

Annual Report 2012



شركة الكهرباء والماء القطرية ش.م.ق.
QATAR ELECTRICITY & WATER CO. Q.S.C.

www.qewc.com

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His Highness
Sheikh Hamad Bin Khalifa Al-Thani
Emir of the State of Qatar



His Highness
Sheikh Tamim Bin Hamad Bin Khalifa Al-Thani
Heir Apparent

In the field of foreign investment, the company, by virtue of its experience in the production of electricity and water and strong financial position, was able to enter and compete in many large projects in the Gulf and the Middle East.

Board of Directors

H.E. Abdullah Bin Hamad Al-Attiyah
Chairman

Mr. Issa Bin Shahin Al-Ghanim
Vice Chairman

H.E. Sh. Mohamed Bin Hamad Al-Thani
Board Member

H.E. Sh. Hamad Bin Jassem Al-Thani
Board Member

H.E. Sh. Saud Bin Khalid Al-Thani
Board Member

H.E. Dr. Khaled Bin Mohamed Al-Attiyah
Board Member

H.E. Sh. Faisal Bin Saud Al-Thani
Board Member

Mr. Khalifa Bin Ali Al-Hitmi
Board Member

H.E. Sh. Hamad Bin Jabor Al-Thani
Board Member

Mr. Adel Bin Ali Bin Ali
Board Member

Mr. Hamad Bin Rashid Al-Mohannadi
Board Member





Chairman's Message

The rating of A1 with stable outlook accorded to QEWC by Moody's Credit Rating agency further strengthens company's investment opportunities at the regional and international level.

H.E. Abdullah Bin Hamad Al-Attiyah

President of the Administrative Control and Transparency Authority
Chairman of the Board of Directors of Qatar Electricity and Water Company



"In the name of Allah, the most Gracious, the most Merciful"

Dear Shareholders, Representatives of Commercial Companies Supervision Department, Board Members and Distinguished Guests,

As-salamu Aleikum Wa Rahmatullahi Wa Barakatu

I am pleased to welcome you all and thank you for joining us in this meeting to discuss the annual report of the company and its activities, performance and achievements during the financial year 2012 and its future plans.

Dear Shareholders,

A study concluded by Investment Bank Beltone revealed that Qatar Electricity and Water Company is the second largest utility in the Middle East and North Africa region in terms of market value. The study also states that the risk in investing in the company, being the main supplier of electricity and desalinated water in the State of Qatar, is the lowest within the utilities sector in Qatar. In terms of the company's position in the Qatar Exchange, the company's shares have shown a steady growth in market value compared to shares of other companies, especially after the implementation of the expansions planned inside and outside the country. The higher dividend distributions and growing annual profits are very important and positive characteristics of the company and this shows the financial and administrative stability and lower risks. The company foresees various good opportunities for future growth and rise in market value of shares.

As a result of the experience gained by the company over the last twenty years coupled with the experience and dedication of the Board of Directors and Management of the company and with your strong support, the company achieved significant growth in the volume of production, profits and operational capabilities during the financial year 2012 through local & international projects.

At the local level company has signed the contract for extension of Ras Abu Fontas A with Qatar General Electricity and Water Corporation for two years starting from the year 2015. The technical and financial negotiations for Ras Abu Fontas A2 expansion project, with a capacity of 36 MIGD of water at a cost USD 490 Million, was completed during the year. The Project agreements were signed on 7th January 2013 and the project is expected to be completed by June 10, 2015. It should be noted that the Ras Abu Fontas A2 project is fully funded by local banks and this shows the confidence and support of Qatari banking sector to the company.

The company also succeeded in settling the dispute with GE and FISIA related to Ras Abu Fontas B2 project, resolving all outstanding issues by receiving a sum of USD 53 million. The company is currently working on constructing its own administrative building on land owned by the company at Onaiza area. The project is expected to achieve an IRR of 12% and is scheduled to be completed by April 2015.

In the field of foreign investment, the company, by virtue of its experience in the production of electricity and water and strong financial position, was able to enter and compete in many large projects in the Gulf and the Middle East. The company began its investments in the GCC market through Sur Power Project Oman, which is the largest power project in the Sultanate, with a production capacity of 2000 MW, which represents approximately 40% of the current production capacity of the country. The company won the project in alliance with Japanese companies Marubeni and Chubu and Multi-tech of Oman to construct the power station at a cost of QR 6 billion.

On the other hand, the company has completed the acquisition of the 38.891% shares held by Islamic Development Bank in AES Oasis Limited, which holds 60% shares in AES Jordan Hold Co. Ltd, which owns a power station at East Amman with a capacity of 370 MW. This is the first acquisition by Qatar Electricity and Water Company outside the state of Qatar and the beginning of a series of such acquisitions that the company plans to do over the next few years to expand regionally and internationally. Company's investments outside Qatar will be after careful review and in balanced steps. The company is studying the investment opportunities in a number of states in the region which will strengthen the role of the company in the region as one of the pioneers of electricity generation and water desalination sector. This will strengthen the company's position and opportunities for investment and growth. The company seeks to take advantage of investment opportunities in the Arab States in the region, where there is a growth in energy demand by at least 5% per year.

Some of the Qatari companies started moving in the direction of uniting and establishing alliances to become stronger to compete regionally and globally to take advantage of the great opportunities in the global markets. The company is in the process of establishing a new joint venture company, for investment in electricity sector outside the State of Qatar, with Qatar Holding Company and Qatar Petroleum International. The company foresees great opportunities to achieve positive results especially since the shareholders are very strong in their respective fields and all complement each other with combined Investment, Funding and provide the energy needed for production.

The rating of A1 with stable outlook accorded to QEWC by Moody's Credit Rating Agency further strengthens company's investment opportunities at the regional and international level.

The annual report shows that the company has been able to achieve an increase in revenue by 4% for 2012, when compared to year 2011. Total revenue has reached QR 4,755 million and the company achieved a net profit of QR1,436 million in 2012, an increase of 10% from last year. This underlines the fact that the company is in the right path to realize the aspirations of its shareholders.

Dear Shareholders,

I take this occasion to express, on behalf of you all, on behalf of the Board of Directors, and on my behalf, the deepest thanks and gratitude to His Highness Sheikh Hamad Bin Khalifa Al Thani, the Emir and to the Heir Apparent Sheikh Tamim Bin Hamad Al Thani, for their continued support to the company to enable us to contribute to the construction and progress of our beloved country.

I would also like to thank the shareholders for their support and confidence in the board of directors.

Finally, I thank the members of the Board of Directors and all employees of the company for the sincere efforts in supporting the company's journey to growth and prosperity and request the God Almighty to help the efforts of the board to achieve further success and progress and continue to provide successful service to our beloved country.

Abdullah Bin Hamad Al-Attiyah
Chairman



Company Objectives

Our Vision

To be the leading power generation and water desalination company in the Middle East.

Our Mission

Motivate our employees to work congenially towards positive growth.

Partnering with our customers to ensure success.

Operate in a clean and safe environment.

Create wealth for our shareholders.

Our Values

Social Responsibility

We value the safety and quality of the life of our employees and respect the environment of the surrounding community where we operate.

Integrity

We are responsible for our decisions and actions. We honour our commitments. We are trustful and ethical. We treat others as we would like to be treated ourselves.

Innovation

We create innovative processes and solutions to boost our productivity and meet our customers' requirements.

Teamwork

We value our employees' multicultural thinking and experience.

QEWG in Brief

Qatar Electricity and Water Company is one of the first private sector companies in the region engaged in the generation of electricity and desalination of water.

The Company was founded in 1990, as a Qatari shareholding company, in accordance with the provisions of Qatar Commercial Companies Law, with the purpose of owning and operating power generation and water desalination plants, and selling their products.

The paid up capital of the company is Qatari Riyals One Billion, split into One Hundred Million shares. Government of Qatar owns 43% of the paid up capital and the remaining 57% is held by companies and individuals. The company is managed by the Board of Directors consisting of eleven members headed by H.E. Abdullah Bin Hamad Al-Attiyah, President of the Administrative Control and Transparency Authority, State of Qatar.

In terms of the market value, QEWG is the second-largest utility in the Middle East and North Africa region. The company is having a capacity of 5,518 MW of Power generation and 258 MIGD of water desalination and is the main provider of electricity and desalinated water in Qatar with a market share of 62% of electricity and 79% of the water. Qatar has a total power generation capacity of 8,750 MW and water desalination capacity of 328 MIGD. The available power capacity is around 2,700 MW in excess of Qatar's energy requirement. QEWG witnessed impressive growth during the last 10 years, in line with the growth of Qatari economy and the population. By meeting the increasing requirement for power and water, QEWG revenue increased at a compounded annual growth rate of 13.7% over the last ten years.

The company's projects:

The company owns and operates the below power generation and water desalination stations, namely:

- Ras Abu Fontas (A) : with a capacity of 497 MW of electricity and 55 MIGD of water.
- Ras Abu Fontas (A1) : with a capacity of 45 MIGD of water.
- Ras Abu Fontas (B) : with a capacity of 609 MW of electricity and 33 MIGD of water
- Ras Abu Fontas (B1) : With a capacity of 376.5 MW of electricity.
- Ras Abu Fontas (B2) : with a capacity of 567 MW of electricity and 30 MIGD of water

The company also owns and operates the following substations:

- Al Sailiyah with capacity of 121 MW of electricity
- Doha South Super with capacity of 62 MW of electricity
- Dukhan Desalination Plant with capacity of 2 MIGD of water.

The company has shareholding in the below power generation and water desalination companies:

1. 80% share in the Ras Laffan Power Company with a capacity of 750 MW of electricity and 40 MIGD of water. In addition, QEWG has full ownership of Ras Laffan Operating Company.

2. 55% shares in Qatar Power Company, which has a capacity of 1,025 MW of electricity and 60 MIGD of water.

3. 40% shares in Mesaieed Power Company with a capacity of 2,007 MW of electricity.

4. 45% shares in Ras Girtas Power Company, which is the largest power generation project in the region with a capacity of 2,730 MW of electricity and 63 MIGD Of water.

5. In addition, QEWG owns 38.89% shares in AES Oasis Ltd, which indirectly holds 60% shares in AES Jordan, East Amman, which has a power generation capacity of 370 MW of Power.

Investments and future plans of the company:

In July 2011, the company together with its partners signed agreement with Oman Power and Water Procurement Company to build the largest independent power plant in Oman, which is expected to have a capacity of 2,000 MW of power in Sur, northeastern Oman. Around 67% of the project is already completed and it is expected to be fully commissioned in April 2014. In addition, QEWG has entered into partnership with some of the major companies in the world for various projects similar to AES Jordan Project (Amman East Power Plant) and Mirfa Independent Power Project, United Arab Emirates.

Further the company is currently working, together with Qatar Petroleum International and Qatar Holding, on the establishment of a company to invest in power and water projects outside Qatar under the proposed name of Qatar Development Company. QEWG will be holding the largest share in the company and company formation legal process is in progress.

Main features and attractions:

The company has low risk due to its investments in infrastructure and utilities sector in Qatar (also in Middle East and North Africa region.) Company's share value has great prospects to grow, especially after the completion of planned projects outside Qatar. There are many unique factors, including the growing dividend distributions, which makes QEWG shares very attractive. Some of the major features are mentioned below:

- Company provides steady flow of revenue, especially due to the definitive nature of Power and Water purchase agreements with Qatar General Electricity and Water Corporation, which provides for guaranteed offtake.
- The Company has signed long term fuel supply agreement with Qatar Petroleum, which ensures uninterrupted fuel supply and the stability in the cost of production, as fuel cost is the largest component of the cost of production. Qatar Petroleum is one among the major sources and is supplying a major portion of the world's natural gas, whether in gas form or liquefied gas form, which also ensures very high reliability of gas supply to company's power and water plants and high fuel efficiency in conformance with global environmental standards.
- As a result of the experience earned by the company over the last twenty years QEWG is looking at expansion opportunities available outside Qatar, in the Middle East and North Africa region as well as the East Asia markets, which may raise the status of the company in these markets due to successful completion of various projects.

Among other things the dividend distribution policy in line with the profit realized and long term plan, which extends for more than 12 years, also makes company shares more attractive.

Financial Results:

Company has adopted a long-term plan, which intends to increase the operating income. These policies have an impact on the results achieved by the company, thanks to its operating efficiency and optimum control of production costs. The company was able to achieve a steady increase in its financial results over the years, which enabled the company to distribute increasing dividends to its shareholders and, which is further reflecting positively on the price of shares in the local market. The company was able to maintain stability and was not influenced by price fluctuations. The company adopted a balanced dividend distribution policy, which enables the company to meet its new financial obligations and to enable them to finance new projects.

The company was able to achieve an increase in net profit of 10% for year 2012 when compared to year 2011. Total revenue for the year is QR 4,755 million and the net profit is QR 1,436 million

Conclusion:

The production of electricity and water is one among the most important elements of support and development of the national economy. The company has achieved high level of performance which helped the company to continue contribution to its role in supporting the comprehensive renaissance in the country effectively, which was positively reflected on the results of its operations and profits distributed. This stable financial performance and increasing profits enabled the company to be awarded by Moody's the credit rating of "A1" with a stable outlook.

Station Locations



Board of Directors' Report

The company has been able to maintain its high level of operations and performance by proper utilization of production capacity and maintaining good cash balance.

Qatar Electricity and Water Company continued its good financial performance during the year 2012 as a result of clear financial policies, thoughtful investments and proper risk management. The investments were made by selecting safe investment opportunities after careful evaluation of risk. The company always supports its subsidiaries and joint ventures technically. All these combined with the sound financial policy ensure better profits, higher dividends and seize opportunities for investment in new projects. This increases companies' investment opportunities in Qatar, Gulf region and in the Middle East and results in a diversified source of revenue for the company.

The company has been able to maintain its high level of operations and performance by proper utilization of production capacity and maintaining good cash balance. This has resulted in improved performance and achievement of better than expected results during the year 2012. Although the shadow of global financial crisis is still present in the world and gulf region, the company was able to achieve an outstanding performance, which prompted the Forbes Magazine Middle East to name its executive management as one among the most powerful in the region.

Qatar Electricity and Water Company achieved exceptional performance during the financial year 2012 with a net profit of

QR 1,436 million, which is 10% higher than net profit for the year 2011. This comes as part of the long term financial plan of the company, which aims better growth in profits during the coming years.

The following report shows a summary of the performance of the company, its activities and financial results for the financial year ended on 31 December 2012 and future plans:

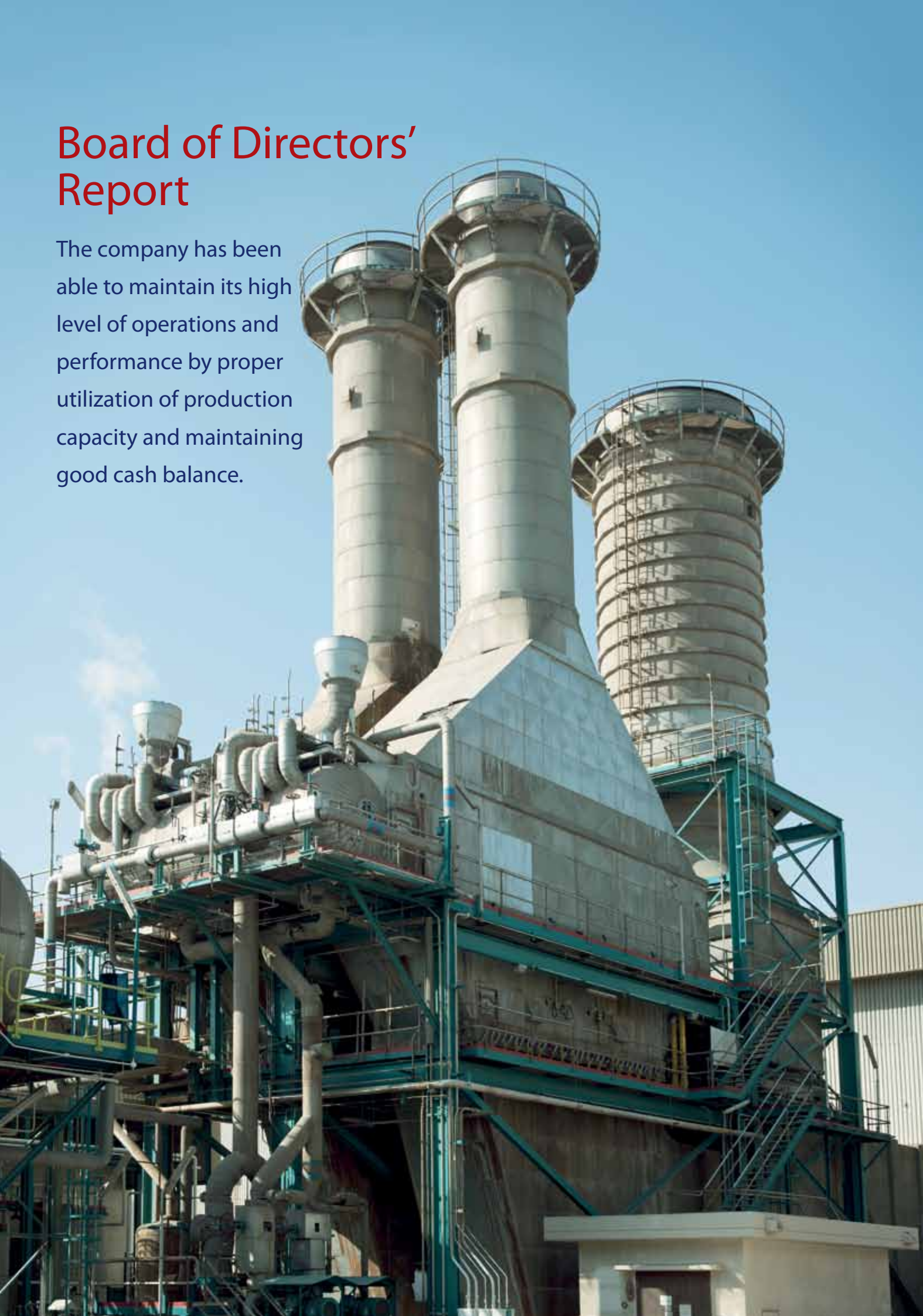
First: Financial Results:

• Revenue:

Operating Revenue during the year has increased by 3% and other income also increased during the period.

The total operating income during the period is QR 4,523 million, an increase of QR 131 million from the year 2011. Revenues from Investments and Other items are QR 232 million.

Therefore, the company's total revenue for 2012 amounted to QR 4,755 million, which is higher than year 2011 total revenue by 4%.



• Expenses:

Total operating expenses for 2012 has increased by 6% to QR 2,357 million from QR 2,225 million in 2011. Other expenses decreased by 7% to QR 937 million during the year.

Accordingly, the total expenses during the year 2012 are QR 3,294 million, which is 2% higher than year 2011. Minority interest for the year is QR 25 million.

• Net Profit:

Based on the above, the company has achieved a net profit of QR 1,436 million, an increase of 10% from the year 2011.

Second: The Company's Projects and Future Plans:

The company's future plans mainly focus on exploiting opportunities arising from the development plans for the implementation of the Qatar National Vision 2030, which reflects the vision of His Highness the Emir. The company also seeks always to take advantage of investment opportunities arising from the global events expected in the decade, which requires the state to provide necessary facilities and develop the cities in line with the global standards.

In addition, with the experience the company has gained over the years, the company can tap the opportunities available outside Qatar, mainly in the Middle East, North Africa and other regions. This will promote the diversification of investments of the company, growth outside the country and deployment of available resources.

The following part describes various projects that have already been completed and projects in progress:

Local projects

• Extension of RAF A Power and Water Purchase Agreement:

On November 21, 2012 an agreement was signed with Qatar General Electricity and Water Corporation to extend the Power and Water purchase agreement for RAF A for another two years starting from 2015. The extension excludes sub-stations Al Wajbah, Saliyah and Doha South due to lower power requirement from Kahramaa. Minimum off-take of power has been fixed at 44% at a committed tariff of of QR 93.20 per MW and additional tariff of QR 42.20 per MW. Agreed minimum off take for water has been increased to 55% with a committed tariff of QR 4.50 per cubic meter and additional tariffs of QR 2.22 per Cubic meter. The company expected to achieve a good profit from RAF A during those years.

• Expansion of Ras Abu Fontas (A-2):

On July 22, 2012, QEWC was chosen as the preferred bidder for new 36 MIGD water plant in Qatar. Water purchase agreement was signed with Qatar General Electricity and Water Corporation on 7th January 2013. The project is expected to be completed by 10th June 2015 at cost of USD 490 million.

• QEWC Office Building at Onaiza Area:

The company obtained the approval from Urban Planning and Development Authority for the building height. The project is expected to cost QR 45 million and it is expected to yield an IRR of 12% upon completion, which is expected in April 2015.



International projects

• Sur Power Project in Sultanate of Oman:

Sur Power project, with a production capacity of 2,000 MW has reached 67% completion. The first phase of the project (433 MW) is expected to be completed by May 2013. Final completion is expected by April 2014 at a total cost of USD 1.6 Billion. Sur power project is the largest power project in Oman and it accounts for 40% of the total power generation capacity of the country. QEWC is partnering with Marubeni Corporation of Japan, Chubu Electric Power of Japan and Multi Tech of Oman for the project and is holding 15% share in the project.

• Mirfa Project in Abu Dhabi:

The company is currently preparing tender for Mirfa IWPP, Abu Dhabi, United Arab Emirates in joint venture with Sumitomo Corporation of Japan to construct a power plant with a power generation capacity of 1,600 MW and water desalination plant with a capacity of 53 MIGD of water. The share of the company in the project is 50% of the shares offered on tender. Abu Dhabi Water and Electricity Authority is expected to purchase the entire production of the plant and the deadline for submission of the bid is 6th March 2013.

• Share of Islamic Development Bank in AES Oasis, Jordan:

The company completed the process of transferring the ownership of the shares held by Islamic Development Bank in AES Jordan power station east of Amman, which has a total power generation capacity of 370 MW. The share purchase agreement has been signed with Islamic Development Bank in February 2012. Thus the company is one among the owners of the plant which has another 22 years to run.

The purchase of shares in AES Jordan is important as this is the first such acquisition by QEWC outside Qatar as planned by the Board of Directors, which aims to enter the global market in the next few years in order to diversify the sources of income and to expand at the regional and global level through balanced and committed plans in accordance with the Company regulations.

Third: Qatarisation:

Despite the competitive salaries and other benefits, such as health insurance, children's education expenses reimbursement and opportunities for scholarship to study, the company was unable to improve on Qatarization plan, due to the scarcity of the Qatari applicants with required skill and intense competition among major companies to hire Qatari nationals. However, manpower cost related to Qatari employees accounts for around 52% of the total manpower cost of the company. The company is currently working on a better mechanism for implementation of the Qatarization plan.

In light of the results of the company and its achievements and performance during the year as evidenced by the Financial Statements for year 2012, the Board of Directors recommended to the General Assembly of the company a cash dividend to shareholders equivalent to 73% of the nominal value per share.

Abdullah Bin Hamad al-Attiyah
Chairman

Issa Bin Shahin Al-Ghanim
Vice Chairman



Financial Highlights



For the Year (amount in QR million)	2012	2011	2010	2009	2008
Sales Revenue	4,523	4,392	3,430	2,651	2,273
Gross Profit	2,166	2,167	1,539	1,115	927
Net Profit	1,436	1,300	1,198	945	757

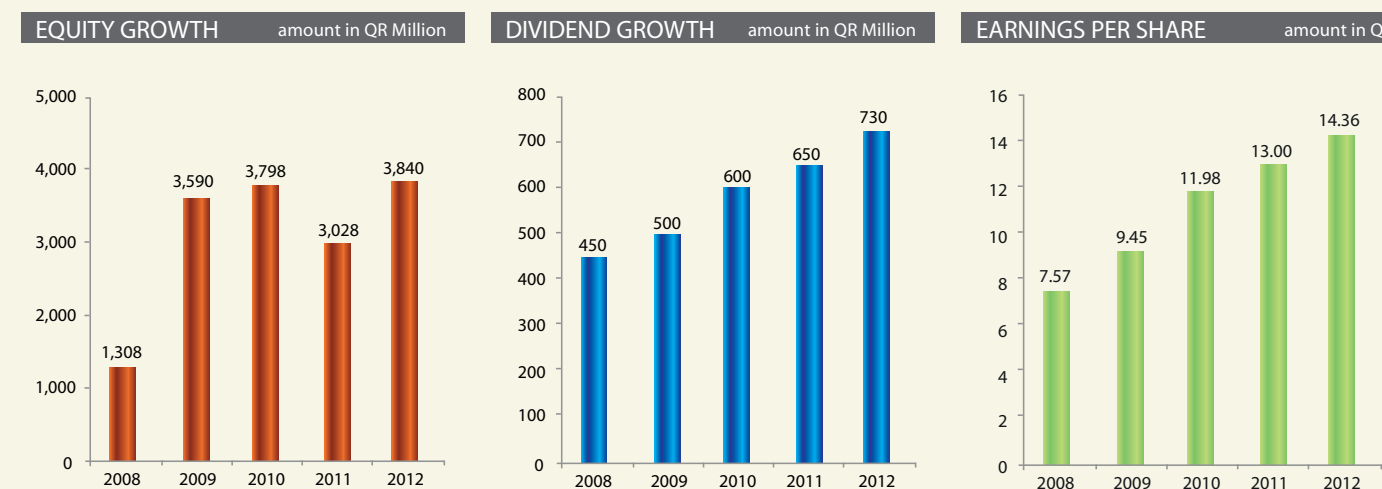
At Year End (amount in QR million)					
Total Assets	22,260	22,443	22,159	18,048	13,588
Total Shareholders' Equity	3,840	3,028	3,798	3,590	1,308
Long Term Debt	12,032	13,710	12,896	11,373	7,576

QR per Share					
Cash Dividends	7.30	6.50	6.00	5.00	4.50
Earnings per Share	14.36	13.00	11.98	9.45	7.57

Ratios					
Return on Equity (%)*	41.82	38.09	32.43	38.59	30.18
Return on Capital Employed (%)**	13.26	12.14	10.51	9.55	10.42
Debt Equity (Times)	3.13	4.53	3.40	3.17	5.79

*Net Profit/Average Equity

** (Net profit plus finance cost)/Average Capital Employed



Independent Auditors' Report

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

Report on the consolidated financial statements

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Report on other legal and regulatory requirements

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

For Deloitte & Touche

Muhammad Bahemia
License No. 103

Doha – Qatar
February 6, 2013

Consolidated Statement of Financial Position

As at December 31, 2012

	Notes	December 31, 2012 QR 000	December 31, 2011 QR 000
ASSETS			
Current assets			
Bank balances and cash	8	3,268,294	3,022,622
Accounts receivable and prepayments	9	1,051,110	1,201,318
Inventories	10	467,061	305,887
Finance lease receivables	16	514,954	465,437
		5,301,419	4,995,264
Assets classified as held for sale	12	29,846	--
Total current assets		5,331,265	4,995,264
Non-current assets			
Property, plant and equipment	11	4,820,306	5,264,032
Intangible assets	13	101,492	107,462
Investment in associates	14	114,596	932
Available-for-sale investments	15	424,358	380,335
Finance lease receivables	16	11,420,892	11,647,155
Other non-current assets	17	15,810	16,675
Goodwill	7	30,813	30,813
Total non-current assets		16,928,267	17,447,404
Total assets		22,259,532	22,442,668
EQUITY AND LIABILITIES			
Current liabilities			
Accounts payable and accruals	18	1,369,243	1,793,516
Interest bearing loans and borrowings	19	1,471,786	346,176
Other term loans	20	125,972	125,972
Derivatives	21	3,197,108	3,232,689
Deferred income	22	6,792	6,792
Total current liabilities		6,170,901	5,505,145
Non-current liabilities			
Interest bearing loans and borrowings	19	11,873,168	13,361,892
Other term loans	20	100,000	225,971
Deferred income	22	20,375	27,167
Employee's end of service benefits	23	39,205	94,810
Total non-current liabilities		12,032,748	13,709,840
Total liabilities		18,203,649	19,214,985
Equity			
Capital and reserves			
Share capital	24	1,000,000	1,000,000
Legal reserve	25	500,000	500,000
General reserve	26	3,241,834	3,241,834
Other components of equity		(2,953,735)	(3,015,616)
Retained earnings		2,052,382	1,302,098
Equity attributable to owners of the Company		3,840,481	3,028,316
Non-controlling interests		215,402	199,367
Total equity		4,055,883	3,227,683
Total liabilities and equity		22,259,532	22,442,668

Abdulla Bin Hamad Al-Attayah
Chairman

Issa Shahin Al-Ghanim
Vice Chairman

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Income

For the year ended December 31, 2012

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

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Comprehensive Income

For the year ended December 31, 2012

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

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Changes in Shareholders' Equity

For the year ended December 31, 2012

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

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows

For the year ended December 31, 2012

	Notes	2012 QR'000	2011 QR'000 (Restated)
OPERATING ACTIVITIES			
Net profit for the year		1,461,161	1,332,534
Adjustments for:			
Share of profits from associates		(5,464)	--
Depreciation	11	475,003	505,805
Amortization of intangible asset	13	5,970	5,970
(Reversal)/provision for employees' end of service benefits	23	(52,911)	34,135
Provision for slow moving inventories	10	19,304	16,636
Dividend income		(16,981)	(12,553)
Finance costs	37	726,396	730,272
Deferred income recognised	22	(6,792)	(6,792)
Interest income		(37,788)	(28,029)
Reversal of excess provisions		--	(36,566)
Loss/(gain) on sale of property, plant and equipment		260	(195)
Reclassification from property, plant and equipment	11	19,501	2,418
		<u>2,587,659</u>	<u>2,543,635</u>
Working capital changes:			
Accounts receivable and prepayments		150,208	209,674
Inventories		(180,478)	(27,940)
Finance lease receivable		176,746	381,945
Accounts payable and accruals		(460,377)	(16,985)
Cash from operations		2,273,758	3,090,329
Finance costs paid		(726,396)	(730,272)
Employees' end of service benefits paid	23	(2,694)	(3,360)
Net cash from operating activities		1,544,668	2,356,697
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	11	(81,607)	(457,212)
Proceeds from sale of property, plant and equipment		723	383
Dividends from other investments		16,981	12,553
Dividends received from associates		10,168	--
Purchase of available-for-sale investments		(6,863)	(22,592)
Net movement in other non-current asset		865	7,140
Acquisition of associates		(119,013)	(932)
Interest received		37,788	28,029
Net cash used in investing activities		(140,958)	(432,631)
FINANCING ACTIVITIES			
Dividends paid to owners of the company		(650,000)	(600,000)
Dividends paid to non-controlling interest		(18,953)	(18,954)
Drawdown of interest bearing loans and borrowings		--	1,142,720
Repayment of other term loans		(125,971)	--
Repayment of interest bearing loans and borrowings		(363,114)	(1,499,386)
Net cash used in financing activities		(1,158,038)	(975,620)
NET INCREASE IN CASH AND CASH EQUIVALENTS		245,672	948,446
Cash and cash equivalents at beginning of year		3,022,622	2,074,176
Cash and cash equivalents at end of year	8	<u>3,268,294</u>	<u>3,022,622</u>

The accompanying notes are an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

1. CORPORATE INFORMATION AND ITS ACTIVITIES

Qatar Electricity & Water Company Q.S.C. (the “Company”) is a public shareholding company incorporated in Qatar on March 16, 1992. The Company’s registered office is at QIMCO Building, West Bay Corniche Road, P.O. Box 22046, Doha, State of Qatar. The consolidated financial statements of the Company for the year ended December 31, 2012 comprise the Company, its subsidiaries

and jointly controlled entities (together referred as the “Group”). The Group is primarily involved in the production of electricity and water. The Company’s shares are listed on Qatar Exchange.

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

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

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

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

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

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

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

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

agreements with Qatar Petroleum relating to the Dukhan Desalination Plant:

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

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

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

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

During December 2006, the Company entered into a joint venture with Marubeni Corporation and Qatar Petroleum for the Mesaieed power project. A jointly controlled entity named Mesaieed Power Company Limited Q.S.C. was incorporated on

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

1. CORPORATE INFORMATION AND ITS ACTIVITIES (continued)

January 15, 2007 for executing this project. The agreement was amended in May 2009 following the acceptance of Chubu Electric Power Company as a shareholder. The joint venture ownership percentage is as follows:

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

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

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

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

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

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

(I) Revised Standards :

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

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

3.2 New and revised IFRSs in issue but not yet effective

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

(i) Revised Standards:

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

• IAS 1 (Revised)	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented
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2. AGREEMENT WITH QATAR GENERAL ELECTRICITY & WATER CORPORATION (KAHRAMAA) FOR ACQUISITION OF STATIONS

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

Ras Abu Fontas A
Al Wajbah
Al Saliyah
Doha South Super

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

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

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

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

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

• IFRS 7 (Revised)	Financial Instruments Disclosures - Amendments requiring disclosures about the initial application of IFRS 9
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(ii) New Standards:

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

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

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

• IFRS 9	Financial Instruments - Classification and measurement of financial assets - Accounting for financial liabilities and de-recognition
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(iii) New Interpretation:

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

• IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine
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Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group in the period of initial application, except for IFRS 10,11,12,13 and IAS 27 and other than certain presentation and disclosure changes.

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

4. BASIS OF CONSOLIDATION

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

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

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the

ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

5. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

of the financial asset to that asset’s net carrying amount on initial recognition.

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

Property, plant and equipment (continued)
*Al Wajbah facility has abandoned its operation in 2010.
The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written-down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

Business combinations (continued)

- At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:
- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
 - liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Company entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
 - assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

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

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

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

year from the acquisition date) about facts and circumstances that existed at the acquisition date.

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

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

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

Goodwill

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

Interests in joint ventures

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

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

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

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

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

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

Investments in associate

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

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

are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

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

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

Leases

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

Lease (continued)

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

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

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

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

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

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

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

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

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

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

Financial assets *Initial recognition and measurement*

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

Financial Assets (continued)

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

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

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

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

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

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

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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

Financial Assets (continued)

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

Available-for-sale financial investments

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Loans and borrowings

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

Derecognition

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

Hedge

Cash flow hedge

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

Inventories

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

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

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

Accounts receivable

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

Bank balances and cash

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

Accounts payable and accruals

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

Provisions

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

Employees’ end of service benefits

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

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

Foreign currencies

The Group’s consolidated financial statements are presented in Qatari Riyals, which is the Group’s functional currency and the currency of the primary economic environment in which Qatar Electricity & Water Company Q.S.C. operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that

functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange ruling at the financial position date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value is determined.

Fair values

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

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

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

6. CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Classification of investments

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

Impairment of tangible and intangible assets

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

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

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

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

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

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

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

7. BUSINESS COMBINATIONS

Acquisitions in 2010

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

7. BUSINESS COMBINATIONS (CONTINUED) 7.1 Acquisition of Ras Laffan Power Company Limited Q.S.C. (continued)

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

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

	At fair values QR'000	At carrying amounts QR'000
Assets		
Intangibles – PWPA	141,791	--
Plant and equipment	565	565
Finance lease receivable	2,260,288	2,260,288
Accounts receivable and prepayments	103,711	103,711
Cash and cash equivalents	97,792	97,792
	2,604,147	2,462,356
Liabilities		
Interest bearing loans and borrowings	1,294,221	1,294,221
Accounts payable and accruals	97,014	97,014
	1,391,235	1,391,235
Total identifiable net assets	1,212,912	1,071,121
Step up details:		
Fair value of identifiable net assets acquired	1,212,912	
Less: carrying amount of the identifiable net assets	1,071,121	
Step up amount	141,791	
Calculation of goodwill:		
Fair value of consideration given for controlling interest	697,914	
Fair value of non controlling interest	242,583	
Fair value of previously held interest	303,228	
Total consideration	1,243,725	
LESS:		
Fair value of identifiable net assets previously recognised by acquire	1,071,121	
Intangible assets not previously recognised by acquiree	141,791	
Total identifiable net assets	1,212,912	
Goodwill arising on acquisition	30,813	
Net cash outflow on acquisition:		
Net cash acquired with subsidiary	97,792	
Cash paid	(697,914)	
	(600,122)	
Fair value of previously held interest:		
Book value of previously held interest	267,781	
Realized fair value gain from deemed disposal	35,447	
	303,228	

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

7. BUSINESS COMBINATIONS (CONTINUED)

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

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

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

	At fair values QR'000	At carrying amounts QR'000
Assets		
Plant and equipment	2,800	2,800
Inventories	31,709	31,709
Accounts receivable and prepayments	34,630	34,630
Cash and cash equivalents	117,657	117,657
	186,796	186,796
Liabilities		
Employee benefits	6,541	6,541
Accounts payable and accruals	34,972	34,972
	41,513	41,513
Total identifiable net assets	145,283	145,283
Calculation of goodwill:		
Fair value of consideration given for controlling interest	101,698	
Fair value of non controlling interest	--	
Fair value of previously held interest	43,585	
Total consideration	145,283	
LESS:		
Fair value of identifiable net assets previously recognised by acquire	145,283	
Total identifiable net assets	145,283	
Goodwill arising on acquisition	--	
Net cash inflow on acquisition:		
Net cash acquired with subsidiary	117,657	
Cash paid	(101,698)	
	15,959	

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

8. BANK BALANCES AND CASH

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

9. ACCOUNTS RECEIVABLE AND PREPAYMENTS

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

(a)As at December 31 the aging of trade receivables and movement in the provision for doubtful debts are as follows:
(i) Aging of neither past due nor impaired

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

(ii) Aging of past due but not impaired		
	2012 QR'000	2011 QR'000
61-120 days	101,484	73,814
121-180 days	2,337	2,754
181-365 days	5,231	--
More than 365 days	38,184	31,518
Total	147,236	108,086

(iii) Aging of impaired trade receivables		
	2012 QR'000	2011 QR'000
More than 365 days	135,761	135,761

(iv) Movement in the provision of doubtful debts:		
	2012 QR'000	2011 QR'000
Balance at beginning of year	135,761	137,936
Amounts written off as uncollectible	--	(292)
Bad debts recovered	--	(1,883)
Balance at end of year	135,761	135,761

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

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

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

Movement in the allowance for slow-moving inventories:		
	2012 QR'000	2011 QR'000
Balance at beginning of year	190,268	173,632
Additional provision during the year	19,304	16,636
Balance at end of year	209,572	190,268

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

11. PROPERTY, PLANT AND EQUIPMENT

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

11. PROPERTY, PLANT AND EQUIPMENT (continued)

- (i)

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

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

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

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

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

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

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

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

12. ASSET CLASSIFIED AS HELD FOR SALE

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

13. INTANGIBLE ASSETS

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

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

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

14. INVESTMENTS IN ASSOCIATES

The Company has the following investments in associates:

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

14. INVESTMENTS IN ASSOCIATES (continued)

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

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

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

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

15. AVAILABLE FOR SALE INVESTMENTS

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

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

Movement in the fair value are as follows:

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

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For the year ended December 31, 2012

16. FINANCE LEASE RECEIVABLES

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

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

17. OTHER NON-CURRENT ASSETS

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

The movement in the account is as follows:

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

18. ACCOUNTS PAYABLE AND ACCRUALS

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

19. INTEREST BEARING LOANS AND BORROWINGS

	2012	2011
	QR’000	QR’000
Loan (i)	1,462,479	1,504,430
Loan (ii)	1,112,705	1,162,817
Loan (iii)	2,753,370	2,814,844
Loan (iv)	812,018	852,581
Loan (v)	405,130	425,368
Loan (vi)	1,093,500	1,093,500
Loan (vii)	4,820,985	4,843,567
Loan (viii)	962,471	1,096,562

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

19. INTEREST BEARING LOANS AND BORROWINGS (continued)

Less: financing arrangement costs	(77,704)	(85,601)
	13,344,954	13,708,068
Classified in the consolidated statement of financial position as follows:		
Current portion	1,471,786	346,176
Non-current portion	11,873,168	13,361,892
Total	13,344,954	13,708,068

Notes:

- (i) The Company has entered into a credit agreement with The Bank of Tokyo Mitsubishi UFJ Ltd which acts as a facility agent and offshore security trustee for a credit facility amounting to US\$ 485.5 million (QR 1,769 million) to finance the construction of RAF B2. The total drawn amount as at December 31, 2012 amounted to US\$ 401 million (QR 1,462 million) (2011: US\$ 413 million (QR 1,504 million)). Interest is charged at a rate of LIBOR + 0.55 to 1.65 per annum as specified in the credit agreement. The loan is repayable in semi-annual installments commencing from actual facility date i.e. six months from actual facility date or ten months after scheduled completion date.
- (ii) This represents the share of Q-Power Q.S.C. bank borrowings. Q-Power Q.S.C entered into a credit agreement with The Bank of Tokyo Mitsubishi UFJ, Ltd, which acts as a facility agent and as Security Trustee for a credit facility amounting to USD 696.5 million (QR 2,538.8 million) in 2005. The company drew down a sum of USD 645.9 million (QR 2,345.3 million) and achieved financial close on December 15, 2008 by satisfying all the conditions in the credit agreement, Interest is charged at an interest rate of LIBOR+ margin (currently 100bps) as specified in the credit agreement. The total amount outstanding as at December 31, 2012 amounted to US\$ 555 million (QR 2,023 million) (2011: USD 580 million (QR 2,114 million)). Qatar Electricity and Water Company's share represent 55% of the total amount outstanding.
- (iii) This represents the share of Mesaieed Power Company Limited Q.S.C. bank borrowings. Mesaieed Power Company Limited Q.S.C. entered into US Dollar denominated facility agreements which carry interest at each interest period, at a percentage per annum which is the aggregate of the applicable margin for each such loan, LIBOR for such interest period, and in respect of the participation in that loan of each commercial lender that commercial lender's mandatory cost rate (if any). The loan is repayable in 85 quarterly installments at a pre-determined repayment percentage from 15 April 2011.
- (iv) The Company entered into a facility agreement with a consortium of banks to finance its RAF A1 plant facilities. This term loan facility of US\$ 288.2 million carries interest at LIBOR plus a margin ranging from 0.60% to 1.05%. The total drawn amount as at December 31, 2012 amounted to US\$223 million (QR 812 million) (2011: US\$ 234 million (QR 853 million)). The loan is repayable in semi-annual installments started from June 30, 2010 at a pre-determined repayment percentage multiplied against the principle amount outstanding as at the end of the availability period.
- (v) The Company has availed US\$ 144.1 million Islamic facility agreement in the form of Istisnaa' for the construction of three multi-stage flash type desalination units forming part of a fully-functioning water-desalination plant at RAF A1. The total drawn amount as at December 31, 2012 amounted to US\$ 111 million (QR 405 million) (2011: US\$ 117 million (QR 425 million).
- (vi) The Company entered into a revolving credit facility agreement with a consortium of banks. This term loan facility of US\$ 300 million (QR 1,093.50 million) carries interest at LIBOR plus a margin of 0.75%. The Company has drawn down the full amount as at December 31, 2012 amounting to US \$ 300 million (QR 1,093.50 million).
- (vii) This represents the share of Ras Girtas Power Company Limited bank borrowings. Ras Girtas Power Company Limited entered into a credit agreement with a consortium of banks for a credit facility amounting to USD 3,339 million (QR 12,171 million). The balance outstanding as on December 31, 2012 amounted to USD 2,939 million (QR 10,713 million) (2011: USD 2,953 million (QR 10,763 million)). Interest is charged at LIBOR+ margin as specified in the credit agreement. Bank borrowings will mature in 2033. Term loans are secured by a mortgage on the plant facilities built by the company on a land leased from Qatar Petroleum. Qatar Electricity and Water Company's share represent 45% of the total amount outstanding.
- (viii) This represents the loan of the acquired subsidiary, Ras Laffan Power Company Limited (Q.S.C.). This facility represents a credit agreement with a consortium of bank obtained on November 20, 2001 for a long term loan of US\$ 545 million and a stand-by facility of US\$ 27.25 million. The loan carries interest at commercial rates and is repayable in accordance with a specific repayment schedule starting on November 2004 with the last installments due in May 2019. The term loan is secured by a mortgage in the plant facilities built by Ras Laffan Power Company Limited (Q.S.C.) on a land leased from Qatar Petroleum.

Notes to the Consolidated Financial Statements

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20. OTHER TERM LOANS

	2012 QR'000	2011 QR'000
KAHRAMAA (i)	220,000	340,000
Qatar Petroleum (ii)	5,972	11,943
	225,972	351,943
Classified in the consolidated statement of financial position as follows:		
Current portion	125,972	125,972
Non-current portion	100,000	225,971

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

- (i) This liability represents amount due to KAHRAMAA towards the purchase consideration of the following stations:
 - Ras Abu Fontas A (RAF A)
 - Al Wajbah
 - Al Saliyah
 - Doha South Super

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

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

21. DERIVATIVES

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

- (i) Q Power Q.S.C., Mesaieed Power Company Limited Q.S.C. and Ras Girtas Power Company Limited have entered into various interest rate swap contracts replacing their floating interest rate bearing loans for fixed interest bearing loans with maximum notional amount of QR. 1,952 million, QR. 5,987 million and QR. 9,820 million, respectively. The Group accounted for its proportionate share of the fair value of the derivatives which amounts to QR 2,908 million as at December 31, 2012 (2011: QR 2,878 million).
- (ii) As at December 31, 2012, the Company had six interest rate swap contracts replacing its floating interest rate for fixed interest, designated as hedges for the period to July 30, 2018 on a maximum notional amount of QR 1,437 million. The terms of the interest rate swap contracts have been negotiated to match the terms of the commitments. As at December 31, 2012, the cumulative change in fair values of the hedges resulted in a negative amount of QR 14.237 million (2011: QR 56.023 million) which has been recognised in the equity as cash flow hedge reserve and as a derivative liability in the current liabilities.
- (iii) Ras Laffan Power Company Limited (Q.S.C.), a subsidiary, has interest rate swap contract designated to hedge the exposure of upward movements of interest rates on loan draw downs. The contracts consist of five separate swap deals and are matched with a substantial portion of the outstanding floating rate debt obligations of the Company and cover the period from December 17, 2001 to November 30, 2013 with maximum notional amount of QR 1,072 million. As at December 31, 2012, the share of the Company in the cash flow hedge amounted to QR 51.028 million (2011: QR 81.684 million)

Notes to the Consolidated Financial Statements

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22. DEFERRED INCOME

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

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

23. EMPLOYEES’ END OF SERVICE BENEFITS

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

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

24. SHARE CAPITAL

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

25. LEGAL RESERVE

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

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

26. GENERAL RESERVE

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

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

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

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

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

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

28. DIVIDENDS

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

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

29. CONTRIBUTION TO SOCIAL AND SPORTS SUPPORT FUND

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

30. SEGMENTAL INFORMATION

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

31. COMMITMENTS AND CONTINGENT LIABILITIES

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

Notes:

- (i) Capital commitments include:
- (a) The proportionate commitment of the Company in Ras Girtas Power Company Limited as at December 31, 2012 which amounts to QR 169.032 million (2011: QR 180.225 million).
- (ii) Operating lease commitment includes:
- The proportionate share in Mesaieed Power Company Limited Q.S.C. operating lease commitment in accordance with the land lease agreement with Qatar Petroleum, where the jointly controlled entity is contingently liable for the value of the annual rent for the term of the lease agreement for the land on which the jointly controlled entity has constructed its plant facilities.
- The share in Ras Laffan Power Company Q.S.C. in respect of DSRA letter of credit of US\$ 27,428,080 (2011: US\$ 29,048,562) in favor of Standard Chartered (the Facility Agent) as per the Credit Facility Agreement dated November 20, 2001, in the ordinary course of business from which it is anticipated that no material liabilities will arise.

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31. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The future lease commitments are as follows:

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

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

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

32. RELATED PARTY DISCLOSURES

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

Related party transactions

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

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

Related party balances

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

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

Compensation of key management personnel

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

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

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33. REVENUE

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

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

34. COST OF SALES

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

35. GENERAL AND ADMINISTRATION EXPENSES

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

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

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

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

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

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

- (i) The Company and the proportionate share from its joint venture company had reversed excess provisions relating to staff training, electricity, and interest charge and liquidated damages accrued in prior years.
- (ii) This represents the development fee received from the Phoenix Power Company in 2011 against the development of the sur power project in Oman.
- (iii) This pertains to the amount received during 2011 for the claims made in previous years for the fire incident at Al Saliyah station.
- (iv) During the year, the company has settled a dispute with its EPC contractors that were responsible for the construction of RAFB2.
- (v) Other income from last year includes a proportionate share from the joint venture companies and Ras Girtas Power Company Limited relating to final settlement of EPC contractor.

39. SHARE OF INTEREST INCOME IN JOINT VENTURE COMPANIES	2012 QR'000	2011 QR'000
Interest earned on subordinated debt less inter-company adjustments	6,878	13,144

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For the year ended December 31, 2012

40. EARNINGS PER SHARE

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

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

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

41. FINANCIAL RISK MANAGEMENT

Objective and policies

The Group's principal financial liabilities comprise of trade and other payables, other term loans and interest bearing loans and borrowings. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables, bank balances and cash, which arise directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions.

The main risks arising from the Group's financial instruments are market risk, credit risk and liquidity risk. Market risk is the risk that changes in market prices, such as interest rates and foreign currency exchange rates will affect the Group's income or the value of its holdings of financial instruments. The management reviews and agrees policies for managing each of these risks which are summarized below.

Interest rate risk

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2012

41. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Equity price risk

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

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

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

Currency risk

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

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

Credit risk

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

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

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

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

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

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41. FINANCIAL RISK MANAGEMENT (CONTINUED)

Liquidity risk management

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

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

Capital management

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

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

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

42. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

Fair value hierarchy

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

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

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

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

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For the year ended December 31, 2012

42. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (Continued)

December 31, 2012	Level 1 QR'000	Level 2 QR'000	Level 3 QR'000	QR'000
Assets measured at fair value				
Available-for-sale investments - equity shares	424,358	424,358	--	--
Liabilities measured at fair value				
Derivatives - interest rate swaps	3,197,108	--	3,197,108	--
<hr/>				
December 31, 2011	Level 1 QR'000	Level 2 QR'000	Level 3 QR'000	QR'000
Assets measured at fair value				
Available-for-sale investments - equity shares	380,335	380,335	--	--
Liabilities measured at fair value				
Derivatives - interest rate swaps	3,232,689	--	3,232,689	--

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

43. SUBSEQUENT EVENT

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

44. COMPARATIVE FIGURES

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