

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
31 DECEMBER 2016**

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Qatar Electricity and Water Company Q.S.C.
Doha, State of Qatar

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Qatar Electricity and Water Company Q.S.C. (the "Company") and its subsidiaries (together with the Company, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the *Auditors Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Qatar, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Carrying values of Property, Plant and Equipment (PPE) (See note 5, 26, 28 to the consolidated financial statements)

<u>Description</u>	<u>How the matter was addressed in our audit</u>
<p>We focused on this area because items of PPE on the consolidated statement of financial position represent 40% of the Group's total assets and, consequently, their depreciation charge for the year represents 21% of the Group's total expenses.</p> <p>There are a number of areas where management judgement impacts the carrying value of PPE. These include:</p> <ul style="list-style-type: none"> - the decision to capitalise or expense costs; - the annual asset life review including the impact on changes in the Company's strategy; and - assessing indicators of impairment and determining recoverable amounts 	<p>Our audit procedures, among others, included:</p> <ul style="list-style-type: none"> • evaluating the key controls around the PPE processes, including controls over recording of assets in the PPE register, asset classification and useful life of assets; • evaluating the recognition criteria applied to the costs incurred and capitalised during the financial year against the requirements of the relevant accounting standards; • comparing the useful life estimated for each production facilities for consistency with tenure of Power and Water Purchase Agreement (PWPA) between the Company and KAHRAMMA (the production facilities represent 90% of the Group's PPE); • recalculating the depreciation charge, on a test basis, for significant asset classes and comparing it with the depreciation charge reported in the consolidated financial statements; • critically challenging the Group's assessment of possible internal and external indicators of impairment in relation to the production facilities, such as obsolescence, decline in market value, operating losses etc., based on our knowledge and experience of the industry and understanding of the PWPA; and • assessing the adequacy of the Group's disclosures in relation to the PPE by reference to the requirements of the relevant accounting standards.



INDEPENDENT AUDITOR'S REPORT (Continued)

Key Audit Matters (continued)

Investments in joint ventures
(See note 8 to the consolidated financial statements)

Description	How the matter was addressed in our audit
<p>We focused on this area because the Group has investments in joint ventures whose operations are spread across Qatar.</p> <p>Due to the size of the joint ventures (representing 19% of the total assets) and their impact on the Group results (representing 24% of profits), we considered this as key focus area.</p>	<p>Our audit procedures in this area, among others, included:</p> <ul style="list-style-type: none"> assessed the financial information submitted by the joint ventures for consistency with accounting policies of the Group; obtaining the Group's joint venture accounting schedule to confirm whether the Group's interests in the profits, other comprehensive income and net assets were accounted in accordance with the Group's participatory interests in the joint venture; and assessing the adequacy of the Group's disclosures in relation to the investments in joint ventures by reference to the requirements of the relevant accounting standards.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Company's Annual Report for the year 2016 (the "Annual Report"), but does not include the consolidated financial statements and our auditor's report thereon. Prior to the date of our auditor's report, we obtained the report of the Board of Directors, which forms part of the Annual Report. The remaining sections of the Annual Report are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether this other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the report of the Board of Directors that we have obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



INDEPENDENT AUDITOR'S REPORT (Continued)

Responsibilities of the Board of Directors for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.



INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



INDEPENDENT AUDITOR'S REPORT (Continued)

Report on Other Legal and Regulatory Requirements

We have obtained all the information and explanations we considered necessary for the purposes of our audit. The Company has maintained proper accounting records and its consolidated financial statements are in agreement therewith. Furthermore, the physical count of inventories was carried out in accordance with established principles. We have read the report of the Board of Directors to be included in the Annual Report and the financial information contained therein is in agreement with the books and records of the Company. We are not aware of any violations of the Qatar Commercial Companies Law No. 11 of 2015 or the terms of the Company's Articles of Association and any amendments thereto having occurred during the year which might have had a material adverse effect on the Company's consolidated financial position or performance as at and for the year ended 31 December 2016.

1 February 2017
Doha
State of Qatar

A handwritten signature in blue ink, appearing to read 'Gopal Balasubramaniam', written over the printed name.

Gopal Balasubramaniam
KPMG
Auditor's Registration No.251

QATAR ELECTRICITY & WATER COMPANY Q.S.C.**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****As at 31 December 2016***In thousands of Qatari Riyals*

	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	5	6,130,389	5,713,911
Investment property	6	174,901	174,901
Intangible assets and goodwill	7	108,425	114,395
Investments in joint ventures	8	2,824,638	2,626,834
Available-for-sale financial assets	9	511,144	344,435
Finance lease receivables	10	1,366,332	1,490,605
Other assets	11	19,858	21,871
		<u>11,135,687</u>	<u>10,486,952</u>
Current assets			
Inventories	12	280,994	177,895
Trade and other receivables	13	674,013	887,988
Finance lease receivables	10	124,273	146,477
Cash and cash equivalents	14	3,011,031	1,750,798
		<u>4,090,311</u>	<u>2,963,158</u>
Total assets		<u>15,225,998</u>	<u>13,450,110</u>

The consolidated statement of financial position continues on the next page.

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

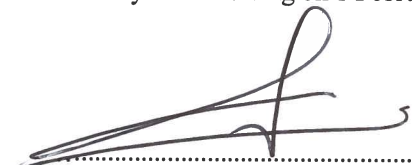
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2016

In thousands of Qatari Riyals

	Note	2016	2015
EQUITY AND LIABILITIES			
Equity			
Share capital	15	1,100,000	1,100,000
Legal reserve	16	550,000	550,000
General reserve	17	3,241,834	3,241,834
Hedge reserve	18	(1,557,002)	(1,759,479)
Fair value reserve	19	219,328	175,244
Retained earnings		4,720,969	4,038,710
Equity attributable to owners of the Company		8,275,129	7,346,309
Non-controlling interests		253,871	256,048
Total equity		8,529,000	7,602,357
Liabilities			
Non-current liabilities			
Bank loans	20	4,674,587	3,790,797
Interest rate swaps for hedging	21	8,282	20,010
Provision for employees' end of service benefits	23	52,803	48,931
		4,735,672	3,859,738
Current liabilities			
Bank loans	20	1,237,363	1,124,412
Interest rate swaps for hedging	21	20,277	107,329
Deferred income	22	-	6,792
Trade and other payables	24	703,686	749,482
		1,961,326	1,988,015
Total liabilities		6,696,998	5,847,753
Total equity and liabilities		15,225,998	13,450,110

These consolidated financial statements were approved by the Board of Directors and were signed on its behalf by the following on 1 February 2017:



Dr. Mohamed Bin Saleh Al-Sada
Chairman



Mr. Issa Bin Shahin Al-Ghanim
Vice Chairman

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

In thousands of Qatari Riyals

	Note	2016	2015
Revenue	25	3,103,149	2,982,598
Cost of sales	26	<u>(1,700,590)</u>	<u>(1,679,152)</u>
Gross profit		1,402,559	1,303,446
Other income	27	105,045	90,637
General and administrative expenses	28	<u>(200,976)</u>	<u>(182,667)</u>
Operating profit		1,306,628	1,211,416
Net finance costs	29	(105,595)	(100,254)
Share of profit of associates		-	15,869
Share of profit of joint ventures	8	<u>372,312</u>	<u>408,514</u>
Profit		<u>1,573,345</u>	<u>1,535,545</u>
Other comprehensive income:			
<i>Items that are or may be reclassified to profit or loss:</i>			
- Associates - Share of other comprehensive income		-	58,541
- Joint ventures - Share of other comprehensive income	8	103,697	(36,322)
- Cash flow hedges - effective portion of changes in fair value	21	98,780	43,427
- Available-for-sale financial assets – net change in fair value	9	<u>44,084</u>	<u>(140,933)</u>
Other comprehensive income		<u>246,561</u>	<u>(75,287)</u>
Total comprehensive income		<u>1,819,906</u>	<u>1,460,258</u>
Profit attributable to:			
Owners of the Company		1,541,988	1,500,550
Non-controlling interests		<u>31,357</u>	<u>34,995</u>
		<u>1,573,345</u>	<u>1,535,545</u>
Total comprehensive income attributable to:			
Owners of the Company		1,788,549	1,425,263
Non-controlling interests		<u>31,357</u>	<u>34,995</u>
		<u>1,819,906</u>	<u>1,460,258</u>
Earnings per share:			
Basic and diluted earnings per share (Qatari Riyals)	30	<u>14.02</u>	<u>13.64</u>
Earnings per share – continuing operations			
Basic and diluted earnings per share (Qatari Riyals)	30	<u>14.02</u>	<u>13.64</u>

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

In thousands of Qatari Riyals

	Attributable to owners of the Company								
	Share capital (Note 15)	Legal reserve (Note 16)	General reserve (Note 17)	Hedging reserve (Note 18)	Fair value reserve (Note 19)	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 January 2016	1,100,000	550,000	3,241,834	(1,759,479)	175,244	4,038,710	7,346,309	256,048	7,602,357
Total comprehensive income:									
Profit	-	-	-	-	-	1,541,988	1,541,988	31,357	1,573,345
Other comprehensive income	-	-	-	202,477	44,084	-	246,561	-	246,561
	-	-	-	202,477	44,084	1,541,988	1,788,549	31,357	1,819,906
Transactions with owners of the Company:									
Dividends relating to year 2015 (Note 31)	-	-	-	-	-	(825,000)	(825,000)	(33,534)	(858,534)
Other movement:									
Contribution to social and sports support fund for 2016 (Note 32)	-	-	-	-	-	(34,729)	(34,729)	-	(34,729)
Balance at 31 December 2016	1,100,000	550,000	3,241,834	(1,557,002)	219,328	4,720,969	8,275,129	253,871	8,529,000

The consolidated statement of equity continues on the next page.

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2016

In thousands of Qatari Riyals

	Attributable to owners of the Company						Non-controlling interests	Total equity
	Share capital (Note 15)	Legal reserve (Note 16)	General reserve (Note 17)	Hedging reserve (Note 18)	Fair value reserve (Note 19)	Retained earnings Total		
Balance at 1 January 2015	<u>1,100,000</u>	<u>550,000</u>	<u>3,241,834</u>	<u>(1,825,125)</u>	<u>316,177</u>	<u>3,398,727</u> <u>6,781,613</u>	<u>242,923</u>	<u>7,024,536</u>
<i>Total comprehensive income:</i>								
Profit	-	-	-	-	-	1,500,550	34,995	1,535,545
Other comprehensive income	-	-	-	65,646	(140,933)	-	-	(75,287)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,646</u>	<u>(140,933)</u>	<u>1,500,550</u> <u>1,425,263</u>	<u>34,995</u>	<u>1,460,258</u>
<i>Transactions with owners of the Company:</i>								
Dividends relating to year 2014 (Note 31)	-	-	-	-	-	(825,000)	(21,870)	(846,870)
<i>Other movement:</i>								
Contribution to social and sports support fund for 2015 (Note 32)	-	-	-	-	-	(35,567)	-	(35,567)
Balance at 31 December 2015	<u>1,100,000</u>	<u>550,000</u>	<u>3,241,834</u>	<u>(1,759,479)</u>	<u>175,244</u>	<u>4,038,710</u> <u>7,346,309</u>	<u>256,048</u>	<u>7,602,357</u>

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

In thousands of Qatari Riyals

	Note	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit		1,573,345	1,535,545
<i>Adjustments for:</i>			
Depreciation of property, plant and equipment	5	418,922	455,152
Share of profits of associates		-	(15,869)
Share of profits of joint ventures	8	(372,312)	(408,514)
Provision for employees' end of service benefits	23	6,249	5,103
Deferred income	27	(6,792)	(6,791)
Dividend income on available-for-sale financial assets	27	(11,940)	(18,377)
Profit from available-for-sale financial assets	27	(2,676)	-
Profit on disposal of property, plant and equipment	27	(14,398)	(125)
Amortization of intangible assets	28	5,970	5,970
Provision for slow moving inventories	28	33,035	18,968
Amortization of non-current assets	28	2,013	1,860
Provision for liquidity damages	28	-	5,508
Loss on disposal of associate		-	10,033
Interest income	29	(42,769)	(20,274)
Interest expense	29	144,306	118,512
		<u>1,732,953</u>	<u>1,686,701</u>
<i>Changes in:</i>			
- Inventories		(136,134)	(1,875)
- Trade and other receivables		213,975	(336,042)
- Finance lease receivables		146,477	137,968
- Trade and other payables		<u>(80,526)</u>	<u>112,269</u>
Cash generated from operating activities		1,876,745	1,599,021
Employees' end of service benefits paid	23	<u>(2,377)</u>	<u>(422)</u>
Net cash from operating activities		<u>1,874,368</u>	<u>1,598,599</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	5	(835,400)	(1,015,577)
Proceeds from disposal of property, plant and equipment	5(D)	14,398	125
Movement in associates, net of loss on disposal		-	330,862
Dividends received on available-for-sale financial assets	27	11,940	18,377
Dividends received from associates		-	13,193
Dividends received from joint ventures	8	278,205	328,232
Investments in a joint venture	8	-	(2,187)
Net movement in joint ventures	8	-	(13,648)
Purchase of available-for-sale financial assets	9	(139,956)	-
Proceeds from disposal of available-for sale financial assets	9	20,007	-
Interest received	29	<u>42,769</u>	<u>20,274</u>
Net cash used in investing activities		<u>(608,037)</u>	<u>(320,349)</u>

The consolidated statement of cash flows continues on the next page.

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)****For the year ended 31 December 2016***In thousands of Qatari Riyals*

	Note	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movements in interest bearing loans and borrowings	20	996,742	(184,385)
Dividends paid to the Company's shareholders	31	(825,000)	(825,000)
Dividends paid to non-controlling interests		(33,534)	(21,870)
Interest paid		<u>(144,306)</u>	<u>(118,512)</u>
Net cash used in financing activities		<u>(6,098)</u>	<u>(1,149,767)</u>
Net increase in cash and cash equivalents		1,260,233	128,483
Cash and cash equivalents at 1 January		<u>1,750,798</u>	<u>1,622,315</u>
Cash and cash equivalents at 31 December	14	<u>3,011,031</u>	<u>1,750,798</u>

The notes on pages 14 to 52 are an integral part of these consolidated financial statements.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. REPORTING ENTITY

Qatar Electricity & Water Company Q.S.C. (the “Company”) is incorporated in accordance with the provisions of the Qatar Commercial Companies Law No. 11 of 2015 as a Qatari Shareholding Company, and was registered at the Ministry of Economy and Commerce of the State of Qatar with Commercial Registration number 14275 dated 16 March 1992. The Company is domiciled in the State of Qatar, where it also has its principal place of business. The Company’s registered office is at Al-Markhiya Street, Madinah Khalifah North Area, Doha, State of Qatar. The Company’s shares are listed on the Qatar Stock Exchange since 3 May 1998.

The consolidated financial statements comprise the Company and its subsidiaries (collectively referred as the “Group” and individually as the “Group entities”).

The principal activities of the Group, which have not changed from the previous year, are the production of electricity and desalinated water for supplying them to the state owned “Qatar General Electricity and Water Corporation” (otherwise known as “KAHRAMAA”).

The Company had the following subsidiaries and shareholdings as at the current and the comparative reporting dates:

<i>Name</i>	<i>Principal activity</i>	<i>Country of incorporation</i>	<i>Share-holding</i>
Ras Laffan Operating Company W.L.L.	Generation of electricity & production of desalinated water	Qatar	100%
Ras Laffan Power Company Q.S.C.	Generation of electricity & production of desalinated water	Qatar	80%

The Company had the following joint ventures and shareholdings as at the current and the comparative reporting dates:

<i>Name</i>	<i>Principal activity</i>	<i>Country of incorporation</i>	<i>Share-of holding</i>
Qatar Power Q.S.C.	Generation of electricity & production of desalinated water	Qatar	55%
Mesaieed Power Company Q.S.C.	Generation of electricity	Qatar	40%
Ras Girtas Power Company Q.S.C.	Generation of electricity & production of desalinated water	Qatar	45%
Nebras Power Q.S.C.	Investments in electricity and desalinated water projects outside the State of Qatar	Qatar	60%
Umm Al Houl Power Q.S.C.	Generation of electricity & production of desalinated water	Qatar	60%

The Group’s consolidated financial statements for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 1 February 2017.

The Qatar Commercial Companies Law No. 11 of 2015 requires a “Qatari Shareholding Company” to change its legal status into a “Qatari Public Shareholding Company”. Management is in the process of changing the legal status of the Company, however the conversion has not yet been effected as at the date of these consolidated financial statements.

2. MAJOR TRANSACTIONS AND AGREEMENTS OF THE GROUP

Below are the major transactions and agreements of the Group in chronological order:

- (1) On 10 February 1999 the Company entered into an agreement with the State of Qatar for the purchase of the power plant at Ras Abu Fontas B ("RAF B"). Based on the agreement the Company was assigned the operation and management of the power plant.
- (2) In April 2001, the Company entered into a Power Purchase Agreement with the Qatar General Electricity & Water Corporation (hereafter the "KAHRAMAA") for the supply of electricity from the Company's Ras Abu Fontas B1 ("RAF B1") station, which commenced commercial operations on 29 August 2002.
- (3) In January 2003, the Company purchased the four stations set out below from KAHRAMAA for a total consideration of QR 600 million. A Power and Water Purchase Agreement (hereafter "PWPA") was also signed with KAHRAMAA for its supply of electricity and desalinated water from these stations:
 - Ras Abu Fontas A ("RAF A")
 - Al Wajbah
 - Al Saliyah
 - Doha South Super

The Company discontinued the operations of the Al-Wajbah station during 2010 following instructions received from the State of Qatar. Also, the operations in Al Saliyah and Doha South Super facilities were discontinued as the relevant contracts with KAHRAMAA expired on 31 December 2014.

The PWPA Article 6 stipulates that the agreement is conditional and shall not become effective, unless an Emiri decree granting the Company a concession to use the land on which the plants are located is promulgated and is in full force and effect. The PWPA Article 6.2 also states that in the event the Emiri decree is not granted by 1 June 2003 the parties shall meet to discuss and agree a solution and, to the extent necessary, the said agreement shall be amended to reflect any such solution needed. The Management is confident that the Emiri decree will be issued in the foreseeable future or amendments to the agreement will be agreed with KAHRAMAA. As at the date of these consolidated financial statements, the Emiri decree was not issued and no amendments have been made to the PWPA.

- (4) In January 2003, the Company acquired from Qatar Petroleum the Dukhan Desalination Plant for QR 71.66 million. Subsequent to the conclusion of this purchase agreement, the Company also concluded a Land Lease Agreement, a Water Purchase Agreement, and a Fuel Supply Agreement with Qatar Petroleum relating to the Dukhan Desalination Plant.
- (5) On 27 January 2005 Qatar Power Q.S.C. was incorporated as a joint venture for the production of electricity and desalinated water from the Ras Laffan B Integrated Water and Power Plant. The percentage shareholdings in Qatar Power Q.S.C. as at the current and the comparative reporting dates were as follows:
 - Qatar Electricity & Water Company Q.S.C. (55%)
 - International Power Plc (40%)
 - Chubu Electric Power Company (5%)
- (6) In October 2005, the Company entered into a PWPA with KAHRAMAA for the supply of electricity and desalinated water from the Company's Ras Abu Fontas B2 ("RAF B2") station.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. MAJOR TRANSACTIONS AND AGREEMENTS OF THE GROUP (CONTINUED)

- (7) On 15 January 2007, Mesaieed Power Company Q.S.C. was incorporated as a joint venture between the Company, Marubeni Corporation and Qatar Petroleum for the production of electricity from the Mesaieed power plant. In May 2009, Chubu Electric Power Company joined the joint venture. The shareholdings in Mesaieed Power Company Q.S.C. as at the current and the comparative reporting date were as follows:
- Qatar Electricity & Water Company Q.S.C. (40%)
 - Marubeni Corporation (30%)
 - Qatar Petroleum (20%)
 - Chubu Electric Power Company (10%)
- (8) In May 2007, the Company entered into a Water Purchase Agreement with KAHRAMAA for the supply of desalinated water from the Company's Ras Abu Fontas A1 ("RAF A1") station (an extension of ("RAF A").
- (9) On 25 March 2008, Ras Girtas Power Company Q.S.C. was incorporated as a joint venture for the production of electricity and desalinated water from the Ras Laffan C plant. The percentage shareholdings in Ras Girtas Power Company Q.S.C. as at the current and the comparative reporting date were as follows:
- Qatar Electricity & Water Company Q.S.C. (45%)
 - RLC Power Holding Company (40%)
 - Qatar Petroleum (15%)
- (10) On 20 May 2013, Nebras Power Q.S.C. was incorporated as a joint venture for the purpose of acquiring electricity and water production projects outside the State of Qatar. The percentage shareholdings in Nebras Power Q.S.C. as at the current and the comparative reporting date were as follows:
- Qatar Electricity & Water Company Q.S.C. (60%)
 - Qatar Petroleum International Limited Q.S.C. (20%)
 - Qatar Holding L.L.C. (20%)
- (11) On 13 May 2015, Umm Al Houl Power Q.S.C. was incorporated as a joint venture for the purpose of the production of electricity and desalinated water from the Facility D plant. The percentage shareholdings in Umm Al Houl Power Q.S.C. as at the current and the comparative reporting date were as follows:
- Qatar Electricity & Water Company Q.S.C. (60%)
 - Qatar Petroleum (5%)
 - Qatar Foundation for Education, Science & Community Development (5%)
 - K1 Energy Limited, incorporated in the U.K. (30%)
- (12) On 13 October 2015, the Company entered into a Water Purchase Agreement for the Ras Abu Fontas A3 Water project with KHARAMAA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, as modified by the revaluation of the available-for-sale financial assets and the interest rate swaps for hedging.

c) Functional and presentation currency

These consolidated financial statements have been presented in Qatari Riyals (QR), which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

d) Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about significant areas that involve a higher degree of judgment or complexity, or areas where assumptions or estimates have a significant risk of resulting in a material adjustment to the amounts recognised in the financial statements are as follows:

Going concern

Management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. The Group has been profitable, and it had positive net assets, working capital, and cash flow positions at the year end. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Group's consolidated financial statements continue to be prepared on a going concern basis.

Depreciation of property, plant and equipment

Items of property, plant and equipment are depreciated over their estimated individual useful lives. The determination of useful lives is based on the expected usage of the asset, which is generally based on the tenure of the PWPA signed with KAHARAMAA, physical wear and tear, technological or commercial obsolescence, and impacts the annual depreciation charge recognized in the consolidated financial statements. Management reviews annually the useful lives of these assets. Management does not assign residual values to items of property, plant and equipment as is concluded based on precedence that such amounts are not significant. Future depreciation charge could be materially adjusted where management believes the useful lives differ from previous estimates.

3. BASIS OF PREPARATION (CONTINUED)

d) Use of estimates and judgments (continued)

Impairment of non-financial assets (other than inventories)

The carrying amounts of the Company's non-financial assets (Property and equipment, and strategic spare parts) are reviewed at each reporting date to determine whether there is any indication of impairment. The determination of what can be considered impaired requires judgement. As at the reporting date, management did not identify any evidence from internal reporting indicating impairment of an asset or class of assets and there were no significant adverse changes in the market that could have an adverse effect of its assets. If such indication exists, then an impairment test is performed by the management. The determination of recoverable amounts require management to make significant judgments, estimations and assumptions.

Impairment of inventories

When inventories become old or obsolete, an estimate is made of their net realizable 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 is applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices. The necessity and setting up of a provision for slow moving and obsolete inventories requires considerable degree of judgment.

Fair value of cash flow hedges

The Group uses derivative financial instruments to manage its exposure to the variability of its bank loans due to fluctuations in interest rates. All such derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value and recognized in other comprehensive income. Their fair values are estimated using models and valuation methods due to the absence of quoted prices or other observable, market-corroborated data. These contracts are valued using models with inputs that include price curves for each of the different products that are built up from active market pricing data and extrapolated to the expiry of the contracts using the maximum available external pricing information.

d) Newly effective standard and amendments to standards

During the current year, the Group adopted the below new International Financial Reporting Standards (standards) and amendments to standards that are relevant to its operations and are effective for the first time for financial years ending 31 December 2016:

- *IFRS 14 "Regulatory Deferral Accounts"*
- *Amendments to IFRS 11 on accounting for acquisitions of interests in Joint Ventures*
- *Amendments to IAS 16 and IAS 38 on clarification of acceptable methods of depreciation and amortization*
- *Amendments to IAS 16 and IAS 41 on Agriculture: Bearer plants*
- *Amendments to IAS 27 on equity method in Separate Financial Statements*
- *Annual improvements to IFRSs 2012-2014 cycle*
- *Amendments to IFRS 10, IFRS 12 and IAS 28 on investment entities applying the consolidation exception*
- *Amendments to IAS 1 on Disclosure Initiative*

The adoption of the above standard and amendments had no significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. BASIS OF PREPARATION (CONTINUED)

e) New and amended standards not yet effective, but available for early adoption

The below International Financial Reporting Standards (standards) and amendments to standards that are available for early adoption for financial years ending 31 December 2016 are not effective until a later period, and they have not been applied in preparing these consolidated financial statements.

*Adoption expected to impact the Group's consolidated financial statements:**IFRS 9 "Financial Instruments" (Effective for year ending 31 December 2018)*

IFRS 9 published in July 2014, replaces the existing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9.

IFRS 15 "Revenue from Contracts with Customers" (Effective for year ending 31 December 2018)

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 "Revenue", IAS 11 "Construction Contracts" and IFRIC 13 "Customer Loyalty Programs". IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 15.

IFRS 16 "Leases" (Effective for year ending 31 December 2019)

IFRS 16 requires most leases to present right-of-use assets and liabilities on the statement of financial position. IFRS 16 also eliminates the current dual accounting model for leases, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 introduces a single on-balance sheet accounting model that is similar to the current accounting for finance leases. The lessor accounting will remain similar to the current practice, i.e. the lessors will continue to classify leases as finance and operating leases. The Group is assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 16. Early adoption is permitted only if IFRS 15 is also adopted.

Adoption not expected to impact the Group's consolidated financial statements:

<i>Effective for year ending 31 December 2017</i>	<ul style="list-style-type: none"> • Amendments to IAS 7 "Disclosure Initiative" • Amendments to IAS 12 on recognition of deferred tax assets for unrealised losses
<i>Effective for year ending 31 December 2018</i>	<ul style="list-style-type: none"> • Amendments to IFRS 2 on classification and measurement of share based payment transactions
<i>Effective date to be determined</i>	<ul style="list-style-type: none"> • Amendments to IFRS 10 and IAS 28 on sale or contribution of assets between an investor and its associate or joint venture

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to both years presented in these consolidated financial statements.

a) Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see “Subsidiaries” below). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition.

Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Interest in equity-accounted investees

The Group’s interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint ventures are accounted for using the equity method. They are initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group’s share of the profit or loss and other comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of consolidation (continued)

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

b) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition or construction of an asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent expenditure

The cost of renovations or replacement of a component of an item of property, plant and equipment is included in the carrying amount of the asset or recognised as a separate asset, as appropriate only when it is possible that the future economic benefits associated with the asset will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Property, plant and equipment (continued)

The estimated useful lives of the property, plant and equipment in the current year and comparative year are as follows:

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
- Ras Abu Fontas A2 (RAF A2)	25 years
- Dukhan Desalination Plant	25 years
- Ras Abu Fontas B2 (RAF B2)	25 years
- Ras Abu Fontas A3 (RAF A3)	25 years
Furniture, fixtures and office equipment	3-7 years
Motor vehicles	4 years
"C" inspection costs	3-5 years

Capital work in progress is not depreciated. Once completed these assets are re-classified to the appropriate category of property, plant and equipment and depreciated accordingly. Land is not depreciated.

Depreciation methods, residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Profits and losses on disposals of items of property, plant and equipment are determined by comparing the proceeds from their disposals with their respective carrying amounts, and are recognised net within profit or loss.

c) Investment property

Investment property is property which is held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Recognition and measurement

An investment property is recognized initially at cost of acquisition including any transaction costs. Land is not depreciated and other investment property is subsequently measured at cost less accumulated depreciation and impairment losses, if any.

Property that is being constructed for future use as investment property is accounted for as capital work-in-progress within investment property until construction or development is complete, at which time it is reclassified as investment property at the carried cost.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Investment property (Continued)

Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that future economic benefits associated with the expenditure will flow to the Group.

Derecognition

An item of investment property is derecognised upon disposal or when no future economic benefits are expected from its use. Profits and losses on disposals of items of investment property are determined by comparing the proceeds from their disposals with their respective carrying amounts, and are recognised net within profit or loss.

d) Intangible assets and goodwill

Recognition and measurement

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets comprise the Power and Water Purchase Agreements (PWPA) that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is recognized in profit or loss. Goodwill is not amortized.

The estimated useful life of the PWPA is 25 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

e) Finance lease receivable

Subsequent to the application of IFRIC 4 “Determining whether an arrangement contains a lease”, the Group has determined that its Power and Water Purchase Agreement (PWPA) with KAHRAMAA contains a lease and, accordingly, the Group has accounted for the cost of the plant as a finance lease receivable in line with the provisions in IAS 17 “Leases”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Finance lease receivable (Continued)

Initial recognition

The Group presented the plant held under a finance lease in its statement of financial position as a “Finance lease receivable” at an amount equal to the lower of its fair value (cost of construction) and the present value of the minimum lease payments to be made by KAHRAMAA over the 25 years of the PWPA.

Subsequent measurement

The Group aims to allocate the lease payments made by KAHRAMAA to the Group over the lease term (25 years) on a systematic and rational basis. This income allocation is based on a pattern reflecting a constant periodic return on the Group’s investment in the finance lease. Lease payments relating to the year are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

f) Inventories

Inventories comprise spare parts, chemicals and consumables, which are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business and the estimated costs necessary to make the sale.

g) Financial instruments

The Group classified its non-derivative financial assets into the following categories: loans and receivables (trade receivables, and cash at bank) and available-for-sale financial assets. The Group classifies its non-derivative financial liabilities (borrowings, and trade payables) into the other financial liabilities category. The Group classifies its derivative financial liabilities (Interest rate swaps for hedging) into cash flow hedges category.

Non-derivative financial assets and financial liabilities – recognition and de-recognition

The Group initially recognizes loans and receivables on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Group is recognized as a separate asset or liability.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments (continued)

Non-derivative financial assets and financial liabilities – recognition and de-recognition (continued)

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using effective interest method.

Available-for-sale financial assets

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in Other Comprehensive Income and accumulated in the available-for-sale financial asset fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

Borrowing

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its interest rate risk exposures.

Derivatives are recognized initially at fair value; any directly attributable transaction costs are recognized in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Financial instruments (continued)

Derivative financial instruments and hedge accounting (continued)

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the hedged item affects profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

h) Impairment

Non-derivative financial assets

Financial assets, including an interest in an equity accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

Financial assets measured at amortized cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment (continued)

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss. If the fair value of an impaired available-for-sale financial asset subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through other comprehensive income.

Equity-accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets other than inventories to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Impairment (continued)

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i) Cash and cash equivalents

Cash and cash equivalents in the statement of consolidated financial position comprise cash at banks and in hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of any outstanding bank overdrafts.

j) Share capital

Ordinary shares are classified as equity.

k) Provision for employees' end of service benefits

With respect to the expatriate employees, the Group provides end of service benefits to its expatriate employees in accordance with employment contracts and the Qatar Labour Law No. 14 of 2004. 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, and are payable to the employees on termination of their employment. The expected costs of these benefits are accrued over the period of employment.

With respect to the Qatari nationals, the Group makes contributions to Qatar Retirement and Pension Authority as a percentage of the employees' salaries in accordance with the requirements of respective local laws pertaining to retirement and pensions. The Group's share of contributions to these schemes, which are defined contribution schemes under IAS 19 "Employee Benefits" are charged to profit or loss in the year to which they relate.

l) Provisions

A provision is 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.

The amount of a provision is the present value, of the best estimate, of the amount required to settle the obligation. The amount of the provision is discounted using a pre-tax discount rate when the effect of the expected future cash outflow related to the provision is not expected to occur soon after the reporting date and the effect of discounting is material. Provisions are reviewed annually to reflect current best estimates of the expenditure required to settle the obligations.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for the sale services in the ordinary course of the Group's activities. The Group recognizes revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below:

Sale of electricity and desalinated water

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

- Sales from RAF B are accounted for based on the mechanism agreed between KAHRAMAA and the Company in respect of the agreement approved on 1 June 2000.
- 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.
- Sales from RAF A2 are accounted for as per the terms of the Power and Water Purchase Agreement with KAHRAMAA.
- Sales from RAF A3 are accounted for as per the terms of the Water Purchase Agreement with KAHRAMAA.

Dividend income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

Interest income

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.

n) Expenses recognition

Expenses, including cost of sales, general administrative expenses, depreciation, interest payable and foreign exchange losses on transactions, are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen and can be measured reliably.

An expense is recognized immediately in profit or loss when an expenditure produces no future economic benefits, or when, and to the extent that, future economic benefits do not qualify or cease to qualify for recognition in the statement of financial position as an asset, such as in the case of asset impairments.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

p) Borrowing costs

Borrowing costs are recognised in the statement of profit or loss in the period in which they are incurred.

q) Foreign currency transactions and balances

Transactions in foreign currencies during the year are translated into the functional currency of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the end of the year are translated into the functional currency at the exchange rate at the reporting date. Foreign currency differences are recognized in profit or loss.

r) Dividend distribution to the Company's shareholders

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's consolidated financial statements in the year in which the dividends are approved by the Company's shareholders.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. PROPERTY, PLANT AND EQUIPMENT

	Production facilities (A)	Furniture, fixtures and office equipment	Motor vehicles	“C” inspection costs (B)	Capital spares	Capital work in progress (E)	Total
Cost							
At 1 January 2015	8,032,024	26,450	6,805	312,869	50,487	1,488,732	9,917,367
Additions	-	7,169	612	56,605	-	951,191	1,015,577
Reclassification	1,585,942	-	-	-	-	(1,585,942)	-
Disposals	-	-	(497)	(85,223)	-	-	(85,720)
Transfer to investment property (Note 6)	-	-	-	-	-	(174,901)	(174,901)
At 31 December 2015 / 1 January 2016	9,617,966	33,619	6,920	284,251	50,487	679,080	10,672,323
Additions	-	461	181	-	-	834,758	835,400
Reclassification (A(v))	1,096,505	-	-	-	-	(1,096,505)	-
Disposals (D)	(27,983)	-	(399)	-	-	-	(28,382)
At 31 December 2016	10,686,488	34,080	6,702	284,251	50,487	417,333	11,479,341
Accumulated depreciation							
At 1 January 2015	4,386,641	23,762	5,282	154,950	18,345	-	4,588,980
Depreciation (C)	390,617	4,602	782	56,128	3,023	-	455,152
Disposals	-	-	(497)	(85,223)	-	-	(85,720)
At 31 December 2015 / 1 January 2016	4,777,258	28,364	5,567	125,855	21,368	-	4,958,412
Depreciation (C)	355,102	1,995	717	57,582	3,526	-	418,922
Disposals (D)	(27,983)	-	(399)	-	-	-	(28,382)
At 31 December 2016	5,104,377	30,359	5,885	183,437	24,894	-	5,348,952
Carrying amounts							
At 31 December 2015	4,840,708	5,255	1,353	158,396	29,119	679,080	5,713,911
At 31 December 2016	5,582,111	3,721	817	100,814	25,593	417,333	6,130,389

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5. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**(A) Production facilities**

- (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.
- (ii) The land on which the RAF B plant was constructed has been leased to the Company by the State of Qatar free of rent for a period of 50 years commencing on 5 July 1990 under the Emiri Decree No. 24 of 2001.
- (iii) The Emiri Decree granting the Company a concession to use the land on which the RAF A plant and the satellite stations were constructed is still outstanding (Note 2(3)).
- (iv) The land on which the 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.
- (v) Ras Abu Fontas A3 (RAF A3) plant construction was partially completed in year 2016 and started generating revenue while partially completed. Therefore, the during the year the facility was reclassified from capital work in progress to production facilities.

(B) "C" Inspection costs

Costs incurred for the production facilities under an Inspection and Maintenance program have been capitalized under "C" inspection costs. These costs are accounted for as separate assets because they have 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 these inspections, their cost will be capitalized under the "C" inspection costs category.

(C) Depreciation

The annual depreciation charge has been allocated to profit or loss as follows:

	2016	2015
Cost of sales (Note 26)	417,499	453,693
General and administrative expenses (Note 28)	1,423	1,459
	<u>418,922</u>	<u>455,152</u>

(D) Proceeds from disposals

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2016	2015
Carrying amounts	-	-
Profit on disposal of property, plant and equipment	14,398	125
Proceeds from disposal of property, plant and equipment	<u>14,398</u>	<u>125</u>

(E) Capital work in progress

Capital work in progress relates to RAF A3 plant, which is partially completed and expected to be fully completed in year 2017.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. INVESTMENT PROPERTY

	2016	2015
At 1 January	174,901	-
Transfer from property, plant and equipment (1)	-	174,901
Total	174,901	174,901

(1) Investment property comprises a plot of land in Lusail purchased from a Company. Based on an internal valuation exercise, the fair value of this investment property as at 31 December 2016 was QR 457 million (2015: QR 457 million).

7. INTANGIBLE ASSETS AND GOODWILL

The Group identified and recorded the following intangible assets with definite useful lives.

	2016	2015
Intangible assets (1)	77,612	83,582
Goodwill (2)	30,813	30,813
Total	108,425	114,395

(1) Intangible assets

	2016	2015
At 1 January	83,582	89,552
Amortisation (Note 28)	(5,970)	(5,970)
At 31 December	77,612	83,582

This represents the Power and Water Purchase Agreement entered into between Ras Laffan Power Company Q.S.C., a subsidiary of the Company, and KAHRAMAA for the supply of electricity and desalinated water by the subsidiary of the Company to KAHRAMAA for a period of 25 years.

(2) Goodwill

The goodwill arose on the step-up acquisition by the Company of 55% additional shareholding in Ras Laffan Power Company Q.S.C. (Note 1) on 20 October 2010. There was no impairment of the goodwill since this transaction, because Ras Laffan Power Company Q.S.C. contributed QR 1,098 million (2015: QR 832 million) to the profit of the Group from the date of acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. INVESTMENTS IN JOINT VENTURES

The carrying amounts of the Company's joint ventures are as follows:

	<i>Country of incorporation</i>	<i>Ownership</i>	2016	2015
Qatar Power Q.S.C.	Qatar	55%	387,649	376,343
Mesaieed Power Company Q.S.C. (1)	Qatar	40%	-	-
Ras Girtas Power Company Q.S.C. (1)	Qatar	45%	-	-
Nebras Power Q.S.C.	Qatar	60%	2,319,847	2,248,304
Umm Al Houl Power Q.S.C. (2)	Qatar	60%	117,142	2,187
			2,824,638	2,626,834

(1) The carrying values of these investments have been reduced to zero as a result of the share of the Group's losses in these joint ventures recognised in previous years.

(2) Umm Al Houl Power Q.S.C. is expected to be operational during year 2018.

The movements of the Group's investments in the joint ventures were as follows:

	2016	2015
At 1 January	2,626,834	2,567,039
Investments made	-	2,187
Share of profit	372,312	408,514
Share of profit/(loss) in other comprehensive income	103,697	(36,322)
Dividend received	(278,205)	(328,232)
Share of loss on disposal of associates	-	13,648
At 31 December	2,824,638	2,626,834

The following table summarizes the financial information of the Group's joint ventures as included in their own financial statements, and reconciles the summarised information to the carrying amount of the Group's interest in the joint ventures.

	2016	2015
Current assets	3,343,436	5,956,540
Non-current assets	33,096,785	21,597,121
Current liabilities	(6,807,822)	(6,707,393)
Non-current liabilities	(25,479,707)	(17,764,791)
Net assets (100%)	4,152,692	3,081,477
Group's share of net assets	2,567,302	2,054,681
Revenues	4,078,934	4,188,888
Cost of sales	(2,233,776)	(2,115,077)
Other income	75,035	44,792
Administrative expenses	(113,592)	(120,368)
Finance costs	(1,016,039)	(1,123,105)
Profit for the year (100%)	790,562	875,463
Group's share of profits	372,312	408,514
Group's share of other comprehensive income/ (loss)	103,697	(36,322)
Group's share of total comprehensive income	476,009	372,192

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9. AVAILABLE-FOR- SALE-FINANCIAL ASSETS

	2016	2015
At 1 January	344,435	485,368
Additions	139,956	-
Disposals	(20,007)	-
Profit reclassified to statement of profit or loss on account of disposal	2,676	-
Net change in fair value transferred to the other comprehensive income	44,084	(140,933)
At 31 December	511,144	344,435

During the year, there was a dividend income of QR 11,940 thousand (2015: QR 18,377 thousands) from available-for-sale financial assets, which is included in "Other income" in profit or loss (Note 27).

All available-for-sale financial assets comprise listed equity securities listed on the Qatar Stock Exchange. The fair value of the quoted equity shares is determined by reference to the published price quotations.

10. FINANCE LEASE RECEIVABLES

A reconciliation between the gross investment in the lease (minimum remaining lease payments) and the present value of the minimum lease payments receivable (Finance lease receivable) as at the reporting date is as follows:

	2016	2015
Gross investment in the lease	2,365,223	2,657,612
Unearned finance income	(874,618)	(1,020,530)
Present value of minimum lease payments receivable	1,490,605	1,637,082

The discount rate used by the subsidiary was 9.32% per annum (2015: 9.32% per annum) as agreed in the agreement between Ras Laffan Power Company Q.S.C. (lessor), which is a subsidiary of the Company and KHARAMAA (lessee). The finance lease receivables at the end of the reporting period were neither past due nor impaired.

The finance lease receivable is presented in the consolidated statement of financial position as follows:

	2016	2015
Current portion	124,273	146,477
Non-current portion	1,366,332	1,490,605
	1,490,605	1,637,082

The non-current portion is further analysed as follows:

	2016	2015
Later than one year and not later than five years	543,026	516,992
Later than five years	823,306	973,613
	1,366,332	1,490,605

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11. OTHER NON-CURRENT ASSETS

In October 2010 Ras Laffan Operating Company W.L.L. (RLOC), one of the Company's subsidiaries, paid QR 23,815 million to Ras Laffan Services Company, a third party, for the acquisition of the rights, benefits, and obligations under a Technical Service Agreement. During 2011 RLOC received an amount of QR 5,887 million. The remaining amount of QR 17.928 million is amortized over a period of 19 years.

Also, on 21 October 2006, the Company signed a Contractual Service Agreement with the Consortium of General Electric International Inc. and GE Energy Parts Inc. for maintenance of specified equipment (covered units) of RAF B2 Power and Water Plant. An amendment was signed between the parties on 24 April 2013 and by the same agreement the Company received a reduction in the variable hourly charges in return for a payment (milestone adder payment) of USD 3 million (QR 10.9 million). The milestone payment is amortized over the period of the benefit, i.e. until the expiry of Contractual Service Agreement.

The movements in the above accounts were as follows:

	2016	2015
At 1 January	21,871	23,731
Amortization (Note 28)	(2,013)	(1,860)
At 31 December	19,858	21,871

12. INVENTORIES

	2016	2015
Spare parts	550,775	437,646
Less: Provision for slow-moving inventories (1)	(275,427)	(265,929)
	275,348	171,717
Chemicals	3,035	3,328
Consumables	2,611	2,850
Total	280,994	177,895

(1) The movements in the provision for slow-moving inventories were as follows:

	2016	2015
At 1 January	265,929	246,961
Provision made (Note 28)	33,035	18,968
Provision used	(23,537)	-
At 31 December	275,427	265,929

13. TRADE AND OTHER RECEIVABLES

	2016	2015
Trade receivables (1)	775,604	779,946
Less: Provision for impairment of trade receivables (2)	(173,259)	(192,098)
	602,345	587,848
Prepayments and advances	71,668	300,140
Total	674,013	887,988

(1) As at 31 December 2016 the aging of trade receivables was as follows:

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13. TRADE AND OTHER RECEIVABLES (CONTINUED)

Aging of neither past due nor impaired:

	2016	2015
Less than 60 days	<u>622,036</u>	<u>605,169</u>

Aging of past due but not impaired:

	2016	2015
61-90 days	1,912	5,299
91-180 days	5,592	14,172
181-365 days	15,501	4,135
Total	<u>23,005</u>	<u>23,606</u>

Aging of past due and impaired trade receivables, which have been fully provided (2);

	2016	2015
More than 365 days	<u>130,563</u>	<u>151,171</u>

(2) The movements in the provision for the impairment of trade receivables were as follows:

	2016	2015
At 1 January	192,098	151,922
Provision made	23,625	40,323
Provision reversed	(42,464)	(147)
At 31 December	<u>173,259</u>	<u>192,098</u>

14. CASH AND CASH EQUIVALENTS

	2016	2015
Cash at bank – current and call deposit accounts (1) & (2)	3,010,964	1,750,364
Cash in hand	<u>67</u>	<u>434</u>
Total	<u>3,011,031</u>	<u>1,750,798</u>

(1) Cash held in bank current accounts earn no interest.

(2) Cash held in short term bank deposits accounts earn interest ranging between 0.35% to 3.00% per annum (2015: ranging between 0.35% to 2.60% per annum). During the year, the Company earned interest income of QR 42,769 (2015: QR 20,274). Call deposit accounts are for a period of less than three months.

Cash and cash equivalents are denominated in the following currencies:

	2016	2015
Qatari Riyal - functional and presentation currency	2,798,840	1,488,094
US Dollar	<u>212,124</u>	<u>262,270</u>
	<u>3,010,964</u>	<u>1,750,364</u>

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15. SHARE CAPITAL

	2016	2015
<i>Authorized, issued, and fully paid:</i>		
110,000,000 shares with nominal value of QR 10 each	<u>1,100,000</u>	<u>1,100,000</u>

All shares bear equal rights.

16. LEGAL RESERVE

In accordance with the provisions of the Qatar Commercial Companies Law No. 11 of 2015, a minimum amount of 10% of the profit in each year is required to be transferred to a legal reserve until the balance in this legal reserve becomes equal to 50% of a company's paid-up share capital. This reserve is not available for distribution, except in circumstances specified in the above mentioned Law. The Company made no transfers to its legal reserve in the current year and the comparative year as its legal reserve reached 50% of its paid-up share capital in an earlier year.

17. GENERAL RESERVE

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

18. HEDGE RESERVE

The hedge reserve comprises the effective portion of the cumulative net change in the fair value of the interest rate swaps used for hedging (Note 21).

19. FAIR VALUE RESERVE

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired.

20. BANK LOANS

	2016	2015
Loan (1)	1,247,792	1,300,260
Loan (2)	636,087	684,135
Loan (3)	317,355	341,327
Loan (4)	292,019	429,527
Loan (5)	548,552	351,743
Loan (6)	912,972	932,461
Loan (7)	911,250	911,250
Loan (8)	792,788	-
Loan (9)	315,327	-
Bank loan total	5,974,142	4,950,703
Less: Financing arrangement costs	<u>(62,192)</u>	<u>(35,494)</u>
	<u>5,911,950</u>	<u>4,915,209</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**For the year ended 31 December 2016***In thousands of Qatari Riyals***20. BANK LOANS (CONTINUED)**

(1) 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 USD 485.5 million (QR 1,769 million) to finance the construction of RAF B2. The total amount payable as at 31 December 2016 amounted to USD 342 million or QR 1,248 million (2015: USD 357 million or QR 1,300 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.

(2) The Company has entered into a facility agreement with a consortium of banks to finance its RAF A1 plant facilities. This term loan facility of USD 288.2 million carries interest at LIBOR plus a margin ranging from 0.60% to 1.05%. The total amount payable as at 31 December 2016 amounted to USD 175 million or QR 636 million (2015: USD 188 million or QR 684 million). The loan is repayable in semi-annual installments started from 30 June 2010 at a pre-determined repayment percentage multiplied against the principle amount outstanding as at the end of the availability period.

(3) The Company has availed a USD 144.1 million Islamic credit facility 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 amount payable as at 31 December 2016 amounted to USD 87 million or QR 317 million (2015: USD 94 million or QR 341 million).

(4) 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 banks obtained on 20 November 2001 for a long-term loan of USD 545 million and a stand-by facility of USD 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 Q.S.C. on a land leased from Qatar Petroleum.

(5) The Company entered into a credit facility agreement with Qatar National Bank to finance the construction of its RAF A2 plant facilities. This term loan facility of USD 180 million carries interest at LIBOR plus a margin of 1.75% per annum. The total drawn amount as at 31 December 2016 amounted to USD 150 million or QR 549 million (2015: USD 97 million or QR 352 million). The loan will be repayable in quarterly installments starting from earlier of six months after the actual facility date.

(6) The Company has availed a USD 270 million Islamic credit facility with Qatar Islamic Bank in the form of Istisnaa' for the construction of RAF A2 plant facilities. The total drawn amount as at 31 December 2016 amounted to USD 250 million or QR 913 million (2015: USD 256 million or QR 932 million).

(7) The Company entered into a corporate revolving credit facility with a consortium of banks with Mizuho Bank Ltd acting as Facility Agent, mainly to partly finance the repayment of an existing USD 300 million revolving facility. This term loan facility of USD 250 million carries interest at LIBOR plus a margin of 0.25%. The loan was initially repayable on or before the termination date, which was on 8 December 2016. On 5 December 2016, the Company has entered into an amendment agreement with the lenders to extend the term of the loan for one year with an interest of LIBOR plus 0.35%.

(8) On 4 July 2016, the Company entered into a credit facility with a consortium of banks to finance its RAF A3 plant facilities on 4 July 2016. This term loan facility of USD 294 million carries interest at LIBOR plus 1.75%. As at 31 December 2016, the Company drawn down USD 219 million or QR 793 million from the facility.

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20. BANK LOANS (CONTINUED)

(9) On 4 July 2016, the Company availed a USD 96 million Islamic credit facility in the form of Istisnaa' to finance the construction of RAF A3 plant. As at 31 December 2016, the Company drawn down USD 87 million or QR 315 million from the facility.

The bank loans are classified in the consolidated statement of financial position as follows:

	2016	2015
Current portion	1,237,363	1,124,412
Non-current portion	4,674,587	3,790,797
	<u>5,911,950</u>	<u>4,915,209</u>

21. INTEREST RATE SWAPS FOR HEDGING

	2016	2015
At 1 January	127,339	170,766
Change in fair value transferred to other comprehensive income	(98,780)	(43,427)
At 31 December	<u>28,559</u>	<u>127,339</u>

The interest rates swaps for hedging are presented in the consolidated statement of financial position as follows:

	2016	2015
Current portion	20,277	107,329
Non-current portion	8,282	20,010
	<u>28,559</u>	<u>127,339</u>

The Group has three interest rate swap contracts outstanding as at 31 December 2016 designated as hedges of expected future LIBOR interest rate payments payable during the period up to 9 July 2026 on a maximum notional amount of US\$ 596 million (2015: US\$ 2,025 million). Under the terms of the interest rate swap contracts, the Group pays a fixed weighted average rate ranging from 1.5% - 4.19% and receives floating LIBOR rates. The terms of the interest rate swap contracts have been negotiated to match the terms of the Group's commitments towards bank loans.

22. DEFERRED INCOME

	2016	2015
At 1 January	6,792	13,583
Income recognised (Note 27)	<u>(6,792)</u>	<u>(6,791)</u>
At 31 December	<u>-</u>	<u>6,792</u>

The 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 amortized and credited to the consolidated statement of profit or loss on a straight-line basis over the estimated useful life of the RAF B plant. The initial amount was QR 91 million.

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23. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2016	2015
At 1 January	48,931	44,250
Provision made (1)	6,249	5,103
Payments made during the year	(2,377)	(422)
At 31 December	<u>52,803</u>	<u>48,931</u>
(1) The provision is included within staff costs in the consolidated profit or loss.		

24. TRADE AND OTHER PAYABLES

	2016	2015
Trade payables	200,935	300,135
Other payables and accrued expenses	425,909	369,370
Provision for social and sports support fund	34,593	35,567
Payable to shareholders	35,588	38,301
Pension contributions for Qatari employees	6,661	6,109
	<u>703,686</u>	<u>749,482</u>

25. REVENUE

	2016	2015
Sales of electricity	1,505,023	1,495,856
Sales of desalinated water	1,459,333	1,320,982
Share of lease receivable from Ras Laffan Power Company Q.S.C.	138,793	165,760
	<u>3,103,149</u>	<u>2,982,598</u>

26. COST OF SALES

	2016	2015
Cost of gas consumed	871,566	843,454
Depreciation of property, plant and equipment (Note 5)	417,499	453,693
Spare parts, chemicals and consumables	96,014	89,435
Staff costs	180,050	194,740
Others	135,461	97,830
	<u>1,700,590</u>	<u>1,679,152</u>

27. OTHER INCOME

	2016	2015
Profit on disposal of property, plant and equipment (Note 5(D))	14,398	125
Dividend income from available-for-sale financial assets (Note 9)	11,940	18,377
Deferred income (Note 22)	6,792	6,791
Profit on sale of available- for- sale financial assets (Note 9)	2,676	-
Miscellaneous income (1)	69,239	65,344
	<u>105,045</u>	<u>90,637</u>

(1) This includes liquidity damages pertaining to the RAF A1 project amounting to QR 42 million received from KHARAMMA.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2016***In thousands of Qatari Riyals***28. GENERAL AND ADMINISTRATION EXPENSES**

	2016	2015
Staff costs	95,884	84,872
Provision for slow moving inventories (Note 12)	33,035	18,968
Depreciation of property, plant and equipment (Note 5)	1,423	1,459
Amortization of intangible assets (Note 7)	5,970	5,970
Amortization of non-current assets (Note 11)	2,013	1,860
Advertisement and public relation expenses	876	1,071
Rent expense	3,600	3,586
Insurance	12,749	14,437
Donations	3,658	1,090
Recruitment and training expenses	6,595	2,052
Professional fees	3,742	584
Telephone postage and couriers	1,653	1,939
Repairs and maintenance	2,230	3,055
Office expenses	454	1,088
Subscription and licenses	683	738
Board of Directors' remuneration	11,750	11,750
Provision for liquidity damages	-	5,508
Miscellaneous expenses	14,661	22,640
Total	200,976	182,667

29. NET FINANCE COSTS

	2016	2015
Interest expense:		
- Banks loans	144,306	118,512
- Other loans	-	-
	144,306	118,512
Interest income	(42,769)	(20,274)
	101,537	98,238
Bank charges	4,058	2,016
Total	105,595	100,254

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30. EARNINGS PER SHARE**Basic earnings per share**

The calculation of basic earnings per share is arrived by dividing the profit attributable to the owners of the Company for the year by the weighted average number of ordinary shares outstanding during the year.

	2016	2015
Profit for the year attributable to owners of the Company	1,541,988	1,500,550
Weighted average number of shares outstanding during the year (number of shares in thousand)	110,000	110,000
Basic and diluted earnings per share (expressed in QR per share)	14.02	13.64

31. DIVIDENDS

During the year, the Company declared and paid a cash dividend of QR 7.5 per share totalling to QR 825,000 thousand (2015: QR 7.5 per share totalling to QR 825,000 thousand).

The proposed final dividend amounting to QR 825 million for year 2016 will be submitted for formal approval at the next Annual General Meeting of the Company.

32. CONTRIBUTION TO SOCIAL AND SPORTS SUPPORT FUND

In compliance with Qatar Law No. 13 of 2008, the Company made an appropriation from its retained earnings of QR 34.9 million (2015: QR 35.5 million) to the Social and Sports Development Fund of Qatar.

33. SEGMENTAL INFORMATION

The Group primarily operates integrated plants for the generation of electricity and production of desalination of water in the State of Qatar. The water desalination process is completely dependent upon electricity generation. The electricity and desalinated water processes are interrelated and are subject to similar risks and returns. The Group also sells both its products to only two customers, KAHRAMA and Qatar Petroleum, in the State of Qatar. Consequently, the Group is considered to have a single business and single geographical segment.

34. COMMITMENTS AND CONTINGENT LIABILITIES

	2016	2015
<i>Commitments:</i>		
Capital commitments (1)	118,883	908,949
<i>Contingent liabilities:</i>		
Bank guarantees, corporate guarantees and documentary credits	190,317	213,174

(1) Capital commitments include the commitment of the Group for the construction of the RAFA3 plant.

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35. RELATED PARTY DISCLOSURES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, 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

The transactions with significant related parties were as follows:

		2016	2015
	<i>Related parties</i>		
Sale of electricity	KAHRAMAA	1,505,023	1,495,856
Sale of desalinated water	KAHRAMAA	1,445,078	1,307,340
	Qatar Petroleum	14,255	13,642
Lease income from plant	KAHRAMAA	138,793	165,760
Cost of gas consumed/take or pay gas	Qatar Petroleum	871,566	843,454
Interest on bank deposits	Qatar National Bank	38,467	17,703

Year-end balances arising from transaction with related parties

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

	2016		2015	
	Trade & other receivables	Trade payables and accrued expenses	Trade & other receivables	Trade payables and accrued expenses
KAHRAMAA	806,696	3,152	576,478	1,792
Qatar Petroleum	3,420	144,369	4,577	142,633
Nebras Power Q.S.C.	-	5,008	245,586	-
Mesaieed Power Company Q.S.C.	645	-	645	-
Ras Gitras Power Company Q.S.C.	2,797	-	2,717	-
Qatar Power Q.S.C.	959	-	989	-
Umm Al Houl Power Q.S.C.	6,831	-	14,900	-
	821,348	152,529	845,892	144,425

Compensation of key management personnel

The remuneration of the Board of Directors and members of key management during the year is as follows:

	2016	2015
Management remuneration	4,570	4,111
Directors' fees	11,750	11,750

36. FINANCIAL RISK AND CAPITAL MANAGEMENT

(a) Financial risk management

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

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

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group has exposure to the following risks arising from its financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each counterparty. Receivables are stated at the original invoice amount less a provision for any uncollectible amounts. The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

The total exposure to credit risk for trade receivables as at the reporting date is limited to Qatar. Moreover, the Group's receivables consist 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.

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36. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

Trade receivables do not bear interest.

The Group does not require collateral as security in respect of its trade and other receivables.

Bank balances

The Group has balances with credit worthy and reputable banks in Qatar with high credit ratings. Therefore, management believes that credit risk in respect of these balances is minimal.

Liquidity risk

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 Company'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.

The following are the contractual maturities of financial liabilities:

31 December 2016	Carrying amounts	Contractual cash flows	Less than 1 year	1 – 2 years	More than 2 years
Non-derivative financial liabilities					
Trade payables (excluding accrual and provisions)	200,935	(200,935)	(200,935)	-	-
Bank loans	5,911,950	(5,911,950)	(1,180,150)	(1,106,772)	(3,625,028)
Derivatives	28,559	(39,469)	(20,277)	(18,468)	(724)
	6,141,444	(6,152,354)	(1,401,362)	(1,125,240)	(3,625,752)
31 December 2015	Carrying amounts	Contractual cash flows	Less than 1 year	1 – 2 years	More than 2 years
Non-derivative financial liabilities					
Trade payables (excluding accrual and provisions)	300,135	(300,135)	(300,135)	-	-
Bank loans	4,915,209	(4,915,209)	(1,089,705)	(69,727)	(3,755,777)
Derivatives	127,339	(160,396)	(107,330)	(35,586)	(17,480)
	5,342,683	(5,375,740)	(1,497,170)	(105,313)	(3,773,257)

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36. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

Market risk

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

The Group uses derivatives to its interest rate risk. All such transactions are carried out within the guidelines set by the Risk Management Committee. Generally, the Group seeks to apply hedge accounting to manage volatility in profit or loss.

Interest rate risk

The Group's interest rate risk arises from bank deposits and borrowings. Bank deposits are issued at fixed rates, which expose the Group to fair value interest rate risk, but management believes that this type of risk is not significant. Borrowings are issued at variable rates which expose the Group to cash flow interest rate risk. The Group has minimised the cash flow interest rate risk using interest rate swap contracts.

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

	2016	2015
Fixed rate instruments:		
Financial assets	<u>3,010,964</u>	<u>1,750,364</u>
Floating interest rate instruments:		
Bank loans	(5,911,950)	(4,915,209)
Effect of interest rate swaps	<u>1,848,650</u>	<u>1,548,539</u>
	<u>(4,063,300)</u>	<u>(3,366,670)</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets or financial liabilities at fair value through profit or loss, and Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates by 25 basis points, with all other variables held constant. The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2016. 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.

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36. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

	Change in basis points	Effect on profit	Effect on equity
2016			
Floating interest rate instruments			
Bank loans	+/-25	14,780	-
Interest rate swaps	+/-25	(4,622)	4,622
		10,158	10,158
2015			
Floating interest rate instruments			
Bank loans	+/-25	12,288	-
Interest rate swaps	+/-25	(3,871)	3,871
		8,417	3,871

Equity price risk

All the Group's equity investments are listed on the Qatar Stock 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 2016	Effect on equity 2016	Change in equity price 2015	Effect on equity 2015
Quoted shares	20%	102,229	20%	68,887

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The deposits of the Group are in QR and USD. As the QR is pegged to the USD, balances in USD are not considered to represent a significant currency risk. Management believes that the Group's exposure to currency risk is minimal.

(b) 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 31 December 2016.

The Group monitors capital using a gearing ratio, which is calculated as net debt divided by total equity and net debt. The Group's policy is to keep the gearing ratio between 40% and 80%, but the Group managed to keep its gearing at lower levels as shown below. The debt is calculated as total borrowings (including current and non-current loans as shown on the consolidated statement of financial position) less cash and cash equivalents. Total equity is the equity attributable to the equity holders of the Group.

QATAR ELECTRICITY & WATER COMPANY Q.S.C.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****For the year ended 31 December 2016***In thousands of Qatari Riyals***36. FINANCIAL RISK AND CAPITAL MANAGEMENT (CONTINUED)****(b) Capital management (continued)**

	2016	2015
Total borrowings	5,911,950	4,915,209
Less: Cash and cash equivalents	<u>(3,011,031)</u>	<u>(1,750,798)</u>
Net debt	2,900,919	3,164,411
Total equity to owners of the Company	8,275,129	7,346,309
Total equity and net debt	<u>11,176,048</u>	<u>10,510,720</u>
Gearing ratio	<u>26%</u>	<u>30%</u>

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments carried at fair value. It does not include fair value hierarchy information for financial assets and financial liabilities not measured at fair value as the carrying amount is a reasonable approximation of fair value.

	Carrying amount				Fair value				
	Fair value hedging instruments	Loans and receivables	Available- for- sale financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2016									
<i>Financial assets measured at fair value</i>									
Equity securities	-	-	511,144	-	511,144	511,144	-	-	511,144
<i>Financial assets not measured at fair value</i>									
Trade and other receivables (excluding prepayments)	-	672,409	-	-	672,409	-	-	-	-
Cash and cash equivalents	-	3,011,031	-	-	3,011,031	-	-	-	-
	-	3,683,440	-	-	3,683,440	-	-	-	-
<i>Derivatives measured at fair value</i>									
Interest rate swaps used for hedging	28,559	-	-	-	28,559	-	28,559	-	28,559
<i>Financial liabilities/derivatives not measured at fair value</i>									
Interest bearing loans and borrowings	-	5,911,950	-	-	5,911,950	-	-	-	-
Trade payables	-	-	-	200,935	200,935	-	-	-	-
	-	5,911,950	-	200,935	6,112,885	-	-	-	-

QATAR ELECTRICITY & WATER COMPANY Q.S.C.

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37. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	Carrying amount				Fair value				
	Fair value hedging instruments	Loans and receivables	Available- for- sale financial assets	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
31 December 2015									
<i>Financial assets measured at fair value</i>									
Equity securities	-	-	344,435	-	344,435	344,435	-	-	344,435
<i>Financial assets not measured at fair value</i>									
Trade and other receivables (excluding prepayments)	-	884,644	-	-	884,644	-	-	-	-
Cash and cash equivalents	-	1,750,798	-	-	1,750,798	-	-	-	-
	-	2,635,442	-	-	2,635,442	-	-	-	-
<i>Derivatives measured at fair value</i>									
Interest rate swaps used for hedging	127,339	-	-	-	127,339	-	127,339	-	127,339
<i>Financial liabilities/derivatives not measured at fair value</i>									
Interest bearing loans and borrowings	-	-	-	4,915,209	4,915,209	-	-	-	-
Trade payables	-	-	-	300,135	300,135	-	-	-	-
	-	-	-	5,215,344	5,215,344	-	-	-	-

37. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are based on unobservable market data.

38. SUBSEQUENT EVENTS

On 17 January 2017, it was publicly announced that the Company and Nebras Power Q.S.C, which is a joint venture in which the Company participated with a 60% shareholding (Note 1), signed a Cooperation Agreement with Masdar, an Abu Dhabi renewable energy company, to develop together renewable and energy sustainable projects.

Other than the above, there were no significant events after the reporting date which have a bearing on the understanding of these consolidated financial statements.

Independent Auditor's report on pages 1 to 6.