812)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,004	1,573
Cash and cash equivalents at 1 January	20,337	24,623
Net foreign exchange fluctuation	<u>(164)</u>	<u>(150)</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE <i>(see note (ii))</i>	<u>45,177</u>	<u>26,046</u>

- (i) Non-current assets comprise of property, plant and equipment, intangible assets and investment properties.
(ii) Contains cash and cash equivalents from discontinued operations amounting to AED 612 million (30 June 2019: AED 1,145 million).

The attached notes 1 to 22 form an integral part of these interim condensed consolidated financial statements.

Mamoura Diversified Global Holding PJSC

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Mamoura Diversified Global Holding PJSC, formerly Mubadala Development Company PJSC (“MDGH” or “the Company”) is registered as a public joint stock company in the Emirate of Abu Dhabi, UAE. The Company was established by the Emiri Decree No. 12, dated 6 October 2002 and was incorporated on 27 October 2002. The Company’s registered head office is P O Box 45005, Abu Dhabi, UAE.

With effect from 26 May 2019, the name of the Company was changed from Mubadala Development Company PJSC to Mamoura Diversified Global Holding PJSC.

The Company and its subsidiaries (together the “Group”) are engaged in investing and managing investments, primarily in sectors and entities that contribute to the Emirate of Abu Dhabi’s strategy to diversify its economy. Consequently, the Group holds interests in a wide range of sectors including oil and gas and energy, renewable energy, semiconductor technology, mining, real estate and infrastructure, financial investments, commercial finance, healthcare, aerospace, and information and communications technology.

The Company is wholly owned by Mubadala Investment Company PJSC (the “Shareholder” or the “Parent”) and the ultimate parent of the Company is the Government of the Emirate of Abu Dhabi (the “Ultimate Parent”).

These interim condensed consolidated financial statements were authorised for issue by the Board of Directors on 12 November 2020.

2 BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, “*Interim Financial Reporting*”. It does not include all the information required for full annual consolidated financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2019, prepared in accordance with International Financial Reporting Standards (“IFRS”).

(b) Basis of measurement

The interim condensed consolidated financial statements have been prepared on the historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments) and investment properties – measured at fair value;
- Assets held for sale – measured at the lower of carrying amount and fair value less costs to sell;
- Defined benefit pension plans and plan assets measured at fair value; and
- Certain non-current assets received as government grants which are measured at nominal value.

(c) Functional and presentation currency

The interim condensed consolidated financial statements are presented in United Arab Emirates Dirhams, (“AED”) which is the Company’s functional and presentational currency of the Group. All financial information presented in AED has been rounded to the nearest millions, unless otherwise stated.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Group in these interim condensed consolidated financial statements are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

(i) New and revised IFRSs adopted in the interim condensed consolidated financial statements

The Group applies, for the first time, Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform. As required by IAS 34, the nature and effect of these changes are disclosed below. Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

Amendments to IFRS 7, IFRS 9 and IAS 39: Interest Rate Benchmark Reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform'). The Group has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives. There is uncertainty over the timing and the methods of transition across the jurisdictions that the Group operates in. The Group anticipates that IBOR reform will impact its risk management and hedge accounting.

The Treasury and Investor Relations team monitors and manages the transition to alternative rates. The team evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties.

The Group has initially adopted Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7) from 1 January 2020. This change in accounting policy is also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2020. The Group applied the interest rate benchmark reform amendments retrospectively to hedging relationships that existed at 1 January 2020 or were designated thereafter and that are directly affected by interest rate benchmark reform.

The Group holds derivatives for risk management purposes, which are designated in hedging relationships. The Group's derivative instruments are governed by the International Swaps and Derivatives Association (ISDA)'s Master Agreement. ISDA is currently reviewing its standardised contracts in the light of IBOR reform. When ISDA has completed its review, the Group expects to negotiate the inclusion of new fall back clauses with its derivative counterparties. No derivative instruments have been modified as at 30 June 2020.

The Group is in the process of evaluating the extent to which its hedging relationships are subject to uncertainty driven by IBOR reform as at 30 June 2020. For evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Group has assumed that the benchmark interest rate is not altered because of IBOR reform. For cash flow hedges of a forecast transaction, the Group has assumed that the benchmark interest rate will not be altered as a result of IBOR reform for the purpose of asserting that the forecast transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss. To determine whether the designated forecast transaction is no longer expected to occur, the Group has assumed that the interest rate benchmark cash flows designated as a hedge will not be altered as a result of IBOR reform.

The Group will cease to apply the amendments to its assessment of the economic relationship between the hedged item and the hedging instrument when the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument, or when the hedging relationship is discontinued. For its highly probable assessment of the hedged item, the Group will no longer apply the amendments when the uncertainty arising from IBOR reform about the timing and amount of the interest rate benchmark-based future cash flows of the hedged item is no longer present, or when the hedging relationship is discontinued.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(i) New and revised IFRSs adopted in the interim condensed consolidated financial statements (continued)

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarified that a business can exist without including all of the inputs and processes needed to create outputs. The adoption of the amendment has not had any material impact on the disclosures or on the amounts reported in these interim condensed consolidated financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity”.

The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the users of the financial statements. The adoption of the amendment has not had any material impact on the disclosures or on the amounts reported in these interim condensed consolidated financial statements and is not expected to have a material impact on the financial statements of the Group in future periods.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The revised Conceptual Framework provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. The adoption of the amendment has not had any material impact on the disclosures or on the amounts reported in these interim condensed consolidated financial statements and is not expected to have a material impact on the financial statements of the Group in future periods.

Covid-19-Related Rent Concessions - amendments to IFRS 16

On 28 May 2020, the IASB issued amendments to IFRS 16: COVID-19 Related Rent Concessions. These amendments introduce a practical expedient available to lessees in accounting for rent concessions (e.g. rent holidays and deferrals of lease payments) that are a direct consequence of the COVID-19 pandemic and that satisfy certain other criteria. The adoption of the amendment has not had any material impact on the disclosures or on the amounts reported in these interim condensed consolidated financial statements and is not expected to have a material impact on the financial statements of the Group in future periods.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(ii) New and revised IFRSs in issue but not yet effective and not early adopted

IFRS 17 Insurance Contracts (applicable for reporting periods beginning on or after 1 January 2023)

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure requirements for such contracts. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023. The Group does not have any insurance contracts and accordingly IFRS 17 is not expected to have any significant impact on the Group's consolidated financial statements.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current (applicable for reporting periods beginning on or after 1 January 2023)

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is in the process of assessing the impact of the amendments.

Reference to the Conceptual Framework – Amendments to IFRS 3 (applicable for reporting periods beginning on or after 1 January 2022)

In May 2020, the IASB issued Amendments to IFRS 3 *Business Combinations - Reference to the Conceptual Framework*. The amendments are intended to replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting* issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 *Levies*, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the *Framework for the Preparation and Presentation of Financial Statements*.

The amendments are effective for reporting periods beginning on or after 1 January 2022 and apply prospectively. The Group is in the process of assessing the impact of the amendments on future business combinations.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (applicable for reporting periods beginning on or after 1 January 2022)

In May 2020, the IASB issued *Property, Plant and Equipment — Proceeds before Intended Use*, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The Group is expected to apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

3 SIGNIFICANT ACCOUNTING POLICIES continued

(ii) New and revised IFRSs in issue but not yet effective and not early adopted continued

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (applicable for reporting periods beginning on or after 1 January 2022)

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group does not expect a material impact from this amendment on its consolidated financial statements.

4 ESTIMATES AND JUDGMENTS

The preparation of the interim condensed consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were similar to those described in the Group’s IFRS Consolidated Financial Statements as of 31 December 2019, except as specified otherwise in these interim condensed consolidated financial statements.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

5 DISCONTINUED OPERATIONS

	<i>Six-month period ended 30 June 2020 AED millions (unaudited)</i>	<i>Six-month period ended 30 June 2019 AED millions (unaudited)</i>
Borealis AG (“Borealis”) (<i>see note (i)</i>)	2,375	2,243
Compañía Española de Petróleos, S.A.U. (“CEPSA”) (<i>see note (ii)</i>)	-	1,998
MEDGAZ S.A. (“MEDGAZ”) (<i>see note (iii)</i>)	<u>1,244</u>	<u>-</u>
Profit for the period from discontinued operations	<u>3,619</u>	<u>4,241</u>

(i) Borealis AG (“Borealis”)

On 29 January 2020, the Board approved partial disposal of the Company’s interest held in Borealis. On 12 March 2020, the Group signed an agreement with OMV AG (OMV) to sell 39% of its stake in Borealis. The transaction, which is subject to regulatory approvals, is expected to close during the calendar year 2020. Following the completion of this sale, OMV will hold 75% interest and the Group will retain 25% interest in Borealis. Management has assessed that, in light of the shareholder agreement between the Group and OMV, it is highly probable that the Group will lose control over Borealis after the committed divestment of 39% of its interest in Borealis. Accordingly, in these interim condensed consolidated financial statements, Borealis’ assets and liabilities have been classified as a disposal group held-for-sale.

The results of operations of Borealis, for the six-months period ended 30 June 2020, are presented below:

	<i>Six-month period ended 30 June 2020 AED millions (unaudited)</i>	<i>Six-month period ended 30 June 2019 AED millions (unaudited)</i>
Revenue	13,944	17,492
Cost of sales	<u>(10,867)</u>	<u>(13,953)</u>
Gross profit	3,077	3,539
Net income and expenses	(619)	(1,196)
Income taxes	<u>(83)</u>	<u>(100)</u>
Profit from discontinued operations	<u>2,375</u>	<u>2,243</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

5 DISCONTINUED OPERATIONS continued

(i) Borealis AG (“Borealis”) continued

Summarised cash flows of Borealis are presented below:

	<i>Six-month period ended 30 June 2020 AED millions (unaudited)</i>	<i>Six-month period ended 30 June 2019 AED millions (unaudited)</i>
Net cash generated from operating activities	2,452	1,688
Net cash (used in) / generated from investing activities	(2,774)	282
Net cash generated from / (used in) financing activities	<u>494</u>	<u>(1,676)</u>
Net increase in cash and cash equivalents	<u>172</u>	<u>294</u>

The major classes of assets and liabilities comprising of the operations of Borealis classified as held for sale are as follows:

	<i>At 30 June 2020 AED millions (unaudited)</i>
Non-current assets	36,360
Current assets	7,841
Cash and cash equivalents	<u>612</u>
Total assets classified as held for sale	<u>44,813</u>
Non-current liabilities	(10,637)
Current liabilities	<u>(6,574)</u>
Total liabilities directly associated with assets classified as held for sale (see note (i))	<u>(17,211)</u>
Net assets of disposal group	<u>27,602</u>

- (i) Total liabilities directly associated with assets classified as held for sale includes borrowings amounting to AED 7,805 million at 30 June 2020 (see note 15).

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5 DISCONTINUED OPERATIONS continued

(ii) Compañía Española de Petróleos, S.A.U. (“CEPSA”)

On 7 April 2019, the Group signed an agreement (subsequently amended on 15 October 2019) with Carlyle Group LP (“Carlyle” or the “Buyer”) to sell a minimum of 37% of its ownership in CEPSA, excluding the Group’s 42.09% interest in MEDGAZ. On 25 September 2019, the Group received the last of the necessary approvals with respect to part sell down of stake in CEPSA to Carlyle. Accordingly, the Group had recognised the sale of this transaction effective 25 September 2019, resulting in a net loss of AED 1,506 million, after recycling of hedging and other reserves of AED 1,899 million to profit or loss. Management has assessed that based on the shareholder agreement between the Group and Carlyle and other relevant factors, the Group has lost control over CEPSA after the completed sale of 37% of its interest in CEPSA. Henceforth, the Group’s retained stake of 63%, subsequently reduced to 61.5%, has been accounted for as a joint venture as both the Group and Carlyle have joint control over CEPSA.

The results of operations of CEPSA are set out below:

	<i>Six-month period ended 30 June 2019 AED millions (unaudited)</i>
Revenue	44,514
Cost of sales	<u>(37,596)</u>
Gross profit	6,918
Net income and expenses	(3,789)
Income taxes	<u>(1,131)</u>
Profit for the period	<u>1,998</u>

Summarised cash flows of CEPSA are presented below:

	<i>Six-month period ended 30 June 2019 AED millions (unaudited)</i>
Net cash generated from operating activities	3,312
Net cash used in investing activities	(1,788)
Net cash used in financing activities	<u>(1,413)</u>
Net increase in cash and cash equivalents	<u>111</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

5 DISCONTINUED OPERATIONS continued

(iii) Other assets

As at 30 June 2020, certain other assets qualified for held for sale classification and are measured at the lower of their respective carrying amounts and fair value less costs to sell, amounting to AED 53 million (31 December 2019: AED 900 million).

Prior to partial disposal of CEPESA, MEDGAZ was transferred from CEPESA to CEPESA Holding, a subsidiary of the Company, as dividend-in-kind. In October 2019, CEPESA Holding entered into an agreement with Naturgy and Sonatrach for the sale of 42.09% shares in MEDGAZ S.A. ("MEDGAZ"). On 30 April 2020, the Group completed the sale after obtaining all the necessary approvals and satisfying all conditions precedent, which resulted in a gain of AED 1,244 million.

6 OPERATING SEGMENTS

	Petroleum and Petrochemicals AED millions	Technology, Manufacturing and Mining AED millions	Aerospace, Renewables and ICT AED millions	Alternative Investment and Infrastructure AED millions	Corporate AED millions	Total AED millions
<i>For the period ended 30 June 2020 (unaudited)</i>						
Revenues from contracts with customers	7,724	9,858	2,644	1,376	-	21,602
Other revenue	-	-	353	362	27	742
Total revenue	7,724	9,858	2,997	1,738	27	22,344
(Loss) / profit for the period attributable to the Owner of the Group (continuing operations)	(5,618)	(1,877)	307	(2,885)	(1,203)	(11,276)
Profit for the period attributable to the Owner of the Group (discontinued operations)	3,306	-	-	-	-	3,306
Total comprehensive loss for the period attributable to the Owner of the Group	(2,955)	(2,131)	(252)	(2,982)	(1,203)	(9,523)
<i>At 30 June 2020 (unaudited)</i>						
Total assets	128,133	72,168	30,183	90,721	67,534	388,739
Total liabilities	46,481	18,965	10,260	14,405	89,272	179,383
<i>For the period ended 30 June 2019 (unaudited)</i>						
Revenues from contracts with customers	9,477	10,561	2,481	1,214	-	23,733
Other revenue	-	-	344	555	25	924
Total revenue	9,477	10,561	2,825	1,769	25	24,657
Profit / (loss) for the period attributable to the Owner of the Group (continuing operations)	2,632	660	2,518	1,348	(916)	6,242
Profit for the period attributable to the Owner of the Group (discontinued operations)	3,452	-	-	-	-	3,452
Total comprehensive income / (loss) for the period attributable to the Owner of the Group	5,644	627	2,322	1,351	(916)	9,028
<i>At 31 December 2019 (audited)</i>						
Total assets	134,180	74,801	30,377	85,102	53,934	378,394
Total liabilities	44,641	19,014	9,684	10,896	75,493	159,728

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

7 REVENUE

	<i>Revenue from contract with customers AED millions</i>	<i>Other revenue AED millions</i>	<i>Total revenue AED millions</i>
<i>Six-month period ended 30 June 2020 (unaudited)</i>			
Revenue from semiconductor wafers	9,858	-	9,858
Revenue from petrochemicals	5,653	-	5,653
Revenue from exploration and production activities	2,094	-	2,094
Revenue from aircraft maintenance and repairs, components leasing and sales	1,339	98	1,437
Revenue from medical services	974	-	974
Revenue from satellite capacity leasing	482	245	727
Others	<u>1,202</u>	<u>399</u>	<u>1,601</u>
	<u>21,602</u>	<u>742</u>	<u>22,344</u>
<i>Six-month period ended 30 June 2019 (unaudited)</i>			
Revenue from semiconductor wafers	10,561	-	10,561
Revenue from petrochemicals	6,755	-	6,755
Revenue from exploration and production activities	2,717	-	2,717
Revenue from aircraft maintenance and repairs, components leasing and sales	1,160	91	1,251
Revenue from medical services	1,010	-	1,010
Revenue from satellite capacity leasing	486	242	728
Others	<u>1,044</u>	<u>591</u>	<u>1,635</u>
	<u>23,733</u>	<u>924</u>	<u>24,657</u>
		<i>Six-month period ended 30 June 2020 AED millions (unaudited)</i>	<i>Six-month period ended 30 June 2019 AED millions (unaudited)</i>
<i>Timing of revenue recognition</i>			
Over a period of time		12,149	12,699
Single point in time		<u>9,453</u>	<u>11,034</u>
		<u>21,602</u>	<u>23,733</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

8 INVESTMENT (LOSS) / INCOME (net)

	<i>Six-month period ended 30 June 2020 AED millions (unaudited)</i>	<i>Six-month period ended 30 June 2019 AED millions (unaudited)</i>
Fair value (losses) / gains from non-derivative financial instruments (net)	(5,911)	5,005
Fair value gains from derivative financial instruments (net)	202	1,140
Dividend income from equity investments	658	455
Fair value loss from investment properties (net)	<u>(54)</u>	<u>(5)</u>
	<u>(5,105)</u>	<u>6,595</u>

9 PROPERTY, PLANT AND EQUIPMENT

During the six-month period ended 30 June 2020, the Group acquired and / or constructed property, plant and equipment for a cost of AED 5,257 million (*six-month period ended 30 June 2019: AED 5,715 million*).

The Group recognised impairment losses amounting to AED 625 million during the six-month period ended 30 June 2020 (*six-month period ended 30 June 2019: AED 59 million*).

10 INTANGIBLE ASSETS

During the six-month period ended 30 June 2020, the Group acquired intangible assets for a cost of AED 823 million (*six-month period ended 30 June 2019: AED 1,717 million*).

The Group recognised impairment losses amounting to AED 59 million during the six-month period ended 30 June 2020 (*six-month period ended 30 June 2019: AED 117 million*).

11 INVESTMENT IN EQUITY ACCOUNTED INVESTEES

(a) Investment in equity accounted investees

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Investments in associates (<i>see note (i)</i>)	23,172	37,581
Investments in joint ventures	<u>38,544</u>	<u>43,486</u>
	<u>61,716</u>	<u>81,067</u>

(i) Investment in associates

During the period, Abu Dhabi Polymers Company Limited (“Borouge”), an associate of Borealis, was classified as an asset held-for-sale as a result of Borealis being classified as held-for-sale (*see note 5(i)*).

(b) (Loss) / income from equity accounted investees

	<i>Six-month period ended 30 June 2020 AED millions (unaudited)</i>	<i>Six-month period ended 30 June 2019 AED millions (unaudited)</i>
Share of results of equity accounted investees	(1,980)	1,197
Gain on divestment of equity accounted investees (<i>see note (i)</i>)	<u>116</u>	<u>2,295</u>
	<u>(1,864)</u>	<u>3,492</u>

Gain on disposal of equity accounted investees for the period ended 30 June 2019 includes gain on sale of du (*see note (i) below*) and gain on sale of other investments.

(i) Gain on divestment of Emirates Integrated Telecommunications Company PJSC (“du”)

On 30 May 2019, the Group signed an SPA with Emirates Investment Authority and sold 10.22% of its interest in Emirates Integrated Telecommunications Company PJSC (du).

This transaction resulted in the recognition of a gain on disposal of AED 1,990 million. Following the sale of 10.22% of its interest, management determined that the Group no longer has significant influence over du with its remaining 10.06 % interest in du and accordingly classified the remaining stake at fair value through profit or loss. This reclassification also resulted in recognition of a revaluation gain of the remaining shareholding which was recognised as “Income from equity accounted investees” in the comparative period in the statement of comprehensive income.

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12 OTHER RECEIVABLES AND PREPAYMENTS

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Amounts due from related parties <i>(see note 19(d))</i>	25,175	19,728
Restricted and long-term deposits <i>(see note (i))</i>	32,619	42,166
Receivables against government grants	328	972
Finance lease receivables	2,023	1,987
Contract assets receivable	3,232	3,553
Other receivables and prepayments	<u>5,162</u>	<u>10,221</u>
	68,539	78,627
Less: expected credit losses	<u>(504)</u>	<u>(504)</u>
	<u>68,035</u>	<u>78,123</u>
Disclosed as:		
Current	50,985	62,999
Non-current	<u>17,050</u>	<u>15,124</u>
	<u>68,035</u>	<u>78,123</u>

- (i) Includes long-term deposits amounting to AED 31,132 million (31 December 2019: AED 41,171 million) which represent deposits with original maturity of more than three months. Long-term deposits include AED 14,954 million (31 December 2019: AED 8,020 million) placed with entities under common control *(see note 19(d))*.

13 OTHER FINANCIAL ASSETS

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Loans receivable <i>(see note 13(a))</i>	10,382	11,501
Investment in non-derivative financial instruments <i>(see note 13(b))</i>	<u>44,528</u>	<u>43,435</u>
	<u>54,910</u>	<u>54,936</u>
Disclosed as:		
Current	1,445	1,626
Non-current	<u>53,465</u>	<u>53,310</u>
	<u>54,910</u>	<u>54,936</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

13 OTHER FINANCIAL ASSETS continued

(a) Loans receivable

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Loans to joint ventures	1,543	3,175
Loans to entities under common control	474	474
Loans to associates	<u>3</u>	<u>64</u>
Loans to related parties	2,020	3,713
Less: expected credit losses	<u>(418)</u>	<u>(375)</u>
Loans to related parties (<i>net</i>) (<i>see note 19(d)</i>)	<u>1,602</u>	<u>3,338</u>
Loans to third parties (<i>see note (i)</i>)	9,256	8,362
Less: expected credit losses	<u>(476)</u>	<u>(199)</u>
Loans to third parties (<i>net</i>)	<u>8,780</u>	<u>8,163</u>
Total loans receivable	<u>10,382</u>	<u>11,501</u>
Disclosed as:		
Current	1,358	1,540
Non-current	<u>9,024</u>	<u>9,961</u>
	<u>10,382</u>	<u>11,501</u>

(i) Loans to third parties

Loans given to third parties include commercial loans and senior secured corporate loans amounting to AED 6,444 million (*31 December 2019: AED 5,781 million*), which carry interest at varying rates and having different maturities. Out of the total loans given to third parties, loans amounting to AED 5,208 million (*31 December 2019: AED 4,522 million*) is represented by senior secured loans provided to middle-market businesses across multiple industries primarily located in the United States. These loans are secured (via share pledges) by the enterprise value of the obligors. As of 30 June 2020 this collateral represents approximately 240% (*31 December 2019: 240%*) of the carrying value of the loan portfolio. A portion of the remaining loans given to third parties is secured through real estate, the fair value of which, as at 30 June 2020, amounted to AED 1,946 million (*31 December 2019: AED 1,932 million*).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

13 OTHER FINANCIAL ASSETS continued

(b) Investment in non-derivative financial instruments

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
i. Fair value through profit or loss (“FVTPL”) financial assets		
<i>Financial assets at FVTPL</i>		
<u>Quoted investments</u>		
Equity securities	14,247	20,002
Debt securities	2,091	2,028
Others	<u>-</u>	<u>49</u>
<i>Total quoted investments</i>	<u>16,338</u>	<u>22,079</u>
<u>Unquoted investments</u>		
Convertible bonds	4,685	2,483
Equity securities	3,734	2,828
Funds	15,096	14,809
Loans receivable	4,424	922
Others	<u>62</u>	<u>131</u>
<i>Total unquoted investments</i>	<u>28,001</u>	<u>21,173</u>
<i>Total financial assets through profit or loss</i>	<u>44,339</u>	<u>43,252</u>
ii. Fair value through other comprehensive income		
Quoted debt securities	<u>189</u>	<u>183</u>
	<u>44,528</u>	<u>43,435</u>
<i>Disclosed as:</i>		
Current	87	86
Non-current	<u>44,441</u>	<u>43,349</u>
	<u>44,528</u>	<u>43,435</u>

Financial instruments measured at fair value

Details of fair value hierarchy and fair value methodology is provided in note in 20(f).

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

14 CASH AND CASH EQUIVALENTS

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Bank balances:		
- deposit accounts	24,463	5,275
- call and current accounts	20,100	15,060
Cash in hand	<u>2</u>	<u>2</u>
Cash and cash equivalents	<u>44,565</u>	<u>20,337</u>

Bank balances are placed with commercial banks and are short-term in nature. Deposit and call accounts earn interest at prevailing market rates. Bank balances include AED 28,040 million (31 December 2019: AED 16,551 million) placed with entities under common control (see note 19(d)) in the normal course of business operations.

15 INTEREST BEARING BORROWINGS

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Borrowings	129,570	114,807
Lease liabilities	<u>4,308</u>	<u>5,512</u>
	<u>133,878</u>	<u>120,319</u>
<i>Disclosed as:</i>		
Current	22,590	13,851
Non-current	<u>111,288</u>	<u>106,468</u>
	<u>133,878</u>	<u>120,319</u>

Details of borrowings are as follows:

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Unsecured bank borrowings	18,914	22,785
Unsecured corporate bonds	81,599	68,497
Secured bank borrowings	28,986	23,453
Secured bonds	<u>71</u>	<u>72</u>
	<u>129,570</u>	<u>114,807</u>
<i>Disclosed as:</i>		
Current	21,717	12,773
Non-current	<u>107,853</u>	<u>102,034</u>
	<u>129,570</u>	<u>114,807</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

15 INTEREST BEARING BORROWINGS continued

The secured bank borrowings are secured over property, plant and equipment, inventory, letters of credit, loans receivable from third parties and restricted cash with carrying amount of AED 28,340 million (31 December 2019: AED 34,502 million), AED 2,469 million (31 December 2019: AED 896 million), AED 102 million (31 December 2019: AED 102 million), AED 5,208 million (31 December 2019: AED 4,522 million) and AED 241 million (31 December 2019: AED 259 million), respectively. In addition to this, certain loans are secured through pledges on project proceeds (receivables), a net investment in joint operations, debt and equity securities and bank balances.

Included in interest bearing loans at 30 June 2020 were borrowings of AED 20,322 million (31 December 2019: AED 9,234 million) which have been designated as a hedge of the net investments in certain foreign operations. Further, borrowings include AED 2,088 million (31 December 2019: Nil) carried at fair value.

Borrowings at the reporting date, analysed by each significant sub-group of companies, are as follows:

	30 June 2020	31 December 2019
	AED millions (unaudited)	AED millions (audited)
Corporate	86,403	71,285
NOVA	16,635	15,417
Global Foundries Inc.	10,253	9,503
MMJV LP	3,329	2,919
Al Maqsed Development Company PJSC	2,352	2,377
Al Yah Satellite Communications Company PJSC	1,146	1,350
Borealis	-	5,937
Other subsidiaries	<u>9,452</u>	<u>6,019</u>
	<u>129,570</u>	<u>114,807</u>

Movements in interest bearing borrowings during the period / year were as follows:

	30 June 2020	31 December 2019
	AED millions (unaudited)	AED millions (audited)
At 1 January	114,807	106,566
Additions	32,068	49,839
Repayments	(11,433)	(41,525)
Transfer from entities under common control	-	12,812
Partial divestment of a subsidiary	-	(13,229)
Transferred to held for sale (see note 5(i))	(7,805)	-
Foreign exchange fluctuations and other movements	<u>1,933</u>	<u>344</u>
At the end of the period / year	<u>129,570</u>	<u>114,807</u>

The fair value of interest bearing borrowings is AED 133,817 million (31 December 2019: AED 116,372 million). It includes interest bearing borrowings amounting to AED 83,784 million (31 December 2019: AED 69,363 million), classified as "Level 1" within the fair valuation hierarchy i.e., fair value is determined using valuation techniques in which significant inputs are based on observable market data. The remaining interest bearing borrowings amounting to AED 50,033 million (31 December 2019: AED 47,009 million) are classified as "Level 3" within the fair value hierarchy since the fair value is determined using valuation techniques in which significant inputs are based on unobservable market data.

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16 OTHER RESERVES

	<i>Statutory reserve AED millions</i>	<i>Foreign currency translation reserve AED millions</i>	<i>Hedging and other reserves AED millions</i>	<i>Reserves from discontinued operations AED millions</i>	<i>Total AED millions</i>
At 1 January 2019 (audited)	1,623	(1,041)	(130)	-	452
Exchange difference on translation of foreign operations	-	(198)	-	-	(198)
Movement on hedge of net investment in foreign operations	-	138	-	-	138
Effective portion of changes in fair values of cash flow hedges and other reserves (<i>net of tax</i>)	-	-	(176)	-	(176)
Share of other comprehensive loss of equity accounted investees	-	(7)	(106)	-	(113)
Net movement in defined benefit plan (<i>net of tax</i>)	-	-	(317)	-	(317)
Transfer of reserve of disposal group held for sale (<i>see note 5(i)</i>)	<u>-</u>	<u>1,219</u>	<u>71</u>	<u>(1,290)</u>	<u>-</u>
At 30 June 2019 (unaudited)	<u>1,623</u>	<u>111</u>	<u>(658)</u>	<u>(1,290)</u>	<u>(214)</u>
	<i>Statutory reserve AED millions</i>	<i>Foreign currency translation reserve AED millions</i>	<i>Hedging and other reserves AED millions</i>	<i>Reserves from discontinued operations AED millions</i>	<i>Total AED millions</i>
At 1 January 2020 (audited)	1,582	(208)	(155)	-	1,219
Exchange difference on translation of foreign operations	-	(327)	-	-	(327)
Movement on hedge of net investment in foreign operations	-	(53)	-	-	(53)
Effective portion of changes in fair values of cash flow hedges and other reserves (<i>net of tax</i>)	-	-	(541)	-	(541)
Share of other comprehensive loss of equity accounted investees	-	63	(652)	-	(589)
Net movement in defined benefit plan (<i>net of tax</i>)	-	-	(44)	-	(44)
Transfer of reserve of disposal group held for sale (<i>see note 5(i)</i>)	-	(69)	462	(393)	-
Other Movements	<u>-</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>15</u>
At 30 June 2020 (unaudited)	<u>1,582</u>	<u>(594)</u>	<u>(915)</u>	<u>(393)</u>	<u>(320)</u>

Statutory reserve

As required by the UAE Federal Law No. (2) of 2015 and the articles of association of certain subsidiaries registered in UAE, 10% of profit from previous years were transferred to the statutory reserve. The reserve is not available for distribution.

Hedging and other reserve

Hedging reserve comprises the effective portion of the cumulative net change from cash flow hedges related to hedged transactions that have not yet affected the profit or loss.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

16 OTHER RESERVES continued

Foreign currency translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in foreign operations.

Hedges of a net investment in a foreign operation, including a hedge of monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges.

As at 30 June 2020, borrowings with notional amounts of AED 19,786 million (EUR 4,795 million) (30 June 2019: AED 8,611 million (EUR 2,061 million)) were designated as a hedge of the net investments in certain foreign operations with EUR functional currencies. These borrowings are used to hedge the Group's exposure to EUR foreign exchange risk on those investments. Losses on the retranslation of these borrowings amounting to AED 38 million (30 June 2019: AED 70 million gains on translation) were recognised in other comprehensive income to offset gains/losses on translation of foreign operations. There was no ineffectiveness recorded during the period.

Also, certain subsidiaries whose functional and reporting currency is in Euro have designated certain US \$ denominated loans, cross currency interest swaps and foreign exchange forwards as hedges of net investments in their foreign operations.

The Group, as at 30 June 2020, has also designated the EUR leg of certain swaps as hedging instruments for net investments in certain foreign operations with EUR functional currencies, with notional amount of AED 7,890 million (EUR 1,912 million) (30 June 2019: AED 7,988 million (EUR 1,912 million)). A portion of the fair value losses on the hedging instruments, relating to foreign exchange losses and amounting to AED 15 million (six-month period ended 30 June 2019: AED 65 million foreign exchange losses), was recognised in other comprehensive income to offset gains/losses on translation of foreign operations. The difference between the fair value of the swaps and related foreign exchange difference, amounting to a gain of AED 157 million (six-month period ended 30 June 2019: AED 64 million losses), was recorded in profit or loss within fair value gains from derivative financial instruments (net).

17 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Commitments – Group

Commitments at the end of the reporting period are as follows:

	30 June 2020	31 December 2019
	AED millions	AED millions
	(unaudited)	(audited)
Commitments for capital expenditure	9,598	10,385
Commitments for equity investments	22,827	14,839
Unfunded loan commitments	4,743	5,131
Exploration commitments	36	67
	<u>37,204</u>	<u>30,422</u>

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17 COMMITMENTS AND CONTINGENT LIABILITIES continued

(b) Commitments – Joint ventures

In addition to the above, the commitment made by the Group's joint ventures, after reflecting the Group's ownership in them at the end of the reporting period, are as follows:

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Commitments		
Commitments for capital expenditure	5,295	5,589
Commitment to provide loans	<u>501</u>	<u>529</u>
	<u>5,796</u>	<u>6,118</u>

(c) Contingencies

Contingencies of the Group and Group's joint ventures and associates after reflecting the Group's ownership in them at the end of the reporting period, are as follows:

	<i>30 June 2020 AED millions (unaudited)</i>	<i>31 December 2019 AED millions (audited)</i>
Contingent liabilities (see note (i)) *	<u>16,253</u>	<u>15,571</u>
Group's share of contingent liabilities of joint ventures and associates	<u>7,705</u>	<u>7,970</u>

* Contingent liabilities include bank guarantees, performance bonds, advance payment bonds and completion guarantees.

(i) Guarantee overlay

In 2018, the Company provided guarantee overlay to IPIC for certain of its existing guarantees:

- (a) the payment obligations of 1MDB Energy Limited under its AED 6.43 billion (US \$1.75 billion) 5.99% guaranteed notes due 2022 on a joint and several basis with 1Malaysia Development Berhad ("1MDB"); and
- (b) the notes and loans of Signum Magnolia Limited which are collateralised by AED 6.43 billion (US \$1.75 billion) 5.75% guaranteed notes due 2022 issued by 1MDB Energy (Langat) Limited and guaranteed by 1MDB.

18 LITIGATIONS

The Group is involved in litigations in the ordinary course of business. Legal claims often involve highly complex issues. These issues are subject to substantial uncertainties and therefore the estimation of the probability of loss and of damages are often difficult to determine.

The Group records a provision for claims for which it is able to make an estimate of the expected loss or range of possible loss, but believe that the publication of this information on a case-by-case basis would seriously prejudice its position in the ongoing legal proceedings or in any related settlement discussions. Accordingly, for these claims, the Group has disclosed information with respect to the nature of the claim, but not an estimate of the range of potential loss or any provision accrued.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

18 LITIGATIONS continued

The Group believes that the aggregate provisions recorded for these matters are adequate based upon currently available information as of the statement of financial position date, which may be subject to ongoing revision of existing estimates. However, given the inherent uncertainties related to these claims, the Group could, in the future, incur judgments that could have a material adverse effect on its results of operations, liquidity, financial position or cash flows in any particular period.

For contingent liabilities, the Group has disclosed the claims, but has not recorded a provision of the potential outcome of these claims and is unable to make an estimate of the expected financial effect that will result from ultimate resolution of the proceedings

A summary of the major litigations of the Group are set out below:

Dow Litigations

In December 2010, The Dow Chemical Company ("Dow Chemical") filed a Statement of Claim against NOVA in Federal Court in Ontario, Canada, alleging that certain grades of NOVA's SURPASS® polyethylene film resins infringe a Dow Chemical Canadian patent. NOVA filed its statement of defence and counterclaim in March 2011. A trial on the infringement issue commenced in September 2013 and concluded in November 2013. In May 2014, the judge for the Federal Court issued an adverse judgment, which NOVA appealed and was dismissed by the Federal Court. A subsequent trial to determine damages commenced in December 2016 and concluded in January 2017. In April 2017, the Federal Court issued its Judgment and Reasons in the damages phase, providing assumptions and other considerations to be used in calculating the quantum of damages and pre-judgment interest. In May 2017, NOVA filed a Notice of Appeal with the Federal Court of Appeal for Ontario regarding the particular findings in the Federal Court's damages decision, and Dow Chemical filed a cross appeal. In June 2017, the Federal Court issued its Confidential Supplemental Judgment and Reasons, which became public in July 2017. In July 2017, NOVA paid Dow Chemical USD 501 million (AED 1,840 million) to satisfy the judgment. NOVA filed a Notice of Appeal with the Federal Court of Appeal for Ontario regarding the Supplemental Judgment and Reasons in July 2017, and the appeals were merged by the Federal Court of Appeal for Ontario. Arguments on all issues occurred on 19 June 2018. On 15 September 2020, the Court of Appeals for Ontario issued its decision denying our appeal and denying Dow's cross-appeal. NOVA is still analyzing its position with respect to the Courts of Appeal decision.

In 2006, Dow Chemical Canada ULC and its European affiliate (collectively, "Dow") filed a claim against NOVA in the Court of Queen's Bench of Alberta concerning the jointly owned third ethylene plant at the Joffre site. NOVA counterclaimed in the same action. In June 2018, the Court of Queen's Bench of Alberta issued its decision covering the period of 2001-2012 and dismissed the counterclaim. Based on NOVA management's best estimate of the quantification of the exposure under this claim and considering the provision in relation to this matter that NOVA already recorded at 31 December 2017 as well as an estimated range of USD 250 million (AED 918 million) to USD 350 million (AED 1,286 million) for damages and interest for the period beyond 2012 to the date of judgment, NOVA recorded in 2018, a USD 727 million (AED 2,671 million) net charge related to this claim.

On 24 September 2019, a judgment was filed with the Court of Queen's Bench of Alberta awarding Dow damages and interest for the period 2001-2012 in the aggregate amount of CAD 1,430 million (AED 3,959 million). On 10 October 2019, utilizing liquidity on hand, NOVA paid an aggregate amount of CAD 1,430 million (AED 3,959 million) to satisfy the judgment for the period 2001-2012 in full. Payment was made against the provision in the books. NOVA appealed this decision to the Court of Appeal of Alberta and filed written arguments in April 2019. Oral arguments were held on 10 June 2020. Subsequent to the reporting period, on 16 September 2020, a decision was rendered by the Court of Appeal of Alberta allowing in part some elements of NOVA's appeal. NOVA is still analyzing the appellate decision and the quantification of any reduction to the original damages assessed in the 2001-2012 judgement and any reduction in damages which may be assessed for the 2013 to June 2018 period.

The parties continued to explore a negotiated settlement of this litigation.

Others

Several group companies are currently subject to routine tax audits performed by their respective tax authorities. Managements' opinions are that the companies are in compliance with all applicable regulations. Given the preliminary nature of the proceedings, the outcome of these tax audits is uncertain and accordingly potential impacts, if any, cannot be currently reliably estimated.

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30 June 2020 (Unaudited)

19 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES

(a) Identification of related parties

The Group has related party relationships with its Shareholder, Ultimate parent, joint ventures and associates, and with directors, executive officers and parties which are under common control of the above entities.

(b) Compensation of the Company's key management personnel and Board of Directors

The remuneration of senior key management personnel and the Board of Directors of the Group during the period was AED 99 million (six-month period ended 30 June 2019: AED 103 million).

(c) Related party transactions

In the ordinary course of business, the Group provides services to and receives services from related parties on terms agreed by management.

Significant transactions with related parties during the year were as follows:

	Revenue AED millions	Purchases of goods and services AED millions	Interest bearing borrowings drawn AED millions	Interest bearing borrowings repaid AED millions	Loans given AED millions	Loans recovered AED millions	Finance income AED millions	Finance cost AED millions
<i>Six-month period ended 30 June 2020 (unaudited)</i>								
Entities under common control	1,976	71	-	244	-	-	327	83
Associates	1,085	2,847	-	-	-	-	2	-
Joint ventures	353	217	-	-	379	-	71	33
Ultimate parent	<u>30</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>	<u>-</u>
	<u>3,444</u>	<u>3,135</u>	<u>-</u>	<u>244</u>	<u>379</u>	<u>-</u>	<u>408</u>	<u>116</u>
<i>Six-month period ended 30 June 2019 (unaudited)</i>								
Entities under common control	2,041	163	135	201	-	-	391	93
Associates	1,141	3,616	-	-	4	-	1	-
Joint ventures	345	517	-	189	469	77	47	39
Ultimate parent	<u>33</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>
	<u>3,560</u>	<u>4,296</u>	<u>135</u>	<u>390</u>	<u>473</u>	<u>77</u>	<u>448</u>	<u>132</u>
							<i>For the six-month period ended</i>	
							30 June	30 June
							2020	2019
							AED millions	AED millions
<i>Other significant transactions:</i>								
Recharge of expenses from Shareholder							<u>386</u>	<u>336</u>
Cash calls paid to joint ventures for joint operations							<u>345</u>	<u>434</u>
Income from provision of manpower, project management and consultancy services to joint ventures							<u>86</u>	<u>94</u>
Other miscellaneous transactions with associates, joint ventures and to entities under common control							<u>350</u>	<u>121</u>

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30 June 2020 (Unaudited)

19 SIGNIFICANT RELATED PARTY TRANSACTIONS AND BALANCES continued

(d) Related party balances

	Bank balances AED millions	Long-term balances AED millions	Amounts due to related parties AED millions (see note (ii))	Amounts due from related parties AED millions (see notes (i) and (iii))	Advances from related parties AED millions (see note (ii))	Loans and deposits from related parties AED millions (see note (ii))	Loans to related parties AED millions (see notes (i) and (iv))	Finance lease receivables AED millions	Interest bearing receivables AED millions	Additional shareholder contribution AED millions (see note (v))
Entities under common control	28,040	14,954	1,191	7,978	1,069	-	353	1,350	3,292	-
Associates	-	-	9	8	-	-	2	-	-	-
Joint ventures	-	-	118	917	-	-	1,247	88	1,352	-
Ultimate parent (see note (vi))	-	-	25	13,433	1,303	756	-	-	-	-
Shareholder	-	-	217	2,791	-	-	-	-	-	123,155
30 June 2020 (unaudited)	<u>28,040</u>	<u>14,954</u>	<u>1,560</u>	<u>25,127</u>	<u>2,372</u>	<u>756</u>	<u>1,602</u>	<u>1,438</u>	<u>4,644</u>	<u>123,155</u>
Entities under common control	16,551	8,020	1,174	7,933	1,069	-	362	1,350	3,569	-
Associates	-	-	729	542	-	-	64	-	-	-
Joint ventures	-	-	212	857	-	-	2,912	88	1,351	-
Ultimate parent (see note (vi))	-	-	77	11,402	1,376	749	-	-	-	-
Shareholder	-	-	-	-	-	-	-	-	-	123,155
31 December 2019 (audited)	<u>16,551</u>	<u>8,020</u>	<u>2,192</u>	<u>20,734</u>	<u>2,445</u>	<u>749</u>	<u>3,338</u>	<u>1,438</u>	<u>4,920</u>	<u>123,155</u>

(i) The balances in the table above are net of impairment and ECLs, where applicable.

(ii) Amounts due to related parties, advances from related parties and loans and deposits from related parties are included in other liabilities.

(iii) Amounts due from related parties are included in other receivables and prepayments (see note 12) and trade receivables.

(iv) Loans to related parties are included in loan receivable (see note 13(a)).

(v) Additional shareholder contributions represent interest free loans from the Shareholder. These loans meet the definition of equity instruments rather than liabilities, and accordingly are presented within equity.

(vi) Ultimate parent in this note includes the Government of Abu Dhabi and the Abu Dhabi Department of Finance.

20 FINANCIAL RISK MANAGEMENT

The Group follows the risk management framework of its Parent. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit, Risk and Compliance Committee of the Group's Parent oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial asset fails to meet its contractual obligations. Credit risk arises principally from Group's financial assets.

The Group's exposure to credit risk is influenced by the individual characteristics of each customer or counterparty. Management also considers the demographics of the Group's customer base, including the default risk of the industry and country, as these factors influence the Group's exposure to credit risk, particularly in the current macro-economic environment.

The maximum exposure to credit risk at 30 June 2020 is set out below.

	<i>30 June 2020 AED millions (unaudited)</i>
Trade receivables (see note (i))	5,517
Other receivables (see note (i))	
Amounts due from related parties	24,797
Finance lease receivables	2,023
Restricted and long-term deposits	32,619
Others	6,806
Other financial assets	
Loans receivable (see note (ii))	10,382
Investments in non-derivative financial investments (see note (iii))	11,389
Cash at bank (see note iv))	<u>44,563</u>
	<u>138,096</u>

- (i) As at 30 June 2020, trade and other receivables amount to AED 71,762 million, out of which AED 25,127 million was amounts due from related parties (see note 19(d)). Further, other receivables also include AED 32,619 million of restricted and long-term deposits, out of which AED 14,954 million are with entities under common control (see note 19(d)), whose credit rating is A+, and AED 17,665 million are held with other banks, whose credit ratings ranges from AA to A-. Management has estimated that the credit risk on amounts due from related parties and on balances held with entities under common control is insignificant and there has been no significant increase in credit risk on these balances as a result of COVID-19. As at 30 June 2020, expected credit loss of AED 405 million was recognised on amounts due from related parties, nil on restricted and long-term deposits and AED 401 million on the remaining balance of trade and other receivables.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

20 FINANCIAL RISK MANAGEMENT continued

(a) Credit risk continued

- (ii) Loan receivables of AED 10,382 million, include AED 1,602 million of loans to related parties and AED 8,780 million of loans to third parties. Refer to Note 13(a) for details on the loan receivables, including information on collateral and ECL. Management has estimated that the credit risk on amounts due from related parties is insignificant and there has been no significant increase in credit risk on these balances as a result of COVID-19. As at 30 June 2020, expected credit loss of AED 418 million was recognised on for loans receivable from related parties and AED 476 million for loan receivables from third parties.
- (iii) Investment in non-derivative financial instruments consist of convertible bonds measured at FVTPL of AED 4,685 million, loans receivable measured at FVTPL of AED 4,424 million, debt securities measured at FVTPL of AED 2,091 million and debt securities measured at FVOCI of AED 189 million (classified as Level 1). Management has estimated that the ECL on debt securities measured at FVOCI is insignificant. Refer to note 20(f) for fair value disclosures on investments measured at fair value.
- (iv) Out of AED 44,563 million of cash at bank, AED 2,848 million is held with entities under common control and AED 25,192 million with entities, which are “Associates” of the Shareholder. The credit ratings of these banking entities range from AA- to A+. Cash at bank of AED 16,523 million are held with third party banks, a significant portion of which have credit ratings ranging from AAA to A-.

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to forecast, as far as possible, that it will always have sufficient liquidity in the form of available cash, short-term liquid assets and credit lines to meet its liabilities when due, sufficient to withstand both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting arrangements:

	Notes	Carrying value AED millions	Contractual cash flows AED millions	1 year or less AED millions	1-5 years AED millions	More than 5 years AED millions
Trade payables		3,559	(3,559)	(3,559)	-	-
Interest bearing borrowings	15	133,878	(174,590)	(24,896)	(82,021)	(67,673)
Other liabilities		4,996	(5,145)	(4,088)	(921)	(136)
Derivative financial liabilities	20(f)	<u>1,968</u>	<u>(14,284)</u>	<u>(1,406)</u>	<u>(5,881)</u>	<u>(6,997)</u>
Total financial liabilities		<u>144,401</u>	<u>(197,578)</u>	<u>(33,949)</u>	<u>(88,823)</u>	<u>(74,806)</u>

The Group has sufficient assets to meet its contractual liabilities as and when they fall due. In addition, the Group, as at 30 June 2020, also has undrawn facilities of AED 18,277 million. Please refer to note 15 for details on the Group’s borrowings.

20 FINANCIAL RISK MANAGEMENT continued

(c) Equity price risk

Equity price risk arises from financial assets at fair value through profit or loss. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Investment Committee or Board of Directors based on the delegation of authority.

The primary goal of the Group's investment strategy is to maximise investment returns. In accordance with this strategy, certain investments are designated at fair value through profit or loss because their performance is actively monitored, and they are managed on a fair value basis.

The following table demonstrates the sensitivity of the Group's equity and profit or loss for the period to a 5% increase in the price of its equity holdings, assuming all other variables, in particular foreign currency rates, remain constant.

	<i>Effect on profit or loss AED millions</i>	<i>Effect on equity AED millions</i>
Effect of change in equity portfolio of the Group	<u>1,656</u>	<u>1,656</u>

Recent global developments in equity markets, as a result of COVID-19 have caused abnormally large mark to market volatility. The scale and duration of these developments remain uncertain but may impact the Group's performance, cash flows and financial position, the effect of which cannot be determined yet as global events continue to evolve.

(d) Commodity price risk

The Group is affected by the volatility of certain commodities. Its operating activities require the on-going purchase and manufacturing of certain commodities such as crude oil, electricity and petrochemical feedstock. Due to the significant volatility of the price of the underlying commodities, the Group's management has a commodity risk management strategy for commodity price risk and its mitigation.

The Group actively monitors commodity price risks and where appropriate enters into commodity derivative contracts to mitigate such risks. The Group does not enter into physical commodity contracts other than to meet the Group's expected usage and sale requirements.

The Group hedges some of its forecasted petrochemical feedstock purchases and sales, electricity purchases through feedstock and electricity contracts. Cash flow hedge accounting has been applied for these contracts. Fluctuations in crude oil prices have an inverse effect on product refining and marketing operations, the extent of which depends on the speed with which price changes in energy products or base petrochemical products at source is relayed to the international and local finished goods markets.

A 10% increase in the price of petrochemical feedstock, after considering the impact of hedge accounting, results to AED 500 million increase in the Group's profit before tax for the period. A 10% increase in the price of crude oil, natural gas and electricity results to immaterial impact to profit before tax.

Recent global developments and uncertainty in oil supply have caused added abnormally large volatility in commodity markets. The scale and duration of these developments remain uncertain but may impact the Group's performance, cash flows and financial position, the effect of which cannot be determined yet as events continue to evolve.

20 FINANCIAL RISK MANAGEMENT continued

(e) Risk related to COVID-19

COVID-19 was first identified in Wuhan, Hubei Province, China in late 2019. Since then it has spread rapidly, infecting people around the world and causing a substantial number of deaths across the globe. Almost all countries that have been significantly affected have introduced measures to try to contain the spread of the virus, including border closures and restricting movement of their citizens. The measures have resulted in the closure of numerous businesses in those countries (particularly those related to the travel and hospitality industries) and widespread job losses. To address these factors, many governments have introduced significant support programmes for qualifying citizens and businesses.

It is currently unclear how long these restrictions will be in place and what their ultimate impact will be on global and local economies, as well as on the diverse range of businesses operated by the Group.

The Group has been affected by the pandemic and its consequences, including declining oil prices. A number of the Group's assets have been designated as 'essential' by relevant governments and have remained operational; other assets have implemented temporary working from home regimes, reduced staff attendance due to social distancing and quarantine measures and/or shutdowns either voluntarily or imposed by the relevant local governments, although in certain cases these requirements are starting to be relaxed.

In addition, both the COVID-19 pandemic and the oil price decline have contributed to unprecedented volatility in both equity markets and commodity markets, each of which has the potential, particularly if the volatility is prolonged, to adversely affect the Group's business performance, cash flows and financial position in 2020.

Each company within the Group has activated its Business Continuity Plan (BCP) to ensure the continuation of its operations as well as the safety of its employees and customers. As a global investor, the Company stands side-by-side with the UAE government and international community to collectively respond to COVID-19. The first phase of the Company's response strategy is focused on supporting the UAE and the international communities where we have operating assets. As part of this, the Company has launched #WeAreDedicated, our effort to coordinate and raise awareness of these initiatives in a comprehensive way to ensure efficient delivery of support.

The Group has assessed the impact of COVID-19 on its interim condensed consolidated financial statements. Property, plant and equipment, investment in equity accounted investees, intangible assets and goodwill were tested for impairment. Management forecasts and budgets were updated, where required, after considering the potential detrimental impact of the pandemic on individual cash generating units. Management also assessed the impact of COVID-19 on the value of its investment properties. No material changes were observed in the significant estimates and judgements used in the valuation of investment properties which could have a material and long term detrimental impact on the fair value of the investment properties. Similarly, instruments subjected to Expected Credit Loss (ECL), were assessed for significant increase in credit risk and significant assumptions used in ECL models, including macro-economic factors, were updated, as a result of COVID-19. In arriving at fair value of level 2 and 3 instruments which are valued using in-house models, significant assumptions used in these models were reassessed and where appropriate updated. Refer to note 20(f) for fair value disclosures on investments measured at fair value.

As a result, during the six months ended 30 June 2020, the Group recorded an impairment of AED 625 million on its property, plant and equipment (*six-month period ended 30 June 2019: AED 59 million*), an impairment of AED 19 million (*six-month period ended 30 June 2019: AED 98 million*) on goodwill and AED 40 million (*six-month period ended 30 June 2019: AED 19 million*) on other intangible assets, and a total ECL of AED 343 million (*six-month period ended 30 June 2019: AED 57 million*). A fair value loss of AED 54 million (*six-month period ended 30 June 2020: AED 5 million*) was recorded on investment properties.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

20 FINANCIAL RISK MANAGEMENT continued

(f) Fair value

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended 31 December 2019.

The management assessed that the fair values of financial assets / liabilities not measured at fair value approximates their carrying value.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy, which analyses financial instruments carried at fair value by valuation method. The different levels are defined as follows:

Level 1: Quoted prices in active markets for assets and liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at 30 June 2020 (unaudited)

	Carrying amount AED millions	Fair value AED millions	Level 1 AED millions	Level 2 AED millions	Level 3 AED millions
Financial assets measured at fair value					
Investment in non-derivative financial assets					
Financial assets at FVTPL					
Quoted investments					
Equity securities	14,247	14,247	13,426	-	821
Debt securities	2,091	2,091	831	-	1,260
Unquoted investments					
Convertible bonds	4,685	4,685	-	1,393	3,292
Equity securities	3,734	3,734	-	-	3,734
Funds	15,096	15,096	-	1,454	13,642
Loan receivable	4,424	4,424	-	-	4,424
Others	62	62	-	-	62
Financial assets at FVOCI					
Quoted debt securities	189	189	189	-	-
	<u>44,528</u>	<u>44,528</u>	<u>14,446</u>	<u>2,847</u>	<u>27,235</u>
Derivative financial assets					
Fair value hedge					
Commodity swaps	43	43	-	43	-
Interest rate swaps	282	282	-	282	-
Cash flow hedge					
Currency forwards	24	24	-	24	-
Commodity forwards	22	22	-	22	-
Others	4	4	-	4	-
Financial assets held-for-trading					
Currency forwards	29	29	-	29	-
Equity options	31	31	31	-	-
	<u>435</u>	<u>435</u>	<u>31</u>	<u>404</u>	<u>-</u>
Financial liabilities measured at fair value					
Derivative financial liabilities					
Fair value hedge					
Interest rate swaps	58	58	-	58	-
Cash flow hedge					
Currency forwards	125	125	-	125	-
Interest rate swaps	249	249	-	249	-
Others	18	18	-	18	-
Financial liabilities at fair value					
Interest rate swaps	901	901	-	901	-
Currency forwards	26	26	-	26	-
Financial liabilities held-for-trading					
Equity options	7	7	7	-	-
Currency forwards	2	2	-	2	-
Interest rate forwards	582	582	-	582	-
	<u>1,968</u>	<u>1,968</u>	<u>7</u>	<u>1,961</u>	<u>-</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

20 FINANCIAL RISK MANAGEMENT continued

(f) Fair value continued

As at 31 December 2019 (audited)

	Carrying amount AED millions	Fair value AED millions	Level 1 AED millions	Level 2 AED millions	Level 3 AED millions
Financial assets measured at fair value					
<i>Investment in non-derivative financial assets</i>					
<i>Financial assets at FVTPL</i>					
Quoted investments					
Equity securities	20,002	20,002	18,960	-	1,042
Debt securities	2,028	2,028	768	-	1,260
Others	49	49	-	49	-
Unquoted investments					
Convertible bonds	2,483	2,483	-	660	1,823
Equity securities	2,828	2,828	-	-	2,828
Funds	14,809	14,809	-	2,130	12,679
Loans receivable	922	922	-	-	922
Others	131	131	-	-	131
<i>Financial assets at FVOCI</i>					
Quoted debt securities	183	183	183	-	-
	<u>43,435</u>	<u>43,435</u>	<u>19,911</u>	<u>2,839</u>	<u>20,685</u>
<i>Derivative financial assets</i>					
<i>Fair value hedge</i>					
Commodity swaps	14	14	-	14	-
Interest rate swaps	4	4	-	4	-
<i>Cash flow hedge</i>					
Commodity swaps	41	41	-	41	-
Currency forwards	64	64	-	61	3
Interest rate swaps	41	41	-	41	-
Others	75	75	-	75	-
<i>Financial assets held-for-trading</i>					
Commodity swaps	5	5	-	5	-
Equity options	17	17	17	-	-
	<u>261</u>	<u>261</u>	<u>17</u>	<u>241</u>	<u>3</u>
Financial liabilities measured at fair value					
<i>Derivative financial liabilities</i>					
<i>Fair value hedge</i>					
Interest rate swaps	58	58	-	58	-
<i>Cash flow hedge</i>					
Commodity swaps	24	24	-	24	-
Currency forwards	23	23	-	23	-
Interest rate swaps	41	41	-	41	-
Others	82	82	-	82	-
<i>Financial liabilities at fair value</i>					
Interest rate swaps	667	667	-	667	-
Currency forwards	196	196	-	196	-
<i>Financial liabilities held-for-trading</i>					
Commodity swaps	27	27	-	27	-
Currency forwards	15	15	-	15	-
Interest rate forwards	648	648	-	648	-
	<u>1,781</u>	<u>1,781</u>	<u>-</u>	<u>1,781</u>	<u>-</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

20 FINANCIAL RISK MANAGEMENT continued

(f) Fair value continued

The following table shows the valuation techniques used in measuring Level 1, Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

<i>Type of financial asset / liability</i>	<i>Valuation techniques and key inputs</i>	<i>Significant unobservable inputs</i>
<u>Financial assets at FVTPL – Quoted</u>		
Quoted equity securities – Level 1	Quoted bid prices in an active market	N/A
Quoted equity securities – Level 3	Combination of market and income approach	Discount rate of 12-14% and market cap of 4.9%
Quoted debt securities – Level 1	Quoted bid prices in an active market	N/A
Quoted debt securities – Level 3	Discounted cash flows	Discount rate of 14-16% including company risk premium.
<u>Financial assets at FVTPL – Unquoted</u>		
Unquoted convertible bonds – Level 2	Black Scholes model using straight bond value, conversion value and issuers options	5% spread to the equivalent maturity of US treasury and volatility of 41.3%.
Unquoted convertible bonds – Level 3	Combination of market and income approach	Cap rate of 4% – 8%
Unquoted equity securities – Level 3	Combination of market and income approach	Net assets value provided by the General Partner; or Enterprise value (“EV”)/EBITDA multiple of 8x to 14x where applicable
Unquoted loans receivable – Level 3	Discounted cash flows and market yield	Discount rate of 5%- 16% and market yield of 5% - 10%
Unquoted funds – Level 2	Quoted bid prices in an active market of the underlying publicly listed investment instruments of the fund	N/A
Unquoted funds – Level 3	Income approach	Net assets value provided by the fund manager
Derivative assets / liabilities	Market approach. Value is based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates	N/A
Derivative assets – Equity warrants	Black Scholes model embedded in Bloomberg terminal	Share price, strike price, custom volatility, risk free rate and a dilution factor
Interest rate swaps and foreign exchange forward contracts at FVTPL	Net present value of estimated cash flows, based on forward interest rates (from observable yield curves at the end of the reporting period)	N/A
Interest rate and foreign exchange forward contracts designated for hedging	Net present value of estimated cash flows, based on forward interest rates (from observable yield curves at the end of the reporting period)	N/A

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS 30 June 2020 (Unaudited)

20 FINANCIAL RISK MANAGEMENT continued

(f) Fair value continued

The following table demonstrates the movement in the level 3 of fair value hierarchy:

	30 June 2020 AED millions (unaudited)	31 December 2019 AED millions (audited)
At 1 January	20,685	17,255
Additions and other movements	7,726	7,292
Increase in fair value recognised in profit or loss (net) (see note (i))	(116)	625
Disposals and other movements	(931)	(4,488)
Transfer to assets classified as held for sale	(129)	-
Transfers from level 1 to 3	<u>-</u>	<u>1</u>
At the end of the period / year	<u>27,235</u>	<u>20,685</u>

- (i) Includes increase in fair value recognised in profit or loss, attributable to assets held during the period. The total net increase in fair value was recorded in 'Fair value gains from derivative and non-derivative financial instruments (net)' in the interim condensed consolidated statement of comprehensive income.

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group monitor return on capital. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. There were no significant changes in the Group's approach to capital management during the year.

Certain subsidiaries are subject to debt covenants requiring the maintenance of specific debt to equity ratios.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the gearing ratio within a range to meet the business needs of the Group. Net debt is calculated as interest bearing borrowings and lease liabilities less cash and long-term deposits excluding discontinued operations.

	30 June 2020 AED millions (unaudited)	31 December 2019 AED millions (audited)
Interest bearing borrowings (see note 15)	129,570	114,807
Lease liabilities (see note 15)	4,308	5,512
Less: cash and long-term deposits (see notes 12, 14 and (i))	<u>(75,697)</u>	<u>(61,508)</u>
Net debt	58,181	58,811
Total Equity	<u>209,356</u>	<u>218,666</u>
Total Equity and net debt	<u>267,537</u>	<u>277,477</u>
Gearing ratio	<u>22%</u>	<u>21%</u>

- (i) Cash and cash equivalents, for the purpose of gearing ratio calculation, includes long-term deposits, but excludes restricted cash and banking liabilities such as customer deposits and due to banks have not been considered in gearing ratio calculation..

21 SUBSEQUENT EVENTS

- (i) In July 2020, the Group committed AED 2,278 million with EDF Renewables Development Inc. ('EDFR') for acquisition of 50% equity stake in a 1.5GW portfolio of 6 projects and 125MW of battery storage assets currently under development and construction by EDFR within USA.
- (ii) In July 2020, the Group invested USD 1,009 million (AED 3,707 million) in Jio Platforms, India's leading digital services platform. The Group's investment represent 1.55% equity stake in Jio Platforms on a fully diluted basis.
- (iii) In August 2020, the Board of Directors of the Parent approved the sale of Injazat Data Systems LLC ("Injazat") and Khazna Data Center Limited ("Khazna") to GROUP 42 Holding Limited.
- (iv) In August 2020, NOVA amended its senior secured credit agreement and its securitisation programs with a total facility size of AED 7,990 million. The amendment is to provide covenant relief through revised higher financial covenant thresholds through the end of 2022, or earlier, at NOVA's discretion. These covenant reliefs were accompanied with certain negative and minimum liquidity covenants applicable to NOVA during the covenant relief period.
- (v) In August 2020, the Group signed a definitive agreement to invest alongside Kohlberg & Company LLC to acquire a significant stake in PCI Pharma Services, a leading pharmaceutical and biopharmaceutical global supply chain solutions provider. The transaction is expected to close in the first half of 2021 subject to regulatory approvals.
- (vi) In August 2020, the Board of Directors of the Parent, approved the transfer of 1.5 million square metres of land held by Abu Dhabi Future Energy Company PJSC ("Masdar"), a subsidiary of the Company, to the Government of Abu Dhabi for a non-cash consideration of AED 2,817 million to be reduced from the Ultimate Parent's contributions to the Parent.
- (vii) In September 2020, the Group entered into a long-term investment strategy led by Silver Lake with a commitment from the Group to invest USD 2,000 million (AED 7,347 million). In addition, the Group has also acquired a minority equity interest of approximately 5% of Silver Lake GP for total investment of USD 375 million (AED 1,378 million).
- (viii) In September 2020, the Group acquired 26% stake in Khazna (previously a joint venture) from du for a total cash consideration of AED 800 million, thereby making Khazna a 100% owned subsidiary of the Group.
- (ix) In October 2020, the Group entered into a definitive agreement to invest AED 3,100 million into Reliance Retail Ventures Limited, the retail arm of Reliance Industries Limited, translating into an approx. 1.4% equity stake in RRVL.
- (x) On 16 October 2020, NOVA Chemicals signed an agreement to sell its Expandable Styrenics business to a subsidiary of Alpek S.A.B. de C.V. ("Alpek"). The parties expect to close the transaction in the fourth quarter of 2020.
- (xi) The partial disposal of 39% of the Group's stake in Borealis (Refer Note 5(i)) has been completed in October 2020 for an overall consideration of AED 17.19 billion (USD 4.68 billion). Subsequent to the partial disposal, the Group has lost control over Borealis. It is expected that the Group's retained interest in Borealis of 25% will be classified and accounted for as an equity accounted investee.

22 COMPARATIVE FIGURES

Certain comparative figures have been reclassified, wherever necessary, to conform to the presentation adopted in the interim condensed consolidated financial statements.