QATAR ELECTRICITY & WATER COMPANY Q.S.C.
DOHA - QATAR

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2012

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2012

INDEX **Page**

Deloitte.

Deloitte & Touche
Al Ahli Bank Head Office Building
Sh. Suhaim Bin Hamad Street
Al Sadd Area
P.O. Box 431
Doha - Qatar

Tel : +974 44341112
Fax : +974 44422131
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To The Shareholders
Qatar Electricity & Water Company Q.S.C.
Doha-Qatar

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Qatar Electricity & Water Company Q.S.C. (the "Company"), its subsidiaries and jointly controlled entities (together referred as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of income, comprehensive income, cash flows and changes in shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material aspects, the consolidated financial position of Qatar Electricity and Water Company (Q.S.C.) as at December 31, 2012 and of its consolidation financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

We are also of the opinion that proper books of account were maintained by the Company and physical inventory has been duly carried out and the content of the directors' report are in agreement with the Company's consolidated financial statements. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. To the best of our knowledge and belief and according to the information given to us, no contraventions of the Qatar Commercial Companies Law No. 5 of 2002 and the Company's Articles of Association were committed during the year which would materially affect the Company's activities or its consolidated financial position.

For **Deloitte & Touche**

Muhammad Bahemia
License No. 103

Doha – Qatar
February 6, 2013

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

	Notes	December 31, 2012 QR'000	December 31, 2011 QR'000
ASSETS			
Current assets			
Bank balances and cash	8	**3,268,294**	3,022,622
Accounts receivable and prepayments	9	**1,051,110**	1,201,318
Inventories	10	**467,061**	305,887
Finance lease receivables	16	**514,954**	465,437
		5,301,419	4,995,264
Assets classified as held for sale	12	**29,846**	--
Total current assets		**5,331,265**	4,995,264
Non-current assets			
Property, plant and equipment	11	**4,820,306**	5,264,032
Intangible assets	13	**101,492**	107,462
Investment in associates	14	**114,596**	932
Available-for-sale investments	15	**424,358**	380,335
Finance lease receivables	16	**11,420,892**	11,647,155
Other non-current assets	17	**15,810**	16,675
Goodwill	7	**30,813**	30,813
Total non-current assets		**16,928,267**	17,447,404
Total assets		**22,259,532**	22,442,668

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2012

	Notes	**December 31, 2012**	December 31, 2011
		QR'000	QR'000
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accruals	18	**1,369,243**	1,793,516
Interest bearing loans and borrowings	19	**1,471,786**	346,176
Other term loans	20	**125,972**	125,972
Derivatives	21	**3,197,108**	3,232,689
Deferred income	22	**6,792**	6,792
Total current liabilities		**6,170,901**	5,505,145
Non-current liabilities			
Interest bearing loans and borrowings	19	**11,873,168**	13,361,892
Other term loans	20	**100,000**	225,971
Deferred income	22	**20,375**	27,167
Employees' end of service benefits	23	**39,205**	94,810
Total non-current liabilities		**12,032,748**	13,709,840
Total liabilities		**18,203,649**	19,214,985
Equity			
Capital and reserves			
Share capital	24	**1,000,000**	1,000,000
Legal reserve	25	**500,000**	500,000
General reserve	26	**3,241,834**	3,241,834
Other components of equity		**(2,953,735)**	(3,015,616)
Retained earnings		**2,052,382**	1,302,098
Equity attributable to owners of the Company		**3,840,481**	3,028,316
Non-controlling interests		**215,402**	199,367
Total equity		**4,055,883**	3,227,683
Total liabilities and equity		**22,259,532**	22,442,668

Abdulla Bin Hamad Al-Attiyah
Chairman

Issa Shahin Al-Ghanim
Vice Chairman

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2012

	Notes	2012 QR'000	2011 QR'000
Sales	33	**4,522,836**	4,391,644
Cost of sales	34	**(2,357,067)**	(2,224,648)
Gross profit		**2,165,769**	2,166,996
General and administrative expenses	35	**(188,880)**	(201,138)
Liquidated damages	36	**--**	(54,098)
Finance costs	37	**(726,396)**	(730,272)
(Loss)/ gain on sale retirement of property, plant and equipment		**(260)**	195
Deferred income	22	**6,792**	6,792
Interest income		**37,788**	28,029
Dividend income		**16,981**	12,553
Miscellaneous income	38	**158,625**	109,933
Share of interest income of joint venture companies	39	**6,878**	13,144
Share of profit of associates	14	**5,464**	--
Profit before Board of Directors' remuneration		**1,482,761**	1,352,134
Proposed Board of Directors' remuneration		**(21,600)**	(19,600)
Net profit for the year		**1,461,161**	1,332,534
Attributable to:			
Owners of the Company		**1,436,388**	1,299,655
Non-controlling interests		**24,773**	32,879
Total		**1,461,161**	1,332,534
Basic and diluted earnings per share			
Basic earnings per share	40	**14.36**	13.00

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

	2012 QR,000	2011 QR,000
Net profit for the year	**1,461,161**	1,332,534
Other comprehensive income/(loss):		
Gain / (loss) from cash flow hedges of the Company	**65,314**	(6,622)
Share of loss from cash flow hedges of joint venture companies	**(29,733)**	(1,419,587)
Share of loss in other comprehensive income from associate	**(645)**	--
Unrealized gains /(losses) on available-for-sale investments	**37,160**	(495)
Other comprehensive income (loss) of the year	**72,096**	(1,426,704)
Total comprehensive income / (loss) for the year	**1,533,257**	(94,170)
Attributable to:		
Owners of the Company	**1,498,268**	(136,921)
Non-controlling interests	**34,989**	42,751
	1,533,257	(94,170)

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2012

	Attributable to the equity holders of the parent								
	Share capital	**Legal reserve**	**General reserve**	**Retained earnings**	**Cash flow hedging reserve**	**Fair value reserve**	**Total**	**Non-controlling interest**	**Total equity**
	QR'000	**QR'000**	**QR'000**	**QR'000**	**QR'000**	**QR'000**	**QR'000**	**QR'000**	**QR'000**
Balance at January 1, 2011	1,000,000	500,000	3,241,834	635,447	(1,776,189)	197,149	3,798,241	175,570	3,973,811
Net profit for the year	--	--	--	1,299,655	--	--	1,299,655	32,879	1,332,534
Other comprehensive income	--	--	--	--	(1,436,081)	(495)	(1,436,576)	9,872	(1,426,704)
Dividends paid for the year 2010	--	--	--	(600,000)	--	--	(600,000)	(18,954)	(618,954)
Contribution to social and sports support fund for 2011 (Note 29)	--	--	--	(33,004)	--	--	(33,004)	--	(33,004)
Balance at December 31, 2011	1,000,000	500,000	3,241,834	1,302,098	(3,212,270)	196,654	3,028,316	199,367	3,227,683
Net profit for the year	--	--	--	1,436,388	--	--	1,436,388	24,773	1,461,161
Other comprehensive income	--	--	--	--	24,721	37,160	61,881	10,215	72,096
Dividends paid for the year 2011	--	--	--	(650,000)	--	--	(650,000)	(18,953)	(668,953)
Contribution to social and sports support fund for 2012 (Note 29)	--	--	--	(36,104)	--	--	(36,104)	--	(36,104)
Balance at December 31, 2012	**1,000,000**	**500,000**	**3,241,834**	**2,052,382**	**(3,187,549)**	**233,814**	**3,840,481**	**215,402**	**4,055,883**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	Notes	2012	2011
		QR'000	QR'000
			(Restated)
OPERATING ACTIVITIES			
Net profit for the year		**1,461,161**	1,332,534
Adjustments for:			
Share of profits from associates		**(5,464)**	--
Depreciation	11	**475,003**	505,805
Amortization of intangible asset	13	**5,970**	5,970
(Reversal)/provision for employees' end of service benefits	23	**(52,911)**	34,135
Provision for slow moving inventories	10	**19,304**	16,636
Dividend income		**(16,981)**	(12,553)
Finance costs	37	**726,396**	730,272
Deferred income recognised	22	**(6,792)**	(6,792)
Interest income		**(37,788)**	(28,029)
Reversal of excess provisions		**--**	(36,566)
Loss/(gain) on sale of property, plant and equipment		**260**	(195)
Reclassification from property, plant and equipment	11	**19,501**	2,418
		2,587,659	2,543,635
Working capital changes:			
Accounts receivable and prepayments		**150,208**	209,674
Inventories		**(180,478)**	(27,940)
Finance lease receivable		**176,746**	381,945
Accounts payable and accruals		**(460,377)**	(16,985)
Cash from operations		**2,273,758**	3,090,329
Finance costs paid		**(726,396)**	(730,272)
Employees' end of service benefits paid	23	**(2,694)**	(3,360)
Net cash from operating activities		**1,544,668**	2,356,697
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	**(81,607)**	(457,212)
Proceeds from sale of property, plant and equipment		**723**	383
Dividends from other investments		**16,981**	12,553
Dividends received from associates		**10,168**	--
Purchase of available-for-sale investments		**(6,863)**	(22,592)
Net movement in other non-current asset		**865**	7,140
Acquisition of associates		**(119,013)**	(932)
Interest received		**37,788**	28,029
Net cash used in investing activities		**(140,958)**	(432,631)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

	Note	2012	2011
		QR'000	QR'000
FINANCING ACTIVITIES			
Dividends paid to owners of the company		**(650,000)**	(600,000)
Dividends paid to non-controlling interest		**(18,953)**	(18,954)
Drawdown of interest bearing loans and borrowings		**--**	1,142,720
Repayment of other term loans		**(125,971)**	--
Repayment of interest bearing loans and borrowings		**(363,114)**	(1,499,386)
Net cash used in financing activities		**(1,158,038)**	(975,620)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**245,672**	948,446
Cash and cash equivalents at beginning of year		**3,022,622**	2,074,176
Cash and cash equivalents at end of year	8	**3,268,294**	3,022,622

1 CORPORATE INFORMATION AND ITS ACTIVITIES

Qatar Electricity & Water Company Q.S.C. (the "Company") is a public shareholding company incorporated in Qatar on March 16, 1992. The Company's registered office is at QIMCO Building, West Bay Corniche Road, P.O. Box 22046, Doha, State of Qatar. The consolidated financial statements of the Company for the year ended December 31, 2012 comprise the Company, its subsidiaries and jointly controlled entities (together referred as the "Group"). The Group is primarily involved in the production of electricity and water. The Company's shares are listed on Qatar Exchange.

The structure of the Group, included in the consolidated financial statements of Qatar Electricity and Water Company Q.S.C. is as follows:

		Country of incorporation	***Percentage of holding***
Ras Laffan Operating Company W.L.L.	Subsidiary	Qatar	100%
Ras Laffan Power Company Limited (Q.S.C.)	Subsidiary	Qatar	80%
Q Power Q.S.C.	Jointly controlled entity	Qatar	55%
Mesaieed Power Company Limited	Jointly controlled entity	Qatar	40%
Ras Girtas Power Company Limited	Jointly controlled entity	Qatar	45%
AES Oasis Limited	Associated entity	Caymen Island	38.89%
Phoenix Power Company	Associated entity	Oman	15%
Phoenix Operating Company	Associated entity	Oman	15%

The consolidated financial statements of the Group for the year ended December 31, 2012 were authorised for issue by the Board of Directors on February 6, 2013.

During February 1998, the Company concluded an agreement with the Government of the State of Qatar (the Government) for the purchase of the power plant at Ras Abu Fontas B (RAF B). The agreement was signed by both parties on October 10, 1999. However, its implementation commenced in April 1999 being the date in which the Company was assigned the operation and management of the power plant as stipulated in the agreement.

During April 2001, the Company entered into a Power Purchase Agreement with KAHRAMAA for the supply of power from the Company's Ras Abu Fontas B1 (RAF B1) station, which commenced commercial operations on August 29, 2002.

During January 2003, the Company purchased the following stations from KAHRAMAA for a purchase consideration of QR 600 million and a Power and Water Purchase Agreement was signed with KAHRAMAA for the supply of power and water from these stations:

- Ras Abu Fontas A (RAF A)
- Al Wajbah
- Al Saliyah
- Doha South Super

1. CORPORATE INFORMATION AND ITS ACTIVITIES (CONTINUED)

Also during January 2003, the Company purchased Qatar Petroleum's Dukhan Desalination Plant for a lump sum purchase consideration of QR 71.66 million. Subsequent to concluding the purchase agreement, the Company also concluded the following agreements with Qatar Petroleum relating to the Dukhan Desalination Plant:

- Land Lease Agreement
- Water Purchase Agreement
- Fuel Supply Agreement

The Company in 2004 entered into a joint venture with International Power Plc. and Chubu Electric Power Company for the Ras Laffan B Integrated Water and Power Plant project. A jointly controlled entity named Q Power Q.S.C. was incorporated in January 2005 for executing this project. The joint venture ownership percentage is as follows:

- Qatar Electricity & Water Company Q.S.C. 55%
- International Power Plc. 40%
- Chubu Electric Power Company 5%

During October 2005, the Company entered into a Power and Water Purchase Agreement with KAHRAMAA for the supply of power and water from the Company's Ras Abu Fontas B2 (RAF B2) station. Subsequent to concluding the purchase agreement, the Company entered into an engineering, procurement and construction contract with General Electric International, a company incorporated under the laws of Delaware and Fisia Italimpianti S.P.A, a company incorporated in Italy for the construction of the RAF B2 project.

During December 2006, the Company entered into a joint venture with Marubeni Corporation and Qatar Petroleum for the Mesaieed power project. A jointly controlled entity named Mesaieed Power Company Limited Q.S.C. was incorporated on January 15, 2007 for executing this project. The agreement was amended in May 2009 following the acceptance of Chubu Electric Power Company as a shareholder. The joint venture ownership percentage is as follows:

- Qatar Electricity & Water Company Q.S.C. 40%
- Marubeni Corporation 30%
- Qatar Petroleum 20%
- Chubu Electric Power Company 10%

During May 2007, the Company entered into a Water Purchase Agreement with KAHRAMAA for the supply of water from the Company's Ras Abu Fontas A1 (RAF A1) station (an extension of RAF A). Subsequent to concluding the purchase agreement, the Company also entered into an engineering procurement and construction contract with Fisia Italimpianti S.P.A, a company incorporated in Italy for the construction of the RAF A1 project.

During March 2008, the Company entered into a joint venture with RLC Power Holding Company and Qatar Petroleum for the Ras Laffan C Project. A jointly controlled entity named Ras Girtas Power Company was incorporated on March 25, 2008 for executing this project. The joint venture ownership percentage is as follows:

- Qatar Electricity & Water Company 45%
- RLC Power Holding Company 40%
- Qatar Petroleum 15%

2. AGREEMENT WITH QATAR GENERAL ELECTRICITY & WATER CORPORATION (KAHRAMAA) FOR ACQUISITION OF STATIONS

During 2003, the Company entered into an agreement with Qatar General Electricity & Water Corporation (KAHRAMAA), as mentioned in Note 1 above, for the acquisition of the following stations:

- Ras Abu Fontas A
- Al Wajbah
- Al Saliyah
- Doha South Super

Article 6 of the agreement stipulates that the agreement is conditional and shall not become effective among others, unless an Emiri decree granting the Company a concession to use the land on which the plants are located has been promulgated and is in full force and effect. Article 6.2 of the said agreement also states that in the event the Emiri decree is not granted by June 1, 2003 the parties shall meet to discuss and agree a solution and to the extent necessary, the said agreement shall be amended to reflect any such solution needed.

As at the end of the reporting period, the Emiri decree has not been obtained by the Company. The revenues from these stations accounted for 12.35% of the total revenues of the Group for the year ended December 31, 2012 (2011: 12%). No amendments have been made to the above agreement since both parties are in continuing discussions and are confident of obtaining the Emiri decree in due course.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

3.1 Amendments to IFRSs affecting amounts reported in the consolidated financial statements

(i) <u>Revised Standards :</u>

• IFRS 1 (Revised)	*First time adoption of International Financial Reporting Standards*
• IFRS 7 (Revised)	*Financial Instruments Disclosures - Amendments enhancing disclosures about transfers of financial assets*
• IAS 12 (Revised)	*Income Taxes - Limited scope amendment (recovery of underlying assets)*

The adoption of these revised standards had no significant effect on the consolidated financial statements of the Group for the year ended December 31, 2012, other than certain presentation and disclosure changes.

3.2 New and revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

3.2 New and revised IFRSs in issue but not yet effective (continued)

(i) Revised Standards:

Effective for annual periods beginning on or after July 1, 2012 (Early adoption allowed)

- IAS 1 (Revised) — *Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented*

Effective for annual periods beginning on or after January 1, 2013

- IFRS 7 (Revised) — *Financial Instruments Disclosures - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities*
- IAS 19 (Revised) — *Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects*
- IAS 27 (Revised)* — *Consolidated and Separate Financial Statements (Early adoption allowed) - Reissued as IAS 27 Separate Financial Statements*
- IAS 28 (Revised)* — *Investments in Associates (Early adoption allowed) - Reissued as IAS 28 Investments in Associates and Joint Ventures*

Effective for annual periods beginning on or after January 1, 2015

- IFRS 7 (Revised) — *Financial Instruments Disclosures - Amendments requiring disclosures about the initial application of IFRS 9*

(ii) New Standards:

Effective for annual periods beginning on or after January 1, 2013 (Early adoption allowed)

- IFRS 10* — *Consolidated Financial Statements*
- IFRS 11* — *Joint Arrangements*
- IFRS 12* — *Disclosure of Interests in Other Entities*
- IFRS 13 — *Fair Value Measurement*

Effective for annual periods beginning on or after January 1, 2015 (Early adoption allowed)

- IFRS 9 — *Financial Instruments*
  - Classification and measurement of financial assets
  - Accounting for financial liabilities and de-recognition

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

3.2 New and revised IFRSs in issue but not yet effective (continued)

(iii) <u>New Interpretation:</u>

Effective for annual periods beginning on or after January 1, 2013

- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group in the period of initial application, except for IFRS 10,11,12,13 and IAS 27 and other than certain presentation and disclosure changes.

* In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

4. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company, its subsidiaries and jointly controlled entities (together referred as the "Group") as at December 31, 2012.

Control is achieved where the Company has the power to govern the financial and operating policies of an entity as to obtain benefits from its activities.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for derivative and financial instruments which have been measured at fair value as explained in the accounting policies below. The consolidated financial statements are presented in Qatari Riyals and all values are rounded to the nearest thousand (QR'000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and applicable requirements of Qatar Commercial Companies' Law No. 5 of 2002.

Revenue recognition

Revenue is recognised to the extent that is it probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is recognised at the fair value of the consideration received, excluding discounts, rebates and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Sale of electricity and water

Sales of electricity and water are recognised as revenue as per the terms of the respective agreements, described as follows:

- Sales from RAF B are accounted for based on the mechanism agreed between KAHRAMAA and the Company in respect of the agreement approved on June 1, 2000.
- Sales from RAF B1 are accounted for on the basis of the tariff formula set out in the Power Purchase Agreement with KAHRAMAA.
- Sales from RAF A, Al Saliyah and Doha South Super are accounted for as per the terms of the Power and Water Purchase Agreement with KAHRAMAA.
- Sales from RAF A1 are accounted for as per the terms of the Water Purchase Agreement with KAHRAMAA.
- Sales from Dukhan Desalination Plant are accounted for in accordance with the Water Purchase Agreement signed with Qatar Petroleum.
- Sales from RAF B2 are accounted for as per the terms of the Power and Water Purchase Agreement with KAHRAMAA.

Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Interest bearing loans and borrowings

Interest bearing loans and borrowings are recognised initially at fair value of the amounts borrowed, less directly attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are measured at amortised cost using the effective interest method, with any differences between the cost and final settlement values being recognised in the consolidated statement of income over the period of borrowings. Installments due within one year at amortised cost are shown as a current liability.

Gains or losses are recognised in the consolidated statement of income when the liabilities are derecognised.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and any impairment in value. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

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

Production facilities	
Ras Abu Fontas B (RAF B)	17.75 years
Ras Abu Fontas B1 (RAF B1)	20 years
Ras Abu Fontas A (RAF A)	12 years
Ras Abu Fontas A1 (RAF A1)	25 years
Al Wajbah*	12 years
Al Saliyah	12 years
Doha South Super	12 years
Dukhan Desalination Plant	25 years
Ras Abu Fontas B2 (RAF B2)	25 years
Furniture, fixtures and office equipment	3-7 years
Motor vehicles	4 years
"C" inspection costs	3-5 years

The costs of initial spare parts included under capital spares received for the maintenance of the three gas turbine-generators at RAF B2 are capitalised and depreciated over the factored fire hours of the asset. On the other hand, strategic spare parts received by Q Power Q.S.C. under a long term maintenance contract are depreciated over the life of the contract.

*Al Wajbah facility has abandoned its operation in 2010.

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

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

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

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of income.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of income.

Assets classified as held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets that are classified as held for sale are measured at the lower of carrying amount and fair value less cost to sell. Impairment must be considered both at the time of classification as held for sale and subsequently.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income *Taxes* and IAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) *over* the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When a group entity undertakes its activities under joint venture arrangements directly, the Company's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Company's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Company and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Company reports its interests in jointly controlled entities using proportionate consolidation. The Company's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Company's interest in a jointly controlled entity is accounted for in accordance with the Company's accounting policy for goodwill arising in a business combination.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Company.

Investments in associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Company's share of the profit or loss and other comprehensive income of the associate. When the Company's share of losses of an associate exceeds the Company 's interest in that associate, the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associate (continued)

After application of equity method, the Company has to determine whether it is necessary to recognise any impairment loss with respect to the Company's investment in an associate. When necessary, the entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment.

Any excess of the cost of acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Company's share of net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after assessment, is recognized immediately in profit or loss.

Upon disposal of an associate that results in the Company losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Company accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Company reclassifies the gain or loss from equity to profit or loss when it loses significant influence over that associate.

Any profits and losses resulting from the transactions with the associate are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Company.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific assets or assets of the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Group as a lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Group as a lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intangible assets (continued)

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Finance lease receivables

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

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income and accumulated in equity under fair value reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the consolidated statement of income in finance costs and removed from the fair value reserve.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of income.

Derecognition

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Derecognition (continued)

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of income.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of income – is removed from other comprehensive income and recognised in the consolidated statement of income. Impairment losses on equity investments are not reversed through the consolidated statement of income; increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, and derivative financial instruments.

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated statement of income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the consolidated statement of income.

Derecognition

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

Hedge

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the ‘other gains and losses’ line item.

Amounts previously recognised in the consolidated other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the consolidated other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in the consolidated other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

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

Spare parts, chemicals and consumables- purchase cost, on a weighted average costs basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Accounts receivable

Accounts receivable are stated at original invoice amount, less any impairment for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Bank balances and cash

Bank balances and cash consist of cash in hand, bank balances, and short-term deposits with an original maturity of three month or less.

Accounts payable and accruals

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Employees' end of service benefits

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

With respect to its national employees, the Group makes contributions to the General Pension Fund Authority calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

The Group's consolidated financial statements are presented in Qatari Riyals, which is the Group's functional currency and the currency of the primary economic environment in which Qatar Electricity & Water Company Q.S.C. operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange ruling at the financial position date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined.

Fair values

The fair value of financial investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices for assets at the close of business on the financial position date.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 42.

6. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Classification of investments

Management decides on the acquisition of an investment whether to classify it as available for sale or financial assets at fair value through profit or loss. The Group classifies investments as financial assets at fair value through profit or loss if the investment is classified as held for trading or upon initial recognition it is designated by the Group as at fair value through profit or loss. All other investments are classified as available for sale.

Impairment of tangible and intangible assets

The Group's management tests annually whether tangible and intangible assets have suffered impairment in accordance with accounting policies stated in note 5. The recoverable amount of an asset is determined based on value-in-use method. This method uses estimated cash flow projections over the estimated useful life of the asset discounted using market rates.

6. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Tangible and intangible assets useful lives

The Group's management determines the useful lives and related depreciation or amortization charge. The depreciation or amortization charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Impairment of inventories

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

Impairment of financial assets

The Group's management reviews periodically items classified as receivables to assess whether a provision for impairment should be recorded in the consolidated statement of income. Management estimates the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in the use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting date.

7. BUSINESS COMBINATIONS

Acquisitions in 2010

7.1 Acquisition of Ras Laffan Power Company Limited Q.S.C.

On October 20, 2010, the Company (acquiree) acquired additional 55% of the voting shares of Ras Laffan Power Company Limited Q.S.C. (acquirer) that resulted to 80% ownership (The "Transaction"). Ras Laffan Power Company Limited (Q.S.C.) is engaged to develop, own, operate and maintain an electricity and water desalination plant in Qatar. The acquisition has been accounted for using the acquisition method of accounting.

7. BUSINESS COMBINATIONS (CONTINUED)

7.1 Acquisition of Ras Laffan Power Company Limited Q.S.C. (continued)

The Group has elected to measure the non-controlling interest in the acquiree at fair value.

The fair values and carrying amounts of the identifiable assets and liabilities of Ras Laffan Power Company Limited (Q.S.C.) at the date of acquisition were as follows:

	At fair values	At carrying amounts
	QR'000	**QR'000**
Assets		
Intangibles – PWPA	141,791	--
Plant and equipment	565	565
Finance lease receivable	2,260,288	2,260,288
Accounts receivable and prepayments	103,711	103,711
Cash and cash equivalents	97,792	97,792
	2,604,147	2,462,356
Liabilities		
Interest bearing loans and borrowings	1,294,221	1,294,221
Accounts payable and accruals	97,014	97,014
	1,391,235	1,391,235
Total identifiable net assets	1,212,912	1,071,121
Step up details:		
Fair value of identifiable net assets acquired	1,212,912	
Less: carrying amount of the identifiable net assets	1,071,121	
Step up amount	141,791	

Calculation of goodwill:	**QR'000**
Fair value of consideration given for controlling interest	697,914
Fair value of non controlling interest	242,583
Fair value of previously held interest	303,228
Total consideration	**1,243,725**
LESS:	
Fair value of identifiable net assets previously recognised by acquire	1,071,121
Intangible assets not previously recognised by acquiree	141,791
Total identifiable net assets	**1,212,912**
Goodwill arising on acquisition	**30,813**

7. BUSINESS COMBINATIONS (CONTINUED)

7.1 Acquisition of Ras Laffan Power Company Limited Q.S.C.(continued)

Net cash outflow on acquisition:	
Net cash acquired with subsidiary	97,792
Cash paid	(697,914)
	(600,122)
Fair value of previously held interest:	
Book value of previously held interest	267,781
Realized fair value gain from deemed disposal	35,447
	303,228

From the date of acquisition, Ras Laffan Power Company Limited (Q.S.C.) contributed QR 252.56 million (2011: QR 153.47 million) to the profit of the Group for the year ended December 31, 2012.

7.2 Acquisition of AES Ras Laffan Operating Company W.L.L.

On October 20, 2010, the Company (acquiree) acquired an additional 70% of the voting shares of AES Ras Laffan Operating Company W.L.L. (acquirer) that resulted to 100% ownership. AES Ras Laffan Operating Company W.L.L. is engaged in the management, operation, maintenance and development of electricity and water desalination plants in Qatar. The acquisition has been accounted for using the acquisition method of accounting.

The fair values and carrying amounts of the identifiable assets and liabilities of AES Ras Laffan Operating Company W.L.L. at the date of acquisition were as follows:

	At fair values	**At carrying amounts**
	QR'000	**QR'000**
Assets		
Plant and equipment	2,800	2,800
Inventories	31,709	31,709
Accounts receivable and prepayments	34,630	34,630
Cash and cash equivalents	117,657	117,657
	186,796	186,796
Liabilities		
Employee benefits	6,541	6,541
Accounts payable and accruals	34,972	34,972
	41,513	41,513
Total identifiable net assets	145,283	145,283

7. BUSINESS COMBINATIONS (CONTINUED)

7.2 Acquisition of AES Ras Laffan Operating Company W.L.L. (continued)

Calculation of goodwill:

	QR'000
Fair value of consideration given for controlling interest	101,698
Fair value of non controlling interest	--
Fair value of previously held interest	43,585
Total consideration	**145,283**
LESS:	
Fair value of identifiable net assets previously recognised by acquire	145,283
Total identifiable net assets	**145,283**
Goodwill arising on acquisition	--

Net cash inflow on acquisition:

Net cash acquired with subsidiary	117,657
Cash paid	(101,698)
	15,959

The subsidiary has changed its name to Ras Laffan Operating Company W.L.L. with effect from November 7, 2010.

8. BANK BALANCES AND CASH

	2012 QR'000	2011 QR'000
Deposits with banks in local currency	**1,862,501**	1,734,667
Deposits with banks in foreign currencies	**1,405,763**	1,287,929
Cash on hand	**30**	26
Total	**3,268,294**	3,022,622

The effective rate of interest on above deposits ranges from 0.17% to 2.5% per annum for the year ended December 31, 2012 (2011: 0.30% to 2.88%).

The Group's bank balances and cash also includes a Company debt service account of QR Nil (2011: QR 54.726 million). This debt service account represents the balance in the banks which is restricted for use by the Company.

9. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2012	2011
	QR'000	QR'000
Trade account receivables (a)	**941,077**	909,631
Prepayments	**110,033**	122,522
Other receivables (b)	**--**	169,165
Total	**1,051,110**	1,201,318

(a) As at December 31 the aging of trade receivables and movement in the provision for doubtful debts are as follows:

(i) Aging of neither past due nor impaired

	2012	2011
	QR'000	QR'000
Less than 60 days	**793,841**	801,545

(ii) Aging of past due but not impaired

	2012	2011
	QR'000	QR'000
61-120 days	**101,484**	73,814
121-180 days	**2,337**	2,754
181-365 days	**5,231**	--
More than 365 days	**38,184**	31,518
Total	**147,236**	108,086

(iii) Aging of impaired trade receivables

	2012	2011
	QR'000	QR'000
More than 365 days	**135,761**	135,761

(iv) Movement in the provision of doubtful debts:

	2012	2011
	QR'000	QR'000
Balance at beginning of year	**135,761**	137,936
Amounts written off as uncollectible	**--**	(292)
Bad debts recovered	**--**	(1,883)
Balance at end of year	**135,761**	135,761

(b) Other receivables pertain mainly to the proportionate share of other receivables of Ras Girtas Power Company Limited.

10. INVENTORIES

	2012	2011
	QR'000	QR'000
Spare parts	**665,112**	485,982
Chemicals	**7,350**	6,604
Consumables	**4,171**	3,569
	676,633	496,155
Allowance for slow-moving inventories	**(209,572)**	(190,268)
Total	**467,061**	305,887

Inventories include the Company's proportionate share of inventories of Q Power Q.S.C., Mesaieed Power Company Limited Q.S.C. and Ras Girtas Power Company Limited amounting to QR 98.31 million (2011: QR 73.15 million).

Movement in the allowance for slow-moving inventories:

	2012	2011
	QR'000	QR'000
Balance at beginning of year	**190,268**	173,632
Additional provision during the year	**19,304**	16,636
Balance at end of year	**209,572**	190,268

11. PROPERTY, PLANT AND EQUIPMENT

	Production facilities QR'000	Furniture, fixtures and office equipment QR'000	Motor vehicles QR'000	"C" inspection costs QR'000	Capital spares QR'000	Capital work in progress QR'000	Total QR'000
Cost:							
At January 1, 2012	8,179,310	31,076	8,906	223,965	137,744	168,699	8,749,700
Additions	14,097	1,589	1,712	--	1,065	63,144	81,607
Transfers/reclassifications	(19,501)	--	--	45,832	--	(45,832)	(19,501)
Asset classified as held for sale	(119,332)	--	--	--	--	--	(119,332)
Retirements/disposals	(5,452)	--	(1,384)	(11,689)	--	--	(18,525)
At December 31, 2012	8,049,122	32,665	9,234	258,108	138,809	186,011	8,673,949
Accumulated Depreciation:							
At January 1, 2012	3,286,828	20,659	4,576	134,650	38,955	--	3,485,668
Charge for the year	401,563	4,107	1,768	59,444	8,121	--	475,003
Asset classified as held for sale	(89,486)	--	--	--	--	--	(89,486)
Retirements/disposals	(4,670)	--	(1,183)	(11,689)	--	--	(17,542)
At December 31, 2012	3,594,235	24,766	5,161	182,405	47,076	--	3,853,643
Net carrying amounts:							
At December 31, 2012	**4,454,887**	**7,899**	**4,073**	**75,703**	**91,733**	**186,011**	**4,820,306**

11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Production facilities	Furniture, fixtures and office equipment	Motor vehicles	"C" inspection costs	Capital spares	Capital work in progress	Total
	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000
Cost:							
At January 1, 2011	8,154,187	26,996	7,501	261,464	140,162	446,099	9,036,409
Additions	5,622	4,086	2,255	--	--	445,249	457,212
Transfers/reclassifications	19,501	--	--	44,279	(2,418)	(63,780)	(2,418)
Transfer to finance lease receivable	--	--	--	--	--	(658,869)	(658,869)
Retirements/disposals	--	(6)	(850)	(81,778)	--	--	(82,634)
At December 31, 2011	8,179,310	31,076	8,906	223,965	137,744	168,699	8,749,700
Accumulated Depreciation:							
At January 1, 2011	2,874,350	16,593	3,592	135,946	31,828	--	3,062,309
Charge for the year	412,478	4,068	1,650	80,482	7,127	--	505,805
Retirements/disposals	--	(2)	(666)	(81,778)	--	--	(82,446)
At December 31, 2011	3,286,828	20,659	4,576	134,650	38,955	--	3,485,668
Net carrying amounts:							
At December 31, 2011	4,892,482	10,417	4,330	89,315	98,789	168,699	5,264,032

11. PROPERTY, PLANT AND EQUIPMENT (continued)

(i) The legal title to the Ras Abu Fontas A (RAF A) and satellite stations (Al Wajbah, Al Saliyah and Doha South Super) passed to the Company upon signing the acquisition agreement with KAHRAMAA. As per the terms of the acquisition agreement, the Company cannot sell or otherwise dispose of any of the plants until it pays the sale price in full (see Note 20(i)).

(ii) The legal title of the facilities of Dukhan desalination plant was transferred from Qatar Petroleum to the Company on signing the acquisition agreement. As per the agreement, the Company cannot sell or otherwise dispose of the facilities until the sale price is paid in full (see Note 20(ii)).

(iii) Costs incurred for the production facilities under an Inspection and Maintenance program have been capitalised under "C" inspection costs. These costs are capitalised and are accounted for as separate assets bearing an estimated useful life of 3-5 years. Costs incurred on C-inspections in progress are included under capital work in progress. On completion of the inspection, these are capitalised under "C" inspection costs category.

(iv) Land on which the RAF B plant is situated has been leased to the Company by the Government, free of rent for a period of 50 years from July 5, 1990, under an Emiri Decree No. 24 of 2001.

(v) The Emiri Decree granting the Company a concession to use the land on which RAF A and satellite stations are situated is still outstanding (see Note 2).

(vi) The land on which Dukhan desalination plant is situated has been leased to the Company by Qatar Petroleum for a period of 25 years from the acquisition date of the plant.

(vii) The depreciation charge has been allocated in the consolidated statement of income as follows:

	2012	2011
	QR'000	QR'000
Cost of sales (Note 34)	**465,853**	497,670
General and administrative expenses (Note 35)	**9,150**	8,135
	475,003	505,805

12. ASSET CLASSIFIED AS HELD FOR SALE

The Company intends to dispose Al Wajba Station in the next 12 months which is acquired by the Company on January 1, 2003 from Kahramaa along with other RAFASAT stations. The Company has discontinued the operations of its Al Wajba power production during 2010 as per the instructions received from the government of State of Qatar. A search is underway for a buyer. No impairment loss was recognised on reclassification of the station as held for sale at December 31, 2012. The net book value at the beginning of the year is QR. 29 million.

13. INTANGIBLE ASSETS

As a result of the Transaction, as mentioned in Note 7, the Company identified and recorded the following intangible assets with definite useful lives.

	2012 QR'000	2011 QR'000
Identifiable intangible assets (Note 7.1)	**107,462**	113,432
Amortised during the year (Note 35)	**(5,970)**	(5,970)
Balance at end of the year	**101,492**	107,462

This represents the Power and Water Purchase Agreement (PWPA) which was entered in between Kahramaa and RLPC to supply power and potable water for a period of 25 years.

14. INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

	Country of incorporation	*Ownership*	2012 QR'000	2011 QR'000
Phoenix Power Company S.A.O.C (i)	Oman	15%	**--**	717
Phoenix Operation and Maintenance Company LLC (ii)	Oman	15%	**311**	215
AES Oasis Ltd (iii)	Cayman Islands	38.89%	**114,285**	--
			114,596	932

(i) The business of the Company (still in the start-up stage) is to design, construct, own, operate and maintain a high efficiency gas fired power generation facility with a minimum capacity of 2,000MW to be located at Sur, in the Sultanate of Oman.

(ii) The business of the Company (still in the start-up stage) is to provide operation and maintenance service to the project company pursuant to the operation and maintenance contract.

(iii) The Company entered into an agreement with IDB Infrastructure Fund L.P, a company incorporated in the Kingdom of Bahrain, on February 8, 2012 to purchase 38.89% of shares of AES Oasis Ltd, a company incorporated in Cayman Islands. AES Oasis Ltd. is 60% owner of AES Jordan Holding Co., a company incorporated in Cayman Islands which is a joint venture with Mitsui & Co Ltd of Japan which owns and operates a 370MW combined cycle gas fired power in Almanakher, Jordan. The effective stake of the Company in this plant is 23.33%. In accordance with the Share Purchase Agreement dated February 8, 2012, the Company made a payment of QR 104.87 million and the total consideration of the investment amounts to QR 119.02 million using provisional amount allowed by International Financial Reporting Standard # 3 (IFRS 3).

14. INVESTMENTS IN ASSOCIATES (CONTINUED)

Summarized financial information in respect of the Group's associates is set out below :

	2012	2011
	QR'000	QR'000
Total assets	**5,314,442**	1,368,282
Total liabilities	**(5,674,705)**	(1,837,233)
Net assets	**(360,263)**	(468,951)
Company's share of net assets of associates	**852**	(70,343)
Total revenue	**91,662**	--
Total profit for the year	**14,441**	--
Company's share of profits of associates	**5,464**	--
Company's share of other comprehensive loss	**(645)**	--

15. AVAILABLE FOR SALE INVESTMENTS

	2012	2011
	QR'000	QR'000
Quoted shares	**424,358**	380,335
Balance at January 1,	**380,335**	358,238
Acquired during the year	**6,863**	22,592
Net movement in fair value	**37,160**	(495)
Balance at December 31,	**424,358**	380,335

The fair value of the quoted equity shares is determined by reference to published price quotations in an active market.

Movement in the fair value are as follows:

	2012	2011
	QR'000	QR'000
Balance at the beginning of year	**196,654**	197,149
Transferred to reserve during the year	**37,160**	(495)
Balance at the end of the year	**233,814**	196,654

16. FINANCE LEASE RECEIVABLES

Finance lease receivables represent the proportionate share of lease receivables from Q Power Q.S.C., Mesaieed Power Company Limited Q.S.C., Ras Girtas Power Company Limited and Ras Laffan Power Company Limited (Q.S.C.). The subsidiary and the jointly controlled entities adopted IFRIC 4: *Determining whether an arrangement contains a lease* which became effective from January 1, 2006 in accounting for their self-constructed production facilities. The discount rate used by the Group ranged between 7.50% to 9.99%. The finance lease receivables at the end of the reporting period are neither past due nor impaired.

	2012	2011
	QR'000	QR'000
Finance leases - gross receivable	**24,977,693**	26,208,538
Unearned finance income	**(13,041,847)**	(14,095,946)
Present value of minimum lease payments receivable	**11,935,846**	12,112,592
Classified in the consolidated statement of financial position as follows:		
Current portion	**514,954**	465,437
Non-current portion	**11,420,892**	11,647,155

17. OTHER NON-CURRENT ASSETS

Other non-current assets represent the amounts paid in October 2010 to Ras Laffan Services Company (ROC) for the acquisition of the rights, benefits, and obligations under the Technical Service Agreement between RLSC and AES Ras Laffan Operating Company W.L.L. The initial amount was QR. 23.815 Million and during 2011 the Company received an amount of QR. 5.887 Million. The remaining amount of QR. 17.928 is amortised over a period of 19 years.

The movement in the account is as follows:

	2012	2011
	QR'000	QR'000
Opening balance	**16,675**	23,815
Amount received	**--**	(5,887)
Amortisation during the year	**(865)**	(1,253)
	15,810	16,675

18. ACCOUNTS PAYABLE AND ACCRUALS

	2012	2011
	QR'000	QR'000
Trade accounts payable	**461,823**	907,688
Accrued expenses and others	**831,972**	827,743
Provision for social and sports support fund	**45,645**	37,689
Unpaid dividends	**26,853**	18,533
Pension contributions for qatari employees	**2,950**	1,863
Total	**1,369,243**	1,793,516

19. INTEREST BEARING LOANS AND BORROWINGS

	2012	2011
	QR'000	QR'000
Loan (i)	**1,462,479**	1,504,430
Loan (ii)	**1,112,705**	1,162,817
Loan (iii)	**2,753,370**	2,814,844
Loan (iv)	**812,018**	852,581
Loan (v)	**405,130**	425,368
Loan (vi)	**1,093,500**	1,093,500
Loan (vii)	**4,820,985**	4,843,567
Loan (viii)	**962,471**	1,096,562
	13,422,658	13,793,669
Less: financing arrangement costs	**(77,704)**	(85,601)
	13,344,954	13,708,068

Classified in the consolidated statement of financial position as follows:

Current portion	**1,471,786**	346,176
Non-current portion	**11,873,168**	13,361,892
Total	**13,344,954**	13,708,068

19. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

Notes:

(i) The Company has entered into a credit agreement with The Bank of Tokyo Mitsubishi UFJ Ltd which acts as a facility agent and offshore security trustee for a credit facility amounting to US$ 485.5 million (QR 1,769 million) to finance the construction of RAF B2. The total drawn amount as at December 31, 2012 amounted to US$ 401 million (QR 1,462 million) (2011: US$ 413 million (QR 1,504 million)). Interest is charged at a rate of LIBOR + 0.55 to 1.65 per annum as specified in the credit agreement. The loan is repayable in semi-annual installments commencing from actual facility date i.e. six months from actual facility date or ten months after scheduled completion date.

(ii) This represents the share of Q-Power Q.S.C. bank borrowings. Q-Power Q.S.C entered into a credit agreement with The Bank of Tokyo Mitsubishi UFJ, Ltd, which acts as a facility agent and as Security Trustee for a credit facility amounting to USD 696.5 million (QR 2,538.8 million) in 2005. The company drew down a sum of USD 645.9 million (QR 2,345.3 million) and achieved financial close on December 15, 2008 by satisfying all the conditions in the credit agreement, Interest is charged at an interest rate of LIBOR+ margin (currently 100bps) as specified in the credit agreement. The total amount outstanding as at December 31, 2012 amounted to US$ 555 million (QR 2,023 million) (2011: USD 580 million (QR 2,114 million)). Qatar Electricity and Water Company's share represent 55% of the total amount outstanding.

(iii) This represents the share of Mesaieed Power Company Limited Q.S.C. bank borrowings. Mesaieed Power Company Limited Q.S.C. entered into US Dollar denominated facility agreements which carry interest at each interest period, at a percentage per annum which is the aggregate of the applicable margin for each such loan, LIBOR for such interest period, and in respect of the participation in that loan of each commercial lender that commercial lender's mandatory cost rate (if any). The loan is repayable in 85 quarterly installments at a pre-determined repayment percentage from 15 April 2011.

(iv) The Company entered into a facility agreement with a consortium of banks to finance its RAF A1 plant facilities. This term loan facility of US$ 288.2 million carries interest at LIBOR plus a margin ranging from 0.60% to 1.05%. The total drawn amount as at December 31, 2012 amounted to US$223 million (QR 812 million) (2011: US$ 234 million (QR 853 million)). The loan is repayable in semi-annual installments started from June 30, 2010 at a pre-determined repayment percentage multiplied against the principle amount outstanding as at the end of the availability period.

(v) The Company has availed US$ 144.1 million Islamic facility agreement in the form of Istisnaa' for the construction of three multi-stage flash type desalination units forming part of a fully-functioning water-desalination plant at RAF A1. The total drawn amount as at December 31, 2012 amounted to US$ 111 million (QR 405 million) (2011: US$ 117 million (QR 425 million).

(vi) The Company entered into a revolving credit facility agreement with a consortium of banks. This term loan facility of US$ 300 million (QR 1,093.50 million) carries interest at LIBOR plus a margin of 0.75%. The Company has drawn down the full amount as at December 31, 2012 amounting to US $ 300 million (QR 1,093.50 million).

19. INTEREST BEARING LOANS AND BORROWINGS (CONTINUED)

(vii) This represents the share of Ras Girtas Power Company Limited bank borrowings. Ras Girtas Power Company Limited entered into a credit agreement with a consortium of banks for a credit facility amounting to USD 3,339 million (QR 12,171 million). The balance outstanding as on December 31, 2012 amounted to USD 2,939 million (QR 10,713 million) (2011: USD 2,953 million (QR 10,763 million)). Interest is charged at LIBOR+ margin as specified in the credit agreement. Bank borrowings will mature in 2033. Term loans are secured by a mortgage on the plant facilities built by the company on a land leased from Qatar Petroleum. Qatar Electricity and Water Company's share represent 45% of the total amount outstanding.

(viii) This represents the loan of the acquired subsidiary, Ras Laffan Power Company Limited (Q.S.C.). This facility represents a credit agreement with a consortium of bank obtained on November 20, 2001 for a long term loan of US$ 545 million and a stand-by facility of US$ 27.25 million. The loan carries interest at commercial rates and is repayable in accordance with a specific repayment schedule starting on November 2004 with the last installments due in May 2019. The term loan is secured by a mortgage in the plant facilities built by Ras Laffan Power Company Limited (Q.S.C.) on a land leased from Qatar Petroleum.

20. OTHER TERM LOANS

	2012	2011
	QR'000	QR'000
KAHRAMAA (i)	**220,000**	340,000
Qatar Petroleum (ii)	**5,972**	11,943
	225,972	351,943

Classified in the consolidated statement of financial position as follows:

Current portion	**125,972**	125,972
Non-current portion	**100,000**	225,971

The Non-current portion has not been discounted since it is deemed immaterial.

(i) This liability represents amount due to KAHRAMAA towards the purchase consideration of the following stations:

- Ras Abu Fontas A (RAF A)
- Al Wajbah
- Al Saliyah
- Doha South Super

This liability is repayable in 6 annual installments starting from 2009. As stated in Note 11 (i), as per the terms of the acquisition agreement, the Company cannot sell or otherwise dispose of any of the plants until it pays the sale price in full. RAF A and satellite stations have a net book value of QR 82.83 million as at December 31, 2012 (2011: QR 104.519 million).

20. OTHER TERM LOANS (CONTINUED)

(ii) This liability represents the purchase price due to Qatar Petroleum for the purchase of Dukhan desalination plant and is repayable in 12 equal annual installments. As stated in Note 11 (ii), as per the agreement, the Company cannot sell or otherwise dispose of the facilities until the sale price is paid in full. The desalination plant has a net book value of QR 40.23 million as at December 31, 2012 (2011: QR42.875 million).

21. DERIVATIVES

	2012	2011
	QR'000	QR'000
Share of fair values of cash flow hedges (i)	**2,907,641**	2,877,908
Cash flow hedges (ii) and (iii)	**289,467**	354,781
	3,197,108	3,232,689

(i) Q Power Q.S.C., Mesaieed Power Company Limited Q.S.C. and Ras Girtas Power Company Limited have entered into various interest rate swap contracts replacing their floating interest rate bearing loans for fixed interest bearing loans with maximum notional amount of QR. 1,952 million, QR. 5,987 million and QR. 9,820 million, respectively. The Group accounted for its proportionate share of the fair value of the derivatives which amounts to QR 2,908 million as at December 31, 2012 (2011: QR 2,878 million).

(ii) As at December 31, 2012, the Company had six interest rate swap contracts replacing its floating interest rate for fixed interest, designated as hedges for the period to July 30, 2018 on a maximum notional amount of QR 1,437 million. The terms of the interest rate swap contracts have been negotiated to match the terms of the commitments. As at December 31, 2012, the cumulative change in fair values of the hedges resulted in a negative amount of QR 14.237 million (2011: QR 56.023 million) which has been recognised in the equity as cash flow hedge reserve and as a derivative liability in the current liabilities.

(iii) Ras Laffan Power Company Limited (Q.S.C.), a subsidiary, has interest rate swap contract designated to hedge the exposure of upward movements of interest rates on loan draw downs. The contracts consist of five separate swap deals and are matched with a substantial portion of the outstanding floating rate debt obligations of the Company and cover the period from December 17, 2001 to November 30, 2013 with maximum notional amount of QR 1,072 million. As at December 31, 2012, the share of the Company in the cash flow hedge amounted to QR 51.028 million (2011: QR 81.684 million)

22. DEFERRED INCOME

	2012	2011
	QR'000	QR'000
Balance at January 1,	**33,959**	40,751
Income recognised during the year	**(6,792)**	(6,792)
Balance at December 31,	**27,167**	33,959
Presented in consolidated statement of financial position as follows:		
Current portion	**6,792**	6,792
Non-current portion	**20,375**	27,167
	27,167	33,959

Deferred income represents the fair value of spare parts received from Alstom Power in respect of the settlement agreement regarding RAF B contract between KAHRAMAA and Alstom Power. This deferred income is amortised and credited to the consolidated statement of income on a straight-line basis over the remaining estimated useful life of RAF B plant, which is 13.5 years. The initial amount was QR. 91Million.

23. EMPLOYEES' END OF SERVICES BENEFITS

	2012	2011
	QR'000	QR'000
Balance at the beginning of year	**94,810**	64,035
Amount reversed during the year*	**(59,314)**	--
Amounts charged to income as expenses	**6,403**	34,135
Amounts paid	**(2,694)**	(3,360)
Balance at the end of year	**39,205**	94,810

* This amount represents reversal of excess provision that was calculated for Qatari employees. Qatari employees are entitled to pension as per Qatar law. Accordingly, there is no legal requirement to have such provision.

24. SHARE CAPITAL

The authorized, issued and fully paid share capital as at December 31, 2012 comprised 100,000,000 shares of QR 10 each (2011: 100,000,000 shares of QR 10 each).

25. LEGAL RESERVE

As required by Qatar Commercial Companies' Law No. 5 of 2002, and the Company's Articles of Association, a minimum of 10% of the profit for the year should be transferred to a legal reserve each year until this reserve is equal to 50% of the paid up share capital. The Company has resolved to discontinue annual transfer to the legal reserve as the reserve reached 50% of paid up capital.

The reserve is not available for distribution except in the circumstances stipulated in the above mentioned law and the Company's Articles of Association.

26. GENERAL RESERVE

In accordance with Articles of Association of the Company, the General Assembly may allocate a portion of the net profit to a general reserve. There is no restriction on the distribution of this reserve and the fund is available for future development of the Company as decided by the General Assembly.

27. INVESTMENTS IN JOINT VENTURE COMPANIES (Q POWER Q.S.C., MESAIEED POWER COMPANY LIMITED Q.S.C. AND RAS GIRTAS POWER COMPANY LIMITED)

The Company's share of the assets, liabilities, income and expenses of the jointly controlled entities, on a combined basis after inter company adjustments at December 31, 2012 and December 31, 2011 and for the years then ended, which are included in the consolidated financial statements, are as follows:

	2012	2011
	QR'000	QR'000
Current assets	**1,580,195**	1,557,855
Non-current assets	**9,675,325**	8,621,634
Current liabilities	**(3,553,553)**	(3,605,534)
Non-current liabilities	**(8,681,194)**	(8,639,741)
	(979,227)	(2,065,786)

	2012	2011
	QR'000	QR'000
Revenues	**1,680,769**	1,706,133
Cost of sales	**(811,812)**	(818,249)
Other income	**26,269**	51,673
Administrative expenses	**(25,415)**	(27,441)
Finance costs	**(539,392)**	(540,532)
Profit for the year	**330,419**	371,584

28. DIVIDENDS

The Board of Directors has proposed a final dividend distribution in 2012 of QR 7.3 per share (2011: QR 6.5 per share). The dividend for 2011 amounting to QR 650 million was approved at the Annual General Meeting held on March 7, 2012 and was subsequently paid in 2012.

The proposed final dividend for 2012 will be submitted for formal approval at the Annual General Assembly Meeting.

29. CONTRIBUTION TO SOCIAL AND SPORTS SUPPORT FUND

According to Law No. 13 of 2008, during the year, the Group made an appropriation from retained earnings of QR 36.10 million to the Social and Sports Development Fund of Qatar. This amount represents 2.5% of the net profit attributable to shareholders for the year ended December 31, 2012. An amount equal to QR 28.15 million for the 2011 appropriation has been remitted to the Public Revenues and Taxes Department during the year.

30. SEGMENTAL INFORMATION

The Group primarily operates integrated plants for the generation of electricity and desalination of water in the State of Qatar. The water desalination process is completely dependent upon electricity generation. Electricity and water processes are interrelated and are subject to similar risks and returns. Production is sold to two customers. Consequently, the Group is considered to have a single business and geographical segment.

31. COMMITMENTS AND CONTINGENT LIABILITIES

	2012	2011
	QR'000	QR'000
Commitments:		
Capital commitments (i)	**169,032**	180,255
Operating lease commitment (ii)	**9,429**	16,745
Contingent liabilities:		
Bank guarantees, corporate guarantees and documentary credits (iii)	**663,204**	585,690

Notes:

(i) Capital commitments include:

(a) The proportionate commitment of the Company in Ras Girtas Power Company Limited as at December 31, 2012 which amounts to QR 169.032 million (2011: QR 180.225 million).

(ii) Operating lease commitment includes:

The proportionate share in Mesaieed Power Company Limited Q.S.C. operating lease commitment in accordance with the land lease agreement with Qatar Petroleum, where the jointly controlled entity is contingently liable for the value of the annual rent for the term of the lease agreement for the land on which the jointly controlled entity has constructed its plant facilities.

The share in Ras Laffan Power Company Q.S.C. in respect of DSRA letter of credit of US$ 27,428,080 (2011: US$ 29,048,562) in favor of Standard Chartered (the Facility Agent) as per the Credit Facility Agreement dated November 20, 2001, in the ordinary course of business from which it is anticipated that no material liabilities will arise.

31. COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)

The future lease commitments are as follows:

	2012	2011
	QR'000	QR'000
Due in one year	**483**	6,797
Due in 2- 5 years	**1,929**	2,035
Due in more than 5 years	**7,017**	7,913
Total	**9,429**	16,745

(iii) Bank guarantees, corporate guarantees and documentary credits:

Bank guarantees, corporate guarantees and documentary credits include the Group's proportionate share of bank guarantees of Q Power Q.S.C. amounting to QR 118.08 million (2011: QR 118.140 million) and corporate guarantees issued for Mesaieed Power Company Limited Q.S.C and Phoenix Power Company S.A.O.C amounting to QR 504.767 million (2011: 324.627 million).

32. RELATED PARTY DISCLOSURES

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

Related party transactions

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

		2012	2011
	Related parties	**QR'000**	QR'000
Sales:			
Revenue from sale of electricity	KAHRAMAA	**2,123,169**	2,043,939
Revenue from sale of water	KAHRAMAA	**1,460,987**	1,401,575
	Qatar Petroleum	**12,533**	14,114
Lease income from plant lease	KAHRAMAA	**994,896**	1,013,603
Cost of sales:			
Cost of gas consumed/take or pay gas	Qatar Petroleum	**1,245,980**	1,176,552
Other income:			
Interest on bank deposits	Qatar National Bank	**17,147**	17,750
Dividends received	Ras Laffan Power Company (Q.S.C.)	**75,816**	75,816

32. RELATED PARTY DISCLOSURES (CONTINUED)

Related party balances

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

	2012		2011	
	Trade receivables	**Trade payables and accrued expenses**	Trade receivables	Trade payables and accrued expenses
	QR'000	**QR'000**	QR'000	QR'000
KAHRAMAA	**857,096**	**6,513**	1,011,034	5,571
Qatar Petroleum	**3,161**	**321,695**	5,932	200,059
Qatar Insurance Company	**--**	**--**	--	6,318
Qatar Navigation (Milaha)	**--**	**--**	--	23
	860,257	**328,208**	1,016,966	211,971

Compensation of key management personnel

The remuneration of directors and members of key management during the period are as follows:

	2012	2011
	QR'000	QR'000
Management remuneration	**29,962**	25,605
Directors' sitting fees	**21,600**	19,600

33. REVENUE

	2012	2011
	QR,000	QR,000
Sales represent the revenue generated from the supply of:		
Electricity	**2,051,889**	1,962,352
Water	**1,473,521**	1,415,689
Lease income from plant lease:		
Q Power Q.S.C.	**143,619**	150,723
Mesaieed Power Company Limited Q.S.C.	**277,002**	259,106
Ras Girtas Power Company Limited (i)	**382,605**	388,589
Ras Laffan Power Company Limited Q.S.C. (i)	**194,200**	215,185
Total	**4,522,836**	4,391,644

(i) The Company has completed construction activities of Water and Power plants and became fully operational in March 2011.

34. COST OF SALES

	2012	2011
	QR'000	QR'000
Cost of gas consumed	**1,245,517**	1,094,965
Depreciation of property, plant and equipment (Note 11)	**465,853**	497,670
Spare parts, chemicals and consumables	**260,685**	214,689
Staff costs	**182,094**	232,867
Others	**202,918**	184,457
Total	**2,357,067**	2,224,648

35. GENERAL AND ADMINISTRATION EXPENSES

	2012	2011
	QR'000	QR'000
Staff costs	**85,643**	101,323
Provision for slow moving items	**19,304**	15,990
Depreciation of property, plant and equipment (Note 11)	**9,150**	8,135
Amortisation of intangible assets (Note 13)	**5,970**	5,970
Advertisement and public relation expenses	**2,907**	3,545
Rent	**2,989**	2,996
Insurance	**17,269**	20,200
Donations	**784**	2,306
Recruitment and training expenses	**6,262**	8,493
Provision- disputed revenue and bad debts	**--**	525
Professional fees	**9,337**	6,782
Telephone postage and couriers	**2,714**	2,056
Repairs and Maintenance	**1,252**	1,272
Office expenses	**1,053**	2,319
Subscription and licences	**922**	717
Others *	**23,324**	18,509
Total	**188,880**	201,138

* Included in this account an amount of QR 7.274 million (2011: QR 3.748 million) which represents the share of the Director's remuneration expenses of joint venture companies.

36. LIQUIDATED DAMAGES

	2012	2011
	QR'000	QR'000
Liquidated damages payable to KAHRAMAA (i)	--	54,098
	--	54,098

i. The liquidated damages payable to KAHRAMAA includes QR Nil (2011: QR 54.09 million) against RAF A SATS for not achieving the required level of electricity availability during last year.

37. FINANCE COSTS

	2012	2011
	QR,000	QR,000
Interest paid to Banks	712,928	714,001
Interest paid to others	6,818	9,971
Bank charges	6,650	6,300
Total	726,396	730,272

38. MISCELLANEOUS INCOME

	2012	2011
	QR'000	QR'000
Reversal of excess provision (i)	--	36,566
Development fee received from an associate (ii)	--	22,858
Insurance claims (iii)	--	9,100
Sale of scrap and other materials	1,680	2,366
Settlement with EPC Contractor (iv)	127,446	--
Others (v)	29,499	39,043
Total	158,625	109,933

(i) The Company and the proportionate share from its joint venture company had reversed excess provisions relating to staff training, electricity, and interest charge and liquidated damages accrued in prior years.

(ii) This represents the development fee received from the Phoenix Power Company in 2011 against the development of the sur power project in Oman.

(iii) This pertains to the amount received during 2011 for the claims made in previous years for the fire incident at Al Saliyah station.

38. MISCELLANEOUS INCOME (CONTINUED)

(iv) During the year, the company has settled a dispute with its EPC contractors that were responsible for the construction of RAFB2.

(v) Other income from last year includes a proportionate share from the joint venture companies and Ras Girtas Power Company Limited relating to final settlement of EPC contractor.

39. SHARE OF INTEREST INCOME IN JOINT VENTURE COMPANIES

	2012	2011
	QR'000	QR'000
Interest earned on subordinated debt less inter-company adjustments	**6,878**	13,144

40. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2012	2011
Profit for the year attributable to owners of the parent (in QR'000)	**1,436,388**	1,299,655
Weighted average number of shares outstanding during the year (in shares)	**100,000,000**	100,000,000
Basic and diluted earnings per share (expressed in QR per share)	**14.36**	13.00

There were no potentially dilutive shares outstanding at any time during the year. Therefore, the diluted earnings per share are equal to the basic earnings per share.

41. FINANCIAL RISK MANAGEMENT

Objective and policies

The Group's principal financial liabilities comprise of trade and other payables, other term loans and interest bearing loans and borrowings. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, bank balances and cash, which arise directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions.
The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. Market risk is the risk that changes in market prices, such as interest rates and foreign currency exchange rates will affect the Group's income or the value of its holdings of financial instruments. The management reviews and agrees policies for managing each of these risks which are summarized below.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (bank balances and interest bearing loans and borrowings). To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designed to hedge underlying debt obligations.

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

	2012	2011
	QR'000	QR'000
Fixed interest rate instruments:		
Financial assets	**3,268,294**	3,022,596
Financial liabilities	**--**	--
	3,268,294	3,022,596
Floating interest rate instruments:		
Financial assets	**--**	--
Financial liabilities	**(13,344,954)**	(13,708,068)
	(13,344,954)	(13,708,068)

The following table demonstrates the sensitivity of the consolidated statement of income to reasonably possible changes in interest rates by 25 basis points, with all other variables held constant. The sensitivity of the consolidated statement of income is the effect of the assumed changes in interest rates for one year, based on the floating rate financial assets and financial liabilities held at December 31, 2012. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown. There is no impact on the Group's equity.

	Change in basis points	Effect on profit
		QR'000
2012		
Floating interest rate instruments	**+25**	**(33,362)**
2011		
Floating interest rate instruments	+25	(34,270)

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

Equity price risk

All the Group's investments are listed at Qatar Exchange.

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increases shown.

	Change in equity price 2012	**Effect on equity 2012**	Change in equity price 2011	Effect on equity 2011
		QR'000		QR'000
Quoted shares	**20%**	**84,872**	20%	76,067

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. In the opinion of the management, the Group's exposure to currency risk is minimal.

All the time deposits of the Group are designated in Qatari Riyals and United States Dollars. As the Qatari Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent a significant currency risk.

Credit risk

Credit risk is the risk of a financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables.

The total exposure to credit risk for trade receivables as at the reporting date is limited to Qatar. Moreover the Group's receivable consists mainly of amounts due from KAHRAMAA, who is the sole distributor of power in the State of Qatar. As KAHRAMAA is contractually committed to discharge its obligation, management believes that the credit risk with respect to receivables is limited. In addition to that, these receivables are shown after review of their recoverability.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

With respect to credit risk arising from the other financial assets of the Group, including bank balances and cash, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments as follows:

	2012	2011
	QR'000	QR'000
Bank balances	**3,268,294**	3,022,622
Other receivables	**--**	169,165
	3,268,294	3,191,787

Credit risk on bank balances is limited as they are placed with local and foreign banks having good credit ratings assigned by international credit rating agencies.

Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong capital base and healthy capital ratios in order to support its business and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of economic conditions. The Board of Directors monitors the return on capital. No changes were made in the objectives, policies or processes during the year ended December 31, 2012.

The Group monitors capital using a gearing ratio, which is debt divided by capital plus debt. The Group's policy is to keep the gearing ratio between 40% and 80%. The Group includes within debt, interest bearing loans and borrowings, other term loans and trade and other payables less cash and cash equivalents. Capital includes equity attributable to the equity holders of the Group less any net unrealised gains reserve.

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital management (continued)

	2012 QR'000	2011 QR'000
Interest bearing loans and borrowings	13,344,954	13,708,068
Other term loans	225,972	351,943
Less : Bank balances and cash	(3,268,294)	(3,022,622)
Net debt	10,302,632	11,037,389
Equity	3,840,481	3,028,316
Equity and net debt	14,143,113	14,065,705
Gearing ratio	73%	78%

42. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivatives.

Financial assets consist of bank balances and cash, receivables and available-for-sale investments. Financial liabilities consist of payables, other term loans and interest bearing loans and borrowings. Derivatives consist of interest rate swaps.

Fair value hierarchy

As at December 31, 2012, the Group held the following financial instruments measured at fair value. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	December 31, 2012 QR'000	***Level 1 QR'000***	***Level 2 QR'000***	***Level 3 QR'000***
Assets measured at fair value				
Available-for-sale investments				
- equity shares	**424,358**	**424,358**	**--**	--
Liabilities measured at fair value				
Derivatives - interest rate swaps	**3,197,108**	**--**	**3,197,108**	--

	December 31, 2011 QR'000	*Level 1 QR'000*	*Level 2 QR'000*	*Level 3 QR'000*
Assets measured at fair value				
Available-for-sale investments				
- equity shares	380,335	380,335	--	--
Liabilities measured at fair value				
Derivatives - interest rate swaps	3,232,689	--	3,232,689	--

During the reporting period ended December 31, 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

43. SUBSEQUENT EVENT

Qatar Electricity and Water Company (QEWC) signed a deal with a consortium comprising of Mitsubishi Corporation of Japan and Toyo Thai Engineering Company to build a QR1.83billion water plant, capable of generating 36 million gallons a day (MIGD) when it is completed in the first half of 2015. In addition, QEWC and Qatar General Electricity and Water Corporation (Kahramaa) reached a 25-year agreement under which the latter will buy the entire 36 million gallons generated a day from the new plant.

44. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.