

Qatar Electricity & Water Company Q.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF QATAR ELECTRICITY & WATER COMPANY Q.S.C.

Report on the financial statements

We have audited the accompanying consolidated financial statements of Qatar Electricity & Water Company Q.S.C. (the "Company") and its subsidiaries and jointly controlled entities (together referred as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' responsibility for the financial statements

The Board of Directors 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 the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 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 auditors' 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 auditors consider internal controls relevant to the entity'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 entity's internal controls. 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, proper books of account have been kept by the Company, an inventory count was conducted in accordance with established principles, and the consolidated financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association. We have obtained all the information and explanations we required for the purpose of our audit, and are not aware of any violations of the above mentioned law or the Articles of Association having occurred during the year which might have had a material effect on the business of the Group or on its financial position. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Group.



Firas Qoussous
of Ernst & Young
Auditor's Registration No. 236

Date: 14 February 2011
Doha

Qatar Electricity & Water Company Q.S.C.
CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2010

	<i>Notes</i>	<i>2010 QR'000</i>	<i>2009 QR'000 Restated</i>
Sales	6	3,430,234	2,650,868
Cost of sales	7	<u>(1,891,517)</u>	<u>(1,535,409)</u>
GROSS PROFIT		1,538,717	1,115,459
Deferred income	31	6,792	6,792
General and administrative expenses	8	(166,652)	(162,504)
(Loss) gain on sale/retirement of property, plant and equipment		(100)	11
Liquidated damages to KAHRAMAA	9	(113,859)	(80,857)
Finance costs	10	(465,618)	(194,466)
Interest income		79,390	73,146
Dividend income		11,368	17,302
Miscellaneous income	11	70,407	15,045
Share of interest income of joint venture companies	12	44,060	50,237
Share of profits of associates	13	31,946	46,619
Share of liquidated damages from EPC contractor		<u>130,414</u>	<u>58,090</u>
PROFIT FOR THE YEAR	14	<u>1,166,865</u>	<u>944,874</u>
Attributable to:			
Owners of the parent		1,162,833	944,874
Non-controlling interests		<u>4,032</u>	<u>-</u>
		<u>1,166,865</u>	<u>944,874</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT			
(Expressed in QR per share)	15	<u>11.63</u>	<u>9.45</u>

The attached notes 1 to 41 form part of these consolidated financial statements.

Qatar Electricity & Water Company Q.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>2010</i> <i>QR '000</i>	<i>2009</i> <i>QR '000</i> <i>Restated</i>
Profit for the year	<u>1,166,865</u>	<u>944,874</u>
Other comprehensive (loss) income:		
(Losses) gains from cash flow hedges of the Company	(175,098)	134,775
Share of comprehensive (loss) income of associates and joint venture companies (Notes 18 (iv) and 34)	(360,097)	1,649,228
Unrealised gains on available-for-sale investments	<u>76,539</u>	<u>26,400</u>
Other comprehensive (loss) income for the year	<u>(458,656)</u>	<u>1,810,403</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>708,209</u>	<u>2,755,277</u>
Attributable to:		
Owners of the Parent	701,991	2,755,277
Non-controlling interests	<u>6,218</u>	<u>-</u>
	<u>708,209</u>	<u>2,755,277</u>

The attached notes 1 to 41 form part of these consolidated financial statements.

Qatar Electricity & Water Company Q.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	<i>Notes</i>	2010 QR'000	2009 QR'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	5,974,100	10,663,624
Goodwill	5	108,798	-
Investments in associates	18	-	247,338
Available-for-sale investments	19	358,238	275,234
Finance lease receivables	20	11,699,832	3,820,652
Other non-current asset	21	23,815	-
		<u>18,164,783</u>	<u>15,006,848</u>
Current assets			
Finance lease receivable	20	135,836	27,400
Inventories	22	294,583	274,416
Accounts receivable and prepayments	23	1,454,036	432,376
Bank balances and cash	24	2,074,176	2,306,962
		<u>3,958,631</u>	<u>3,041,154</u>
TOTAL ASSETS		<u>22,123,414</u>	<u>18,048,002</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	25	1,000,000	1,000,000
Legal reserve	26	500,000	500,000
General reserve	27	3,241,834	2,707,888
Retained earnings		600,000	500,000
Other components of equity		(1,579,040)	(1,118,198)
Equity attributable to owners of the Parent		<u>3,762,794</u>	<u>3,589,690</u>
Non-controlling interests		<u>175,570</u>	<u>-</u>
Total equity		<u>3,938,364</u>	<u>3,589,690</u>

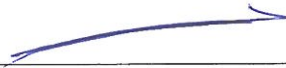
Continued.....

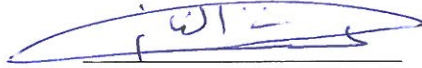
The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2010

	Notes	2010 QR'000	2009 QR'000
Non-current liabilities			
Interest bearing loans and borrowings	29	12,445,717	10,822,674
Other term loans	30	351,941	457,913
Deferred income	31	33,959	40,751
Employees' end of service benefits	32	64,035	51,200
		<u>12,895,652</u>	<u>11,372,538</u>
Current liabilities			
Accounts payable and accruals	33	1,857,107	1,102,646
Interest bearing loans and borrowings	29	1,513,047	668,195
Other term loans	30	105,972	105,972
Derivatives	34	1,806,480	1,202,169
Deferred income	31	6,792	6,792
		<u>5,289,398</u>	<u>3,085,774</u>
Total liabilities		<u>18,185,050</u>	<u>14,458,312</u>
TOTAL EQUITY AND LIABILITIES		<u>22,123,414</u>	<u>18,048,002</u>


Abdulla Bin Hamad Al-Attiyah
Chairman


Issa Shahin Al-Ghanim
Vice Chairman

Qatar Electricity & Water Company Q.S.C.
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2010

	<i>Notes</i>	<i>2010 QR'000</i>	<i>2009 QR'000 Restated</i>
OPERATING ACTIVITIES			
Profit for the year		1,166,865	944,874
Adjustments for:			
Share of profits of associates	13	(31,946)	(46,619)
Depreciation	16	462,806	408,656
Provision for employees' end of service benefits	32	11,398	8,938
Provision for slow moving inventories	8	19,140	23,633
Dividend income		(11,368)	(17,302)
Finance costs	10	465,618	194,466
Deferred income recognized	31	(6,792)	(6,792)
Interest income		(79,390)	(73,146)
Reversal of excess provisions	11	(21,456)	(12,309)
Loss (gain) on sale of property, plant and equipment		100	(11)
Operating profit before working capital changes		1,974,975	1,424,388
Inventories		(7,598)	(12,471)
Accounts receivable and prepayments		(883,320)	(19,376)
Finance lease receivable		(20,128)	(32,584)
Accounts payable and accruals		615,044	167,064
Cash from operations		1,678,973	1,527,021
Finance costs paid	10	(465,618)	(194,466)
Employees' end of service benefits paid		(5,104)	(1,432)
Net cash from operating activities		1,208,251	1,331,123
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	16	(1,477,262)	(4,050,364)
Proceeds from sale of property, plant and equipment		45	30
Dividends from other investments		11,368	17,302
Dividends received from associates	18	4,556	23,237
Purchase of available-for-sale investments	19	(6,465)	(17,331)
Increase in other non-current asset		(23,815)	-
Acquisition of subsidiaries, net of cash acquired	5	(584,163)	-
Interest received		79,390	73,146
Net cash used in investing activities		(1,996,346)	(3,953,980)

Continued.....

Qatar Electricity & Water Company Q.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2010

	<i>Notes</i>	<i>2010 QR'000</i>	<i>2009 QR'000 Restated</i>
FINANCING ACTIVITIES			
Dividends paid to owners of the parent		(500,000)	(450,000)
Dividends paid to non-controlling interest		(12,393)	-
Drawdown of interest bearing loans and borrowings		1,819,308	4,192,760
Repayment of interest bearing loans and borrowings		<u>(751,606)</u>	<u>(427,858)</u>
Net cash from financing activities		<u>555,309</u>	<u>3,314,902</u>
INCREASE IN BANK BALANCES AND CASH		(232,786)	692,045
Bank balances and cash at 1 January		<u>2,306,962</u>	<u>1,614,917</u>
BANK BALANCES AND CASH AT 31 DECEMBER	24	<u><u>2,074,176</u></u>	<u><u>2,306,962</u></u>

The attached notes 1 to 41 form part of these consolidated financial statements.

Qatar Electricity & Water Company Q.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to equity holders of the parent						Non-controlling interests QR '000	Total equity QR '000
	Share capital QR '000	Legal reserve QR '000	General reserve QR '000	Retained earnings QR '000	Cash flow hedge reserve QR '000	Available-for-sale reserve QR '000		
Balance at 1 January 2010	1,000,000	500,000	2,707,888	500,000	(1,238,808)	120,610	-	3,589,690
Profit for the year	-	-	-	1,162,833	-	-	4,032	1,166,865
Other comprehensive income	-	-	-	-	(537,381)	76,539	2,186	(458,656)
Total comprehensive income	-	-	-	1,162,833	(537,381)	76,539	6,218	708,209
Dividends paid for 2009	-	-	-	(500,000)	-	-	(12,393)	(512,393)
Acquisition of subsidiaries	-	-	-	-	-	-	181,745	181,745
Social and sports fund appropriation (Note 35)	-	-	-	(28,887)	-	-	-	(28,887)
Transfer to general reserve	-	-	533,946	(533,946)	-	-	-	-
Balance at 31 December 2010	1,000,000	500,000	3,241,834	600,000	(1,776,189)	197,149	175,570	3,938,364

The attached notes 1 to 41 form part of these consolidated financial statements.

Qatar Electricity & Water Company Q.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2010

	Attributable to the equity holders of the parent						Non- controlling interests QR '000	Total equity QR '000
	Share capital QR '000	Legal reserve QR '000	General reserve QR '000	Retained earnings QR '000	Cash flow hedge reserve QR '000	Available- for-sale reserve QR '000		
Balance at 1 January 2009	1,000,000	500,000	2,286,203	450,000	(3,022,811)	94,210	-	1,307,602
Profit for the year <i>(Restated)</i> (Note 35)	-	-	-	944,874	-	-	-	944,874
Other comprehensive income	-	-	-	-	1,784,003	26,400	-	1,810,403
Total comprehensive income	-	-	-	944,874	1,784,003	26,400	-	2,755,277
Dividends paid for 2008	-	-	-	(450,000)	-	-	-	(450,000)
Social and sports fund appropriation <i>(Restated)</i> (Note 35)	-	-	-	(23,189)	-	-	-	(23,189)
Transfer to general reserve	-	-	421,685	(421,685)	-	-	-	-
Balance at 31 December 2009	1,000,000	500,000	2,707,888	500,000	(1,238,808)	120,610	-	3,589,690

The attached notes 1 to 41 form part of these consolidated financial statements.

1 CORPORATE INFORMATION AND ITS ACTIVITIES

Qatar Electricity & Water Company Q.S.C. (the "Company") is a public shareholding company incorporated in Qatar on 16 March 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 as at and for the year ended 31 December 2010 comprise the Company and 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 consolidated financial statements of the Qatar Electricity & Water Company Q.S.C. as at and for the year ended 31 December 2010 were authorised for issue by the Board of Directors on 14 February 2011.

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 10 October 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 29 August 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

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 has further 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 in 2004. 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 Italmimpianti S.P.A, a company incorporated in Italy for the construction of the RAF B2 project.

1 CORPORATE INFORMATION AND ITS ACTIVITIES (continued)

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 15 January 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 25 March 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 KAHRAMAA for the acquisition of the following stations:

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

Article 6 of the agreement states 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 1 June 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 17% of the total revenues of the Group for the year ended 31 December 2010 (2009: 30%). No amendments have been made to the above agreement since both the parties are in continued discussions and are confident of obtaining the Emiri decree in due course.

3 BASIS OF CONSOLIDATION

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 31 December 2010.

3 BASIS OF CONSOLIDATION (continued)

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group 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.

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

Name of entity		Country of incorporation	Group effective shareholding percentage	
			31 December 2010	31 December 2009
Ras Laffan Operating Company W.L.L.	Subsidiary	Qatar	100%	30%
Ras Laffan Power Company Limited (Q.S.C.)	Subsidiary	Qatar	80%	25%
Q Power Q.S.C.	Jointly controlled entity	Qatar	55%	55%
Mesaieed Power Company Limited Q.S.C.	Jointly controlled entity	Qatar	40%	40%
Ras Girtas Power Company Limited	Jointly controlled entity	Qatar	45%	45%

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from shareholders of the parent. Losses applicable to the non-controlling interests in excess of the non controlling interests are allocated against the interest of the Group except to the extent that the non-controlling interests has a binding obligation and is able to make an additional investment to cover losses. Acquisitions of non-controlling interests are accounted for using the parent extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill. Upon loss of control, the Group accounts for the investment retained at its proportionate share of net asset value at the date the control was lost.

4 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 financial instruments and available-for-sale financial assets that have been measured at fair value. The consolidated financial statements are presented in Qatari Riyals and all values are rounded to the nearest thousand (QR'000) except when otherwise indicated.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Statement of compliance

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

Adoption of new and amended standards for the year

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2009, except for the adoption of new and amended standards as of 1 January 2010 as noted below:

- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the standards or interpretations is described below:

IFRS 2 *Share-based Payment (Revised)*

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)*

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group.

IFRIC 17 *Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and amended standards for the year (continued)

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to some accounting policies but did not have any impact on the financial position or performance of the group.

Issued in May 2008

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction..

Issued in April 2009

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- *IFRS 8 Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- *IAS 7 Statement of Cash Flows*: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- *IAS 36 Impairment of Assets*: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in April 2009

- *IFRS 2 Share-based Payment*
- *IAS 1 Presentation of Financial Statements*
- *IAS 17 Leases*
- *IAS 34 Interim Financial Reporting*
- *IAS 38 Intangible Assets*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IFRIC 9 Reassessment of Embedded Derivatives*
- *IFRIC 16 Hedge of a Net Investment in a Foreign Operation*

Standards, amendments and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations issued but not yet effective (continued)

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Revenue recognition

Revenue is recognised to the extent that it is 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:

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of electricity and water

Sales of electricity and water are recognised as revenues in 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 1 June 2000 for the sale of RAF B Station.
- 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 Wajbah, Al Saliyah and Doha South Super are accounted for as per the terms of the Power and 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.

Interest income

Interest income from banks and joint venture companies are recognised as the interest accrues.

Dividends

Dividend income is recognised when the right to receive the dividend is established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 January 2009.

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
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	3-4 years

The cost of initial spare parts included under capital spares received for the maintenance of three gas turbine-generators at RAF B2 is 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.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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 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.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in joint ventures

The Company has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The Company recognises its interest in the joint ventures using proportionate consolidation. The Company combines its share of each of the assets, liabilities, income and expenses of the joint ventures with similar items, line by line, in its financials statements. The financial statements of the joint ventures are prepared for the same reporting period as the parent company. Adjustments are made where necessary to bring the accounting policies in line with those of the Company.

Adjustments are made in the financial statements to eliminate the Company's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Company and its jointly controlled entities. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint ventures are proportionately consolidated until the date in which the Company ceases to have joint control over the joint ventures.

Investments in associates

The Company's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Company has significant influence.

Under the equity method, investments in associates are carried in the statement of financial position at cost plus post acquisition changes in the Company's share in net assets of the associates. The consolidated statement of income reflects the share of the results of operations of these associates. Where there has been a change recognised directly in the equity of the associates, the Company recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates.

The share of profit of associates is shown on the face of the consolidated statement of income. This is the profit attributable to equity holders of the associate and therefore is profit after tax.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each financial position date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income.

Upon loss of significant influence over the associate, the Group measures and recognises any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

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.

Company as a lessee

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Company as a lessor

Leases where the Company transfer substantially all the risks and benefits and ownership of the assets are classified as finance leases and are presented as receivables at an amount equal to the net investment in the lease. Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease. Income from finance leases in which the Company is a lessor is recognised based on a pattern reflecting a constant periodic rate of return on the Company's net investment in the finance lease. Contingent rents are recognised as revenue in the period in which they are earned.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income 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, held-to-maturity investments, 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.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the statement of income.

The Group evaluated its financial assets held for trading, to determine whether the 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 sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Receivables

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 statement of income. The losses arising from impairment are recognised in the statement of income in finance costs.

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 in the available-for-sale 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 statement of income in finance costs and removed from the available-for-sale reserve.

The Group evaluated 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 statement of income.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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.

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.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (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 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 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:

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.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

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 unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses interest rate swaps to hedge its risk associated primarily with interest rate fluctuations relating to the interest payments on the Group's selected interest bearing loans and borrowings. Such derivative financial instruments are initially recognised at fair value on the date in which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an ineffective hedge, are taken directly to the consolidated statement of income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to the changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated statement of income.

The Group has interest rate swaps that is used to hedge for the exposure in interest rate fluctuations relating to the interest payments on the Group's selected interest bearing loans and borrowings.

Amounts recognised as other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as other comprehensive income are transferred to the initial carrying amount of the nonfinancial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognised in other comprehensive income remains in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

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

4 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts receivable

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

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 an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

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 Company 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.

Foreign currencies

The Group's financial statements are presented in Qatari Riyals, which is the Group's functional currency. That is 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 40.

5 BUSINESS COMBINATIONS

Acquisitions in 2010

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

On 20 October 2010, the Company acquired additional 70% of the voting shares of AES Ras Laffan Operating Company W.L.L. 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 provisional fair values of the identifiable assets and liabilities of AES Ras Laffan Operating Company W.L.L. immediately prior to the acquisition were:

	<i>Provisional fair values at the acquisition date QR '000</i>
Assets	
Plant and equipment	2,801
Inventories	31,709
Accounts receivable and prepayments	34,629
Cash and cash equivalents	117,657
	<u>186,796</u>
Liabilities	
Employee benefits	6,541
Accounts payable and accruals	34,972
	<u>41,513</u>
Total identifiable net assets at provisional fair values	<u>145,283</u>
Net assets acquired	101,698
Goodwill arising on acquisition	-
Cost of business combination	<u>101,698</u>
Net cash inflow on acquisition:	
Net cash acquired with the subsidiary	117,657
Cash paid	<u>(101,698)</u>
	<u>15,959</u>

The share of pre-acquisition profits for the period until 20 October 2010 amounted to QR 8.70 million (see Note 13).

From the date of acquisition, AES Ras Laffan Operating Company W.L.L. contributed QR nil to the profit of the Group for the year ended 31 December 2010.

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

Qatar Electricity & Water Company Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

5 BUSINESS COMBINATIONS (continued)

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

On 20 October 2010, the Group acquired additional 55% of the voting shares of Ras Laffan Power Company Limited Q.S.C. that resulted to 80% ownership. 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.

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

The provisional fair values of the identifiable assets and liabilities of Ras Laffan Power Company Limited (Q.S.C.) immediately prior to the acquisition were:

	<i>Provisional fair values at the acquisition date QR'000</i>
Assets	
Plant and equipment	566
Finance lease receivable	2,260,288
Accounts receivable and prepayments	103,710
Cash and cash equivalents	97,792
	<u>2,462,356</u>
Liabilities	
Interest bearing loans and borrowings	1,294,221
Accounts payable and accruals	97,014
	<u>1,391,235</u>
Total identifiable net assets at provisional values	1,071,121
Non-controlling interest measured at provisional fair value	181,745
Net assets acquired	589,116
Goodwill arising on acquisition	108,798
	<u>697,914</u>
Cost of business combination	
Net cash outflow on acquisition:	
Net cash acquired with the subsidiary	97,792
Cash paid	<u>(697,914)</u>
	<u>(600,122)</u>

The share of pre-acquisition profits for the period until 20 October 2010 amounted to QR 23.25 million (see Note 13).

From the date of acquisition, Ras Laffan Power Company Limited (Q.S.C.) contributed QR 20.16 million to the profit of the Group for the year ended 31 December 2010.

Qatar Electricity & Water Company Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

6 SALES

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Sales represent revenues generated from the supply of:		
Electricity	1,801,027	1,515,516
Water	1,110,739	931,294
Lease income from plant lease (Note 20)		
- Q Power Q.S.C.	148,390	150,374
- Mesaieed Power Company Limited Q.S.C.	231,880	53,684
- Ras Girtas Power Company Limited	102,301	-
- Ras Laffan Power Company Limited (Q.S.C.)	35,897	-
	<u>3,430,234</u>	<u>2,650,868</u>

7 COST OF SALES

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Cost of gas consumed	868,254	726,751
Depreciation (Note 16)	453,979	406,791
Spare parts, chemicals and consumables	203,079	175,876
Employee costs (Note 14)	198,017	169,244
Cost of take or pay gas	93,765	18,954
Other expenses	74,423	37,793
	<u>1,891,517</u>	<u>1,535,409</u>

8 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Employee costs (Note 14)	64,295	63,932
Provision for slow moving spare parts	19,140	23,633
Insurance	17,747	12,665
Directors' remuneration	17,500	11,700
Depreciation (Note 16)	8,827	1,865
Recruitment and training expenses	9,104	13,959
Professional fees	3,067	12,385
Rent	3,251	3,131
Advertisement and public relation expenses	3,915	2,655
Provision for disputed revenue and doubtful debts	1,752	3,074
Telephone, postage & couriers	1,821	1,467
Donations	1,556	1,339
Repair and maintenance	1,874	1,007
Office expenses	1,138	1,218
Subscription and licenses	838	761
Other expenses	10,827	7,713
	<u>166,652</u>	<u>162,504</u>

9 LIQUIDATED DAMAGES TO KAHRAMAA

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Share of liquidated damages of joint venture companies (i)	57,657	58,216
Liquidated damages payable to KAHRAMAA (ii)	56,202	22,641
	<u>113,859</u>	<u>80,857</u>

Notes:

- (i) The share of liquidated damages of joint venture companies arises from failure of Mesaieed Power Company Limited Q.S.C. and Ras Girtas Power Company Limited to achieve the target power dates resulting in the delay of supply of electricity.
- (ii) The liquidated damages payable to KAHRAMAA includes QR 48.0 million (2009: QR 22.0 million) on RAF A1 for failing to commence the production on scheduled commencement date, which resulted in the delay of the supply of water. It also includes QR 8.2 million (2009: QR 0.64 million) against RAF A SATS for not achieving the required level of production of electricity during the year.

10 FINANCE COSTS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Interest paid to banks	349,583	182,682
Interest paid to others	108,169	7,845
Bank charges	7,866	3,939
	<u>465,618</u>	<u>194,466</u>

Qatar Electricity & Water Company Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

11 MISCELLANEOUS INCOME

	2010 QR'000	2009 QR'000
Reversal of excess provision (i)	21,456	12,309
Insurance claims (ii)	3,645	-
Sale of scrap and other materials	6,144	-
Realized gain on foreign exchange	4,495	-
Other income (iii)	34,667	2,736
	<u>70,407</u>	<u>15,045</u>

Notes:

- (i) The Group and the proportionate share from its joint venture Q Power Q.S.C. had reversed excess provisions relating to staff training, electricity, interest charge and liquidated damages accrued in prior years.
- (ii) This pertains to the amount received during the year for the claims made in previous years for the fire incident at Al Wajba station.
- (iii) Other income includes a proportionate share from a joint venture, Ras Girtas Power Company Limited, relating to compensation received from EPC contractor for:
- a) Revenue loss and additional costs due to the gas turbine outage after achieving First Power, for carrying out repairs for the damages that occurred during the commissioning of the plant amounting to QR 23.3 million; and
 - b) Design lifetime loss of last stage blades and vanes due to debris issue during commissioning of the plant amounting to QR 8.01 million.

12 SHARE OF INTEREST INCOME OF JOINT VENTURE COMPANIES

	2010 QR'000	2009 QR'000
Interest earned on subordinated debt less inter-company adjustments	<u>44,060</u>	<u>50,237</u>

13 SHARE OF PROFITS OF ASSOCIATES

	2010 QR'000	2009 QR'000
AES Ras Laffan Operating Company W.L.L.	8,698	13,175
Ras Laffan Power Company Limited Q.S.C.	<u>23,248</u>	<u>33,444</u>
	<u>31,946</u>	<u>46,619</u>

On 20 October 2010, the Company acquired additional 70% stake AES Ras Laffan Operating Company W.L.L. and 55% stake in Ras Laffan Power Company Limited Q.S.C. This acquisition has given the Company the controlling interests over the two associates and thus becoming a subsidiary (See note 5).

The share of profits from associates represents the pre-acquisition profits for the period until 20 October 2010.

14 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
<i>Employee costs:</i>		
Salaries, wages and bonus	225,354	205,163
Provision for employees' end of service benefits (Note 32)	11,398	8,938
Provision for pension contribution for Qatari employees	4,160	3,966
Other benefits	21,400	15,109
	<u>262,312</u>	<u>233,176</u>

Employee costs have been allocated in the consolidated statement of income as follows:

Cost of sales (Note 7)	198,017	169,244
General and administration expenses (Note 8)	64,295	63,932
	<u>262,312</u>	<u>233,176</u>

15 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:

	<i>2010</i>	<i>2009</i> <i>(Restated)</i>
Profit for the year attributable to owners of the parent (in QR'000)	<u>1,162,833</u>	<u>944,874</u>
Weighted average number of shares outstanding during the year (in shares)	<u>100,000,000</u>	<u>100,000,000</u>
Basic and diluted earnings per share (expressed in QR per share)	<u>11.63</u>	<u>9.45</u>

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.

Qatar Electricity & Water Company Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

16 PROPERTY, PLANT AND EQUIPMENT

	<i>Production facilities QR'000</i>	<i>Furniture, fixtures and office equipment QR'000</i>	<i>Motor vehicles QR'000</i>	<i>"C" inspection costs QR'000</i>	<i>Capital spares QR'000</i>	<i>Capital work in progress QR'000</i>	<i>Total QR'000</i>
Cost:							
At 1 January 2010	6,314,950	19,276	5,194	206,884	120,218	6,623,388	13,289,910
Acquisition of subsidiaries	-	3,089	276	-	-	-	3,365
Additions	1,197	3,945	2,105	-	19,944	1,450,071	1,477,262
Transfers/reclassifications	1,838,425	686	-	81,049	-	(1,920,160)	-
Transfer to finance lease receivable	-	-	-	-	-	(5,707,200)	(5,707,200)
Retirements/disposals	(385)	-	(74)	(26,469)	-	-	(26,928)
At 31 December 2010	8,154,187	26,996	7,501	261,464	140,162	446,099	9,036,409
Depreciation:							
At 1 January 2010	2,501,449	13,946	2,330	85,580	22,981	-	2,626,286
Charge for the year	373,286	2,647	1,304	76,722	8,847	-	462,806
Retirements/disposals	(385)	-	(42)	(26,356)	-	-	(26,783)
At 31 December 2010	2,874,350	16,593	3,592	135,946	31,828	-	3,062,309
Net carrying amounts:							
At 31 December 2010	5,279,837	10,403	3,909	125,518	108,334	446,099	5,974,100

Qatar Electricity & Water Company Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Production facilities</i> <i>QR'000</i>	<i>Furniture, fixtures and office equipment</i> <i>QR'000</i>	<i>Motor vehicles</i> <i>QR'000</i>	<i>"C" inspection costs</i> <i>QR'000</i>	<i>Capital spares</i> <i>QR'000</i>	<i>Capital work in progress</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Cost:							
At 1 January 2009	6,275,099	17,234	3,288	153,946	109,635	5,040,131	11,599,333
Additions	15,664	1,939	1,851	-	15,717	4,015,193	4,050,364
Transfers/reclassifications	24,339	103	108	100,391	(5,134)	(119,807)	-
Transfer to finance lease receivable	-	-	-	-	-	(2,312,129)	(2,312,129)
Retirements/disposals	(152)	-	(53)	(47,453)	-	-	(47,658)
At 31 December 2009	6,314,950	19,276	5,194	206,884	120,218	6,623,388	13,289,910
Depreciation:							
At 1 January 2009	2,170,301	12,014	1,520	60,985	20,449	-	2,265,269
Charge for the year	331,300	1,925	821	72,048	2,562	-	408,656
Transfers/reclassifications	-	7	23	-	(30)	-	-
Retirements/disposals	(152)	-	(34)	(47,453)	-	-	(47,639)
At 31 December 2009	2,501,449	13,946	2,330	85,580	22,981	-	2,626,286
Net carrying amounts:							
At 31 December 2009	3,813,501	5,330	2,864	121,304	97,237	6,623,388	10,663,624

16 PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

- (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 30(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 30(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 3-4 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 5 July 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:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Cost of sales (Note 7)	453,979	406,791
General and administration expenses (Note 8)	<u>8,827</u>	<u>1,865</u>
	<u>462,806</u>	<u>408,656</u>

Qatar Electricity & Water Company Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

17 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 31 December 2010 and 31 December 2009 and for the years then ended, which are included in the financial statements, are as follows:

	2010 QR'000	2009 QR'000
Current assets	1,347,877	588,927
Non-current assets	8,540,092	7,133,397
Current liabilities	(2,324,367)	(1,493,422)
Non-current liabilities	(8,581,389)	(7,110,628)
	<u>(1,017,787)</u>	<u>(881,726)</u>
Revenues	1,094,033	484,944
Cost of sales	(557,540)	(249,928)
Other income	157,681	18,804
Administrative expenses	(90,337)	(79,053)
Finance costs	(343,164)	(114,245)
Profit for the year	<u>260,673</u>	<u>60,522</u>

18 INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

	Country of incorporation	Ownership	2010 QR'000	2009 QR'000
AES Ras Laffan Operating Company W.L.L.	Qatar	30%	-	34,886
Ras Laffan Power Company Limited Q.S.C.	Qatar	25%	-	212,452
			<u>-</u>	<u>247,338</u>

Notes:

- (i) 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.
- (ii) Ras Laffan Power Company Limited (Q.S.C.) is engaged to develop, own, operate and maintain an electricity and water desalination plant in Qatar.
- (iii) On 20 October 2010, the Company acquired additional voting shares of these associates. Hence, obtaining control over these entities (see Note 5).
- (iv) The Company's share in the profit of Ras Laffan Power Company Limited (Q.S.C.) amounted to QR 23.25 million for the period ended 20 October 2010 (31 December 2009: QR 33.44 million). Its share in the profit of AES Ras Laffan Operating Company amounted to QR 8.70 million for the period ended 20 October 2010 (31 December 2009: QR 13.18 million). These are pre-acquisition profits for the period ended 20 October 2010 (see Notes 5 and 13).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

18 INVESTMENTS IN ASSOCIATES (continued)

- (v) The Company has accounted for its share in the changes in the fair value of derivative financial instruments (interest rate swaps) of Ras Laffan Power Company (Q.S.C.) amounting to QR 121.17 million as at 31 December 2010 (2009: QR 18.78 million), through the consolidated statement of comprehensive income.
- (vi) Investments in associates are stated net of Company's share of cash dividend amounting to QR 4.56 million for the period ended 20 October 2010 (31 December 2009: QR 23.24 million) from Ras Laffan Power Company Limited (Q.S.C.).

The following table illustrates summarised financial information of the Group's investments in associates:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
<i>Share of the associates' financial position:</i>		
Current assets	-	91,975
Non-current assets	-	574,094
Current liabilities	-	(71,857)
Non-current liabilities	-	(346,874)
Net assets	<u>-</u>	<u>247,338</u>
<i>Share of the associates' revenue and profits:</i>		
Revenue	<u>-</u>	<u>153,369</u>
Profits	<u>-</u>	<u>46,619</u>
Carrying amount of the investment	<u>-</u>	<u>247,338</u>

19 AVAILABLE- FOR- SALE INVESTMENTS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Quoted shares	<u>358,238</u>	<u>275,234</u>
At cost	275,234	137,293
Acquired during the year	6,465	17,331
Net movement in fair value	<u>76,539</u>	<u>120,610</u>
Balance at 31 December	<u>358,238</u>	<u>275,234</u>

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

20 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 1 January 2006 in accounting for their self-constructed production facilities.

	2010 QR'000	2009 QR'000
Finance leases - gross receivable	26,675,565	9,497,202
Unearned finance income	(14,839,897)	(5,649,150)
Net investment in finance leases	<u>11,835,668</u>	<u>3,848,052</u>
Classified in the statement of consolidated financial position as follows:		
Current portion	135,836	27,400
Non-current portion	<u>11,699,832</u>	<u>3,820,652</u>
	<u>11,835,668</u>	<u>3,848,052</u>

21 OTHER NON-CURRENT ASSET

Other non-current asset represents the amounts paid to Ras Laffan Services Company (RLSC) 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. This asset is amortised over a period of 19 years.

22 INVENTORIES

	2010 QR'000	2009 QR'000
Spare parts	459,132	422,546
Chemicals	4,498	3,944
Consumables	<u>4,585</u>	<u>2,418</u>
	468,215	428,908
Provision for slow-moving inventories	<u>(173,632)</u>	<u>(154,492)</u>
	<u>294,583</u>	<u>274,416</u>

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 58.01 million (2009: QR 49.19 million).

23 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Trade accounts receivable	877,011	373,626
Prepayments	52,250	58,592
Other receivables	<u>524,775</u>	<u>158</u>
	<u>1,454,036</u>	<u>432,376</u>

At 31 December 2010 and 2009, trade accounts receivable are neither impaired nor past due.

Other receivables pertain mainly to the proportionate share of receivables of Ras Girtas Power Company Limited.

24 BANK BALANCES AND CASH

Bank balances and cash include bank deposits amounting to QR 2,074.12 million (2009: QR 2,306.91 million) held with banks in the State of Qatar and in the United Kingdom. These are mainly denominated in Qatari Riyals and United States Dollars. The effective rate of interest ranges from .30% to 3.00% per annum for the year ended 31 December 2010 (2009: 2.00% to 6.75%).

The Group's bank balances and cash also includes a Company debt service account of QR Nil (2009: QR 54.67 million) and the proportionate share in Q Power Q.S.C. amounting to QR Nil as at 31 December 2010 (2009: QR 54.43 million). These debt service accounts represent the balances in the banks which are restricted for use by the Company and the joint venture.

25 SHARE CAPITAL

The authorized, issued and fully paid share capital as at 31 December 2010 comprised 100,000,000 shares of QR 10 each (2009: 100,000,000 shares of QR 10 each).

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

27 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

28 DIVIDENDS

The Board of Directors has proposed a final dividend distribution in 2010 of QR 6 per share (2009: QR 5 per share). The dividend for 2009 amounting to QR 500 million was approved at the Annual General Meeting held on 1 March 2010 and was subsequently paid in 2010.

The proposed final dividend for 2010 will be submitted for formal approval at the Annual General Meeting.

29 INTEREST BEARING LOANS AND BORROWINGS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Loan 1 (Note (i))	1,543,947	1,581,163
Loan 2 (Note (ii))	-	546,750
Loan 3 (Note (iii))	1,191,901	1,234,103
Loan 4 (Note (iv))	2,678,716	2,163,843
Loan 5 (Note (v))	890,096	708,952
Loan 6 (Note (vi))	444,084	423,195
Loan 7 (Note (vii))	1,093,500	1,093,500
Loan 8 (Note (viii))	4,919,807	3,794,612
Loan 9 (Note (ix))	1,254,509	-
	<u>14,016,560</u>	<u>11,546,118</u>
Less: financing arrangement costs	<u>(57,796)</u>	<u>(55,249)</u>
	<u>13,958,764</u>	<u>11,490,869</u>
Classified in the consolidated statement of financial position as follows:		
Current portion	1,513,047	668,195
Non-current portion	<u>12,445,717</u>	<u>10,822,674</u>
	<u>13,958,764</u>	<u>11,490,869</u>

Notes:

- (i) The Company has entered into 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 31 December 2010 amounted to US\$ 423 million (QR 1,543 million) (2009: US\$ 433 million (QR 1,581 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) The Company has entered into Revolving Bridge Facility agreement with The Bank of Tokyo Mitsubishi UFJ Ltd. which acts as a mandated lead arranger for a facility amounting to US \$ 150 million to finance the construction of RAF A expansion projects. Interest is charged at a rate of LIBOR + 1.5 per annum as specified in the facility agreement. The facility was fully paid on 31 October 2010.
- (iii) This represents the share of Q-Power Q.S.C. bank borrowings.
- (iv) This represents the share of Mesaieed Power Company Limited Q.S.C. bank borrowings.

29 INTEREST BEARING LOANS AND BORROWINGS (continued)

Notes:

- (v) 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 31 December 2010 amounted to US\$244.20 million (QR 890.10 million) (31 December 2009: US\$ 194.5 million (QR 708.95 million)). The loan is repayable in semi-annual installments starting on 30 June 2010 at a pre-determined repayment percentage multiplied against the principle amount outstanding as at the end of the availability period.
- (vi) 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 31 December 2010 amounted to US\$ 121.83 million (QR 444.08 million) (31 December 2009: US\$ 116.10 million (QR 423.19 million)).
- (vii) The Company entered into a revolving credit facility agreement with a consortium of banks mainly to finance the construction of Ras Laffan C plant facilities. This term loan facility of US\$ 300 million carries interest at LIBOR plus a margin of 0.40%. The Company has drawn down the full amount as at 31 December 2010 amounting to US \$ 300 million (QR 1,093.50 million). The loan is repayable in installments starting on or before the termination date which is on the third year from 21 April 2008.
- (viii) This represents the share of Ras Girtas Power Company Limited bank borrowings.
- (ix) 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 20 November 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.

30 OTHER TERM LOANS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
KAHRAMAA (i)	440,000	540,000
Qatar Petroleum (ii)	17,913	23,885
	<u>457,913</u>	<u>563,885</u>
Classified in the statement of financial position as follows:		
Current portion	105,972	105,972
Non-current portion	351,941	457,913
	<u>457,913</u>	<u>563,885</u>

Notes:

- (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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2010

30 OTHER TERM LOANS (continued)

This liability is repayable in 6 annual installments starting from 2009. As stated in Note 16 (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 168.2 million as at 31 December 2010 (2009: QR 209.89 million).

- (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 16 (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 45.5 million as at 31 December 2010 (2009: QR 48.24 million).

31 DEFERRED INCOME

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Balance at 1 January	47,543	54,335
Income recognised during the year	<u>(6,792)</u>	<u>(6,792)</u>
Balance at 31 December	<u>40,751</u>	<u>47,543</u>
Presented in statement of consolidated financial position as follows:		
Current portion	6,792	6,792
Non-current portion	<u>33,959</u>	<u>40,751</u>
	<u>40,751</u>	<u>47,543</u>

Deferred income represents the fair value of spare parts received / receivable from Alstom Power in respect of the settlement agreement in respect of the RAF B contract between KAHRAMAA and Alstom Power. This deferred income is amortized and credited to the consolidated statement of income on a straight-line basis over the remaining estimated useful life of RAF B plant.

32 EMPLOYEES' END OF SERVICE BENEFITS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Movements in the provision recognized in the consolidated statement of financial position are as follows:		
Provision as at 1 January	51,200	43,694
Acquisition of subsidiaries	6,541	-
Provided during the year	11,398	8,938
End of service benefits paid	<u>(5,104)</u>	<u>(1,432)</u>
Provision as at 31 December	<u>64,035</u>	<u>51,200</u>

33 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Trade accounts payable	987,510	644,721
Accrued expenses	741,613	400,772
Provision for social and sports activities contribution (Note 35)	30,527	23,189
Liquidated damages to KAHRAMAA (Note 9)	78,206	22,005
Unpaid dividend	17,447	11,217
Pension contribution for Qatari employees	1,804	742
	<u>1,857,107</u>	<u>1,102,646</u>

34 DERIVATIVES

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Share of fair values of cash flow hedges (i)	1,458,321	1,061,587
Cash flow hedges (ii) and (iii)	348,159	140,582
	<u>1,806,480</u>	<u>1,202,169</u>

Notes:

- (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. The Company accounted for its proportionate share of the fair value of the derivatives which amounts to QR 1,458.32 million as at 31 December 2010 (2009: QR 1,061.59 million).
- (ii) As at 31 December 2010, the Company has six interest rate swap contracts replacing its floating interest rate bearing loans for fixed interest bearing loans, designated as hedges of expected future LIBOR interest rate payments during the period to 30 July 2018 on a maximum notional amount of QR 1,120 million. The terms of the interest rate swap contracts have been negotiated to match the terms of the commitments. As at 31 December 2010, the cumulative change in fair values of the hedges resulted in a negative amount of QR 196.70 million (2009: QR 140.58 million) which has been recognized 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.), the acquired subsidiary, has interest rate swap contract designated to hedge the exposure of upward movements of interest rates on loan drawdowns. The contracts consists 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 17 December 2001 to 30 November 2013. As at 31 December, the share of the Company in the cash flow hedge due to the acquisition amounted to QR 151.46 million.

35 SOCIAL AND SPORTS FUND

Pursuant to Law No. 13 of 2008, the Group recorded a provisions for social and sports activities contribution directly to the consolidated statement of income amounting to QR 23.19 million in 2009. In accordance with the clarifications of the law issued in 2010, the provisions shall be an appropriation from retained earnings rather than recording it through the consolidated statement of income. The provisions in 2009 have been considered as a restatement of the 2009 retained earnings.

During the year, the Group made an appropriation from retained earnings of QR 28.89 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 31 December 2010. An amount of the 2009 appropriation equal to QR 21.55 million has been remitted to the Public Revenues and Taxes Department during the year.

36 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.

37 COMMITMENTS AND CONTINGENT LIABILITIES

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Commitments:		
Capital commitments (i)	<u>31,802</u>	<u>1,762,254</u>
Operating lease commitment (ii)	<u>10,711</u>	<u>15,048</u>
Contingent liabilities:		
Bank guarantees and documentary credits (iii)	<u>226,637</u>	<u>192,925</u>

Notes:

(i) Capital commitments include:

- (a) The amounts payable to the EPC contractors for the RAF A1 project amounting to QR Nil as at 31 December 2010 (2009: QR 277.72 million).
- (b) The proportionate commitment of the Company in Mesaieed Power Company Limited Q.S.C. as at 31 December 2010 which amounts to QR nil (2009: QR 263.06 million).
- (c) The proportionate commitment of the Company in Ras Girtas Power Company Limited as at 31 December 2010 which amounts to QR 31.80 million (2009: QR 870.57 million).

37 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(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 future lease commitments are as follows:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Due in one year	382	382
Due in 2- 5 years	1,908	2,290
Due in more than 5 years	8,421	12,376
Total	<u>10,711</u>	<u>15,048</u>

(iii) Bank guarantees and documentary credits

Bank guarantees and documentary credits include the Group's proportionate share of bank guarantees given to the lenders of Q Power Q.S.C. amounting to QR 60.14 million (2009: QR 189.94 million).

38 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 Company's management.

Related party transactions

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

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
<i>Sales:</i>		
Revenue from sale of electricity	1,801,027	1,515,516
Revenue from sale of water	1,096,267	918,044
	14,472	13,250
Lease income from plant lease	518,468	204,058
<i>Cost of sales:</i>		
Cost of gas consumed/take or pay gas	962,019	745,705
<i>Other income:</i>		
Interest on bank deposits	59,610	61,466
Dividends received	4,556	23,237

38 RELATED PARTY DISCLOSURES (continued)

Related party balances

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

	<i>2010</i>		<i>2009</i>	
	<i>Trade receivables</i>	<i>Trade payables and accrued expenses</i>	<i>Trade receivables</i>	<i>Trade payables and accrued expenses</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
KAHRAMAA	1,338,379	4,936	371,354	28,091
Qatar Petroleum	3,474	344,667	2,272	141,053
	<u>1,341,853</u>	<u>349,603</u>	<u>373,626</u>	<u>169,144</u>

Compensation of key management personnel

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

	<i>2010</i>	<i>2009</i>
	<i>QR'000</i>	<i>QR'000</i>
Management remuneration	<u>19,661</u>	<u>17,607</u>
Directors' sitting fees	<u>17,500</u>	<u>11,700</u>

39 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 summarised below.

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.

39 FINANCIAL RISK MANAGEMENT (continued)

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

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
<i>Fixed interest rate instruments:</i>		
Financial assets	2,074,126	2,306,912
Financial liabilities	-	-
	<u>2,074,126</u>	<u>2,306,912</u>
<i>Floating interest rate instruments:</i>		
Financial assets	-	-
Financial liabilities	(13,958,764)	(11,490,869)
	<u>(13,958,764)</u>	<u>(11,490,869)</u>

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 31 December 2010. 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.

	<i>Change in</i> <i>basis</i> <i>points</i>	<i>Effect on</i> <i>profit</i> <i>QR'000</i>
2010		
Floating interest rate instruments	+25	(34,897)
2009		
Floating interest rate instruments	+25	(28,727)

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.

	<i>Change in</i> <i>equity price</i> <i>2010</i>	<i>Effect on</i> <i>equity</i> <i>2010</i> <i>QR'000</i>	<i>Change in</i> <i>equity price</i> <i>2009</i>	<i>Effect on</i> <i>equity</i> <i>2009</i> <i>QR'000</i>
Quoted shares	20%	71,648	20%	55,047

39 FINANCIAL RISK MANAGEMENT (continued)

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.

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:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Bank balances	2,074,126	2,306,912
Other receivables	<u>524,775</u>	<u>158</u>
	<u>2,598,901</u>	<u>2,307,070</u>

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

The Company limits its liquidity risks by complying with the terms of the loan agreements and by making drawdown of the committed loans on due dates to enable the Group to settle its obligations as they fall due.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December 2010, based on contractual payment dates and current market interest rates.

<i>31 December 2010</i>	<i>Less than 6 months QR'000</i>	<i>6 months to 1 year QR'000</i>	<i>1 to 5 years QR'000</i>	<i>> 5 years QR'000</i>	<i>Total QR'000</i>
Accounts payable and accruals	1,857,107	-	-	-	1,857,107
Interest bearing loans and borrowings	1,325,561	231,172	2,145,611	10,480,730	14,183,074
Other term loans	<u>5,972</u>	<u>100,000</u>	<u>351,941</u>	<u>-</u>	<u>457,913</u>
Total	<u>3,188,640</u>	<u>331,172</u>	<u>2,497,552</u>	<u>10,480,730</u>	<u>16,498,094</u>

39 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

<i>31 December 2009</i>	<i>Less than 6 months QR'000</i>	<i>6 months to 1 year QR'000</i>	<i>1 to 5 years QR'000</i>	<i>> 5 years QR'000</i>	<i>Total QR'000</i>
Accounts payable and accruals	1,102,646	-	-	-	1,102,646
Interest bearing loans and borrowings	58,250	762,801	8,697,486	2,456,996	11,975,533
Other term loans	5,972	100,000	457,913	-	563,885
Total	1,166,868	862,801	9,155,399	2,456,996	13,642,064

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, which the Group defines as net operating income divided by total shareholders' equity. No changes were made in the objectives, policies or processes during the year ended 31 December 2010.

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.

	<i>2010 QR'000</i>	<i>2009 QR'000</i>
Interest bearing loans and borrowings	13,958,764	11,490,869
Other term loans	457,913	563,885
Accounts payables and accruals	1,857,107	1,102,646
Less : Bank balances and cash	(2,074,176)	(2,306,962)
Net debt	14,199,608	10,850,438
Equity	3,762,794	3,589,690
Net unrealised gains reserve	1,579,040	1,118,198
Total capital	5,341,834	4,707,888
Capital and net debt	19,541,442	15,558,326
Gearing ratio	73%	70%

40 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 31 December 2010, 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.

	<i>31 December 2010 QR'000</i>	<i>Level 1 QR'000</i>	<i>Level 2 QR'000</i>	<i>Level 3 QR'000</i>
<i>Assets measured at fair value</i>				
Available-for-sale investments				
- equity shares	<u>358,238</u>	<u>358,238</u>	<u>-</u>	<u>-</u>
<i>Liabilities measured at fair value</i>				
Derivatives - interest rate swaps	<u>1,806,480</u>	<u>-</u>	<u>1,806,480</u>	<u>-</u>
	<i>31 December 2009 QR'000</i>	<i>Level 1 QR'000</i>	<i>Level 2 QR'000</i>	<i>Level 3 QR'000</i>
<i>Assets measured at fair value</i>				
Available-for-sale investments				
- equity shares	<u>275,234</u>	<u>275,234</u>	<u>-</u>	<u>-</u>
<i>Liabilities measured at fair value</i>				
Derivatives - interest rate swaps	<u>1,202,169</u>	<u>-</u>	<u>1,202,169</u>	<u>-</u>

During the reporting period ending 31 December 2010, 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.

41 SIGNIFICANT ESTIMATES AND JUDGEMENTS

Impairment of accounts receivable

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

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.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.