Abu Dhabi National Energy Company PJSC
("TAQA")

REPORT OF THE BOARD OF DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

Abu Dhabi National Energy Company PJSC
(“TAQA”)

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2010

Abu Dhabi National Energy Company PJSC
(“TAQA”)

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF

ABU DHABI NATIONAL ENERGY COMPANY PJSC ("TAQA")

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Abu Dhabi National Energy Company PJSC ("TAQA" or the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the applicable provisions of the articles of association of the Company and the UAE Commercial Companies Law of 1984 (as amended), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Report on Other Legal and Regulatory Requirements

We also confirm that, in our opinion, the consolidated financial statements include, in all material respects, the applicable requirements of the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company; proper books of account have been kept by the Company; an inventory was duly carried out and the contents of the report of the Board of Directors relating to these consolidated financial statements are consistent with the books of account. We have obtained all the information and explanations which we required for the purpose of our audit and, to the best of our knowledge and belief, no violations of the UAE Commercial Companies Law of 1984 (as amended) or of the articles of association of the Company have occurred during the year which would have had a material effect on the business of the Company or on its financial position.

Signed by
Bassam E Hage
Partner
Ernst & Young
Registration No. 258

15 March 2011
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2010

	Notes	***2010 AED million***	*2009 AED million*
Revenues			
Revenue from oil and gas	5.1	**8,452**	6,639
Revenue from electricity and water	5.2	**6,330**	6,128
Supplemental fuel income		**5,343**	3,383
Gas storage revenue		**290**	287
Net liquidated damages received	5.3	**451**	22
Other operating revenue	5.4	**535**	396
		21,401	16,855
Cost of sales			
Operating expenses	6	**(10,176)**	(8,160)
Depreciation, depletion and amortisation	7	**(4,490)**	(3,974)
Reversal (provisions) for impairment - property, plant and equipment	8	**416**	(538)
		(14,250)	(12,672)
GROSS PROFIT		**7,151**	4,183
Administrative and other expenses	9	**(823)**	(744)
Finance costs	10.1	**(4,003)**	(3,732)
Interest income	10.2	**148**	73
Changes in fair values of derivatives		**55**	356
Net foreign exchange gains (losses)		**58**	(59)
Bargain purchase gain	3(iv)	**191**	-
Loss on sale of oil and gas assets		**(171)**	-
Share of results of associates	18	**226**	50
Share of results of joint ventures	19	**176**	85
Gain on repurchase of bonds	31(iii)	**-**	260
Other income		**27**	12
PROFIT BEFORE TAX		**3,035**	484
Income tax (expense) credit	11	**(1,152)**	289
PROFIT FOR THE YEAR		**1,883**	773
Attributable to:			
Equity holders of the parent		**1,019**	182
Non-controlling interests		**864**	591
PROFIT FOR THE YEAR		**1,883**	773
Basic and diluted earnings per share attributable to equity holders of the parent (AED)	12	**0.17**	0.03

The attached notes 1 to 43 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	2010 ***AED million***	*2009* *AED million*
Profit for the year	**1,883**	773
Other comprehensive income (loss)		
Changes in fair values of derivative instruments	**(1,123)**	2,327
Share of other comprehensive income of associates (note 18)	**(52)**	-
Board of Directors' remuneration	**(4)**	(4)
Exchange differences arising on translation of overseas operations	**1,171**	3,110
Changes in fair value of available for sale investments (note 15)	**193**	-
Other comprehensive income for the year	**185**	5,433
Total comprehensive income for the year	**2,068**	6,206
Attributable to:		
Equity holders of the parent	**1,703**	4,537
Non-controlling interests	**365**	1,669
	2,068	6,206

The attached notes 1 to 43 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2010

	Notes	*2010 AED million*	*2009 AED million*
ASSETS			
Non-current assets			
Property, plant and equipment	13	**78,651**	59,329
Operating financial assets	14	**4,879**	5,253
Available for sale investments	15	**947**	159
Intangible assets	16	**13,945**	13,540
Investment in associates	18	**314**	261
Investment in joint ventures	19	**814**	1,601
Loan to a joint venture	39	**-**	871
Advance and loan to an associate	20	**398**	-
Other assets	21	**590**	512
		100,538	81,526
Current assets			
Inventories	22	**2,115**	1,773
Operating financial assets	14	**449**	297
Advance and loan to associates	20	**921**	20
Accounts receivable and prepayments	23	**5,332**	3,855
Cash and short-term deposits	24	**5,581**	4,374
		14,398	10,319
Assets classified as held for sale	19	**1,123**	-
		15,521	10,319
TOTAL ASSETS		**116,059**	91,845
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	25	**6,225**	6,225
Treasury shares	25	**(293)**	(293)
Equity contributed capital	25	**341**	25
Other reserves	26	**3,881**	3,677
Retained earnings		**1,172**	1,222
Proposed dividends	27	**607**	607
Foreign currency translation reserve	26	**213**	(958)
Cumulative changes in fair value of available for sale investments		**180**	(13)
Cumulative changes in fair value of derivatives		**(2,822)**	(1,190)
		9,504	9,302
Equity attributable to non-controlling interests			
Non-controlling interests	28	**2,091**	2,154
Loans from non-controlling interest shareholders in controlled subsidiaries	29	**891**	689
Loan from Abu Dhabi Water and Electricity Authority (ADWEA)	30	**2,752**	265
		5,734	3,108
Total equity		**15,238**	12,410
Non-current liabilities			
Investment in associate	18	**203**	-
Interest bearing loans and borrowings	31	**69,583**	56,144
Islamic loans	32	**1,788**	1,909
Deferred tax	11	**4,657**	4,057
Asset retirement obligations	33	**6,557**	5,798
Advances and loan from related parties	34	**337**	52
Loan from non-controlling interest shareholders in subsidiaries		**119**	162
Other liabilities	35	**5,132**	2,687
		88,376	70,809
Current liabilities			
Accounts payable, accruals and other liabilities	36	**6,271**	3,730
Interest bearing loans and borrowings	31	**5,330**	4,399
Islamic loans	32	**118**	105
Loans from non-controlling interest shareholders in subsidiaries		**46**	46
Amounts due to ADWEA and other related parties	37	**461**	18
Income tax payable		**127**	236
Bank overdrafts	24	**92**	92
		12,445	8,626
Total liabilities		**100,821**	79,435
TOTAL EQUITY AND LIABILITIES		**116,059**	91,845

DIRECTOR | CHIEF EXECUTIVE OFFICER | CHIEF FINANCIAL OFFICER

The attached notes 1 to 43 form part of these consolidated financial statements.

Abu Dhabi National Energy Company PJSC ("TAQA")

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to equity holders of the parent													
	Share capital AED million	*Treasury shares AED million*	*Other reserves AED million*	*Equity contributed capital AED million*	*Retained earnings AED million*	*Proposed dividends AED million*	*Foreign currency translation reserve AED million*	*Cumulative changes in fair value of available for sale investments AED million*	*Cumulative changes in fair value of derivatives AED million*	*Total AED million*	*Non-controlling interests AED million*	*Loans from non-controlling interest shareholders in controlled subsidiaries AED million*	*Loan from ADWEA AED million*	*Total equity AED million*
Balance at 1 January 2009	6,225	(22)	3,595	25	1,733	933	(4,068)	(13)	(2,439)	5,969	584	953	241	7,747
Profit for the year	-	-	-	-	182	-	-	-	-	182	591	-	-	773
Other comprehensive (loss) income for the year	-	-	-	-	(4)	-	3,110	-	1,249	4,355	1,078	-	-	5,433
Total comprehensive (loss) income for the year	-	-	-	-	178	-	3,110	-	1,249	4,537	1,669	-	-	6,206
Transfer to statutory reserve	-	-	18	-	(18)	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	-	-	64	-	(64)	-	-	-	-	-	-	-	-	-
Proposed dividends (note 27)	-	-	-	-	(607)	607	-	-	-	-	-	-	-	-
Dividends paid (note 27)	-	-	-	-	-	(933)	-	-	-	(933)	-	-	-	(933)
Dividends paid to non-controlling interest shareholders in subsidiaries	-	-	-	-	-	-	-	-	-	-	(284)	-	-	(284)
Loans received from ADWEA	-	-	-	-	-	-	-	-	-	-	-	-	24	24
Repayment of loans	-	-	-	-	-	-	-	-	-	-	-	(264)	-	(264)
Share capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	185	-	-	185
Sale of treasury shares (note 25)	-	15	-	-	-	-	-	-	-	15	-	-	-	15
Purchase of treasury shares (note 25)	-	(286)	-	-	-	-	-	-	-	(286)	-	-	-	(286)
Balance at 31 December 2009	6,225	(293)	3,677	25	1,222	607	(958)	(13)	(1,190)	9,302	2,154	689	265	12,410
Balance at 1 January 2010	6,225	(293)	3,677	25	1,222	607	(958)	(13)	(1,190)	9,302	2,154	689	265	12,410
Adjustment relating to acquisition of an associate and subsidiaries (notes 3 and 18)	-	-	-	-	(269)	-	-	-	(956)	(1,225)	(551)	-	-	(1,776)
	6,225	(293)	3,677	25	953	607	(958)	(13)	(2,146)	8,077	1,603	689	265	10,634
Profit for the year	-	-	-	-	1,019	-	-	-	-	1,019	864	-	-	1,883
Other comprehensive (loss) income for the year	-	-	-	-	(4)	-	1,171	193	(676)	684	(499)	-	-	185
Total comprehensive (loss) income for the year	-	-	-	-	1,015	-	1,171	193	(676)	1,703	365	-	-	2,068
Transfer to statutory reserve	-	-	102	-	(102)	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	-	-	102	-	(102)	-	-	-	-	-	-	-	-	-
Proposed dividends (note 27)	-	-	-	-	(607)	607	-	-	-	-	-	-	-	-
Capital contributed during the year (note 25)	-	-	-	316	-	-	-	-	-	316	-	-	-	316
Dividends paid (note 27)	-	-	-	-	-	(592)	-	-	-	(592)	-	-	-	(592)
Adjustment relating to treasury shares	-	-	-	-	15	(15)	-	-	-	-	-	-	-	-
Dividends paid to non-controlling interest shareholders in subsidiaries	-	-	-	-	-	-	-	-	-	-	(353)	-	-	(353)
Share capital injection by non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	476	-	-	476
Loans received from non-controlling interest shareholders	-	-	-	-	-	-	-	-	-	-	-	414	-	414
Loans received from ADWEA (note 30)	-	-	-	-	-	-	-	-	-	-	-	-	2,622	2,622
Repayment of loans	-	-	-	-	-	-	-	-	-	-	-	(212)	(135)	(347)
Balance at 31 December 2010	6,225	(293)	3,881	341	1,172	607	213	180	(2,822)	9,504	2,091	891	2,752	15,238

The attached notes 1 to 43 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	*2010* AED million	*2009* AED million
OPERATING ACTIVITIES			
Profit before tax		**3,035**	484
Adjustments for:			
Depreciation, depletion and amortisation	7	**4,490**	3,974
Employee benefit obligations, net		**7**	8
Loss (gain) on exchange of operating financial assets		**148**	(22)
(Gain)loss on exchange of interest bearing loans and borrowings		**(165)**	139
(Reversal)/provisions for impairment - property, plant and equipment		**(416)**	538
Exploration and evaluation costs derecognised during the year		**178**	116
Bargain purchase price		**(191)**	-
Loss on sale of assets		**171**	-
Gain on repurchase of bonds		**-**	(260)
Interest expense and notional interest	10	**3,673**	3,461
Accretion expense	10	**330**	271
Share of results of associates	18	**(226)**	(80)
Share of results of joint venture	19	**(176)**	(55)
Unrealised gains on fair valuation of derivatives		**(55)**	(310)
Interest income		**(148)**	(73)
Working capital changes:			
Inventories		**(342)**	(29)
Accounts receivables, prepayments and other assets		**(1,396)**	294
Amount due to ADWEA and related parties		**145**	1
Accounts payables, accruals and other liabilities		**594**	(93)
Income tax paid		**(790)**	(392)
Interest paid		**(3,361)**	(3,419)
Board of directors' remuneration paid		**(4)**	(4)
Asset retirement obligation payments		**(167)**	(140)
Movement of operating financial assets		**239**	208
Net cash from operating activities		**5,573**	4,617
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(7,503)**	(2,010)
Proceeds from sale of property, plant and equipment		**366**	-
Purchase of subsidiaries, net of cash acquired		**(881)**	(425)
Purchase of investment in a joint venture		**-**	(681)
Purchase of investment in associate	18	**-**	(978)
Dividend received from associates		**-**	42
Dividend received from joint venture		**171**	37
Advances to/from to related parties		**-**	(312)
Loan to an associate		**184**	-
Loan to a joint venture	39	**-**	(908)
Repayment of loan and interest by joint venture		**474**	-
Purchase of available for sale investments		**(53)**	(12)
Interest received		**148**	75
Purchase of intangible assets		**(229)**	(317)
Other assets		**(27)**	(26)
Net cash used in investing activities		**(7,350)**	(5,515)
FINANCING ACTIVITIES			
Interest bearing loans and borrowings received		**12,237**	13,043
Repurchase of bonds		-	(928)
Repayment of interest bearing loans and borrowings		**(8,525)**	(9,418)
Repayment of Islamic loans		**(113)**	(110)
Purchase of treasury shares		-	(271)
Share capital injection by non-controlling interest shareholders		**476**	185
Dividend paid to equity holders of the parent	27	**(592)**	(933)
Dividend paid to non-controlling interest shareholders		**(353)**	(251)
Loans received from Abu Dhabi Water and Electricity Authority		**61**	24
Repayment of loans from Abu Dhabi Water and Electricity Authority		**(135)**	-
Loans received from non-controlling interest shareholders		**414**	26
Repayment of loans from non-controlling interest shareholders		**(255)**	(264)
Net cash from financing activities		**3,215**	1,103
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,438**	205
Net foreign exchange difference		**(231)**	(22)
Cash and cash equivalents at 1 January		**4,282**	4,099
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**5,489**	4,282

The attached notes 1 to 43 form part of these consolidated financial statements.

1 CORPORATE INFORMATION

Abu Dhabi National Energy Company PJSC ("TAQA" or the "Company") was established on 21 June 2005 pursuant to the provisions of Emiri Decree number 16/2005 as a public joint stock company with Abu Dhabi Water and Electricity Authority ("ADWEA") as its founding shareholder and 100% owner. During the period from 23 July 2005 to 1 August 2005, 24.9% of TAQA's shares were offered to the public on the Abu Dhabi Securities Exchange through an Initial Public Offering (IPO) and 24.1% were offered through a private offering with the remaining 51% interest holding in the Company retained by ADWEA and, accordingly, the Company is a subsidiary of ADWEA. Following the issuance of mandatory convertible bonds and conversion of the bonds into ordinary shares during the third quarter of 2008, ADWEA's holding increased to 51.05%. Public ownership increased to 27.95% and the balance of 21% is held by the Farmers' Fund. The Company continues to be a subsidiary of ADWEA which was established pursuant to the provisions of Law 2 of 1998, concerning the regulation of the Water and Electricity Sector.

The principal activity of TAQA is to own and invest in companies engaged in power generation, water desalination and development, production and storage of oil and gas, in addition to other investments as considered appropriate to meet its objectives. TAQA's registered head office is P O Box 55224, Abu Dhabi, United Arab Emirates.

The consolidated financial statements of TAQA and its subsidiaries (the "Group") for the year ended 31 December 2010 include the financial statements of TAQA and all its subsidiaries. Details of the major operating subsidiaries are provided in note 40 to the consolidated financial statements.

The consolidated financial statements of the Group were authorised for issuance by the Board of Directors on 15 March 2011.

2.1 BASIS OF PREPARATION

The consolidated financial statements of TAQA have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the applicable requirements of the UAE Commercial Companies Law 1984 (as amended).

The consolidated financial statements are prepared on a historical cost basis, except for the measurement at fair value of available for sale investments and derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

The consolidated financial statements have been presented in United Arab Emirates Dirhams (AED), which is the functional currency of the parent Company and presentation currency of the Group. All values are rounded to the nearest million (AED million) except when otherwise indicated.

2.2 BASIS OF CONSOLIDATION

Basis of consolidation from 1 January 2010
The consolidated financial statements incorporate the financial statements of the Group and each of its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated in full.

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

2.2 BASIS OF CONSOLIDATION continued

Basis of consolidation from 1 January 2010 continued
A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

Basis of consolidation prior to 1 January 2010
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests ("NCI"), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the NCI until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the NCI had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between NCI and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

Business combinations and goodwill
Business combinations from 1 January 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non- controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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

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

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

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

2.2 BASIS OF CONSOLIDATION continued

Business combinations and goodwill continued
Business combinations from 1 January 2010 continued
After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units or group of cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Business combinations prior to 1 January 2010
In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations
The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

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

The adoption of the above standards and interpretations did not have a material effect on the financial performance or position of the Group. However, the adoption of certain standards and interpretations resulted in certain disclosures in the consolidated financial statements as described below:

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

New and amended standards and interpretations continued

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

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

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

The change in accounting policy was applied prospectively and had no material impact on earnings per share.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items
The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners
This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

Improvements to IFRSs (May 2008 and April 2009)
In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the amendments did not have any material impact on the accounting policies, financial position or performance of the Group.

Issued in May 2008

- *IFRS 5 Non-current Assets Held for Sale and Discontinued* Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

Issued in April 2009

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:* clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Company.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES continued

New and amended standards and interpretations continued

Issued in April 2009 continued

- *IFRS 8 Operating Segments:* clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Company.

- *IAS 7 Statement of Cash Flows:* States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment will impact amongst others, the presentation in the statement of cash flows of the contingent consideration on the business combination completed in 2010 upon cash settlement.

- *IAS 36 Impairment of Assets*: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation. The amendment has no impact on the Company as the annual impairment test is performed before aggregation.

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

Issued in April 2009

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

In addition to the above, the Company has early adopted IAS 24 Related Party Disclosures (Amendment).

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. However, the Company has chosen to adopt the requirements early, in its 2010 financial statements. The amendment clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company has concluded that the early adoption of the amendment did not have any significant impact on its financial position or performance.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Judgements
The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods.

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Judgements continued

Reserves base – Oil and gas assets

Oil and gas development and production properties are depreciated on a unit of production basis at a rate calculated by reference to proved and probable reserves and incorporating the estimated future cost of developing and extracting those reserves. Proved and probable oil and gas reserves are determined using estimates of oil in place, recovery factors and future oil prices. Future development costs are estimated using assumptions as to number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The volume of estimated oil and gas reserves is also a key determinant in assessing whether the carrying value of any of the Group's development and production assets has been impaired.

Service concession arrangements

Some of the Group's foreign subsidiaries have entered into power purchase agreements ("PPA") with offtakers in countries where they are operating. Management has determined these arrangements to be service concession arrangements under IFRIC 12 *Service Concession Arrangements* by applying the requirements of the interpretation to the facts and circumstances in each location. The Group's domestic (United Arab Emirates) subsidiaries have entered into long term Power and Water Purchase Agreements ("PWPA") with Abu Dhabi Water and Electricity Company (ADWEC). Management does not consider the PWPA to fall within the scope of IFRIC Interpretation 12 *Service Concession Arrangements*.

Operating lease commitments – Subsidiaries as lessor

As mentioned above the Group's domestic subsidiaries have entered into PWPAs. Under the PWPAs, the subsidiaries receive payment for the provision of electrical and water capacity, whether or not ADWEC requests electrical and water output ("capacity payments"), and for the variable costs of production ("energy and water payments"). The subsidiaries have determined the PWPAs to be leases. Based on the contractual arrangements in place, management considers that the Group retains the principal risks and rewards of ownership of the plants and so accounts for the PWPAs as operating leases.

Impairment of available for sale investments

The Group treats available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgement.

Impairment of non financial assets – Indicators of impairment

Management determines at each reporting date whether there are any indicators of impairment relating to the Group's property, plant and equipment, intangible assets or goodwill. A broad range of internal and external factors is considered as part of the indicator review process.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.:

Business combinations

Accounting for the acquisition of a business requires an estimate of fair value to be made for most assets and liabilities of the acquired business. Determining the fair value of assets acquired and liabilities assumed requires judgement by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of licenses and other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after the acquisition closing date to complete these fair value determinations and finalise the acquisition accounting.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. Any difference between the amounts actually collected in future periods and the amounts expected to be recovered will be recognised in the consolidated income statement.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed and a provision applied according to the inventory type and the Group's policy for inventory provisioning.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of non financial assets – Impairment Testing

The Group's impairment testing for non financial assets is based on calculating the recoverable amount of each cash generating unit or group of cash generating units being tested. Recoverable amount is the higher of value in use and fair value less costs to sell. Value in use for relevant cash generating units is derived from projected cash flows as approved by management and do not include restructuring activities that the group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. Fair value less cost to sell for relevant cash generating units is generally derived from discounted cash flow models using market based inputs and assumptions. Recoverable amount is most sensitive to price assumptions, foreign exchange rate assumptions and discount rates used in the cash flow models. The key assumptions used to determine the recoverable amount are further explained in the notes 8 and 17 to the consolidated financial statements, which relate to impairment charges and impairment testing.

Estimation of oil and gas reserves

Oil and gas reserves and resources used for accounting purposes are estimated using internationally accepted methods and standards. The Group's annual oil and gas reserves and resources review process includes an external audit process conducted by appropriately qualified parties. All reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of hydrocarbon reserves resulting from new information becoming available from development and production activities have tended to be the most significant cause of annual revisions. Changes in oil and gas reserves are an important indication of impairment or reversal of impairment and may result in subsequent impairment charges or reversals as well as affecting the unit-of-production depreciation charge in the consolidated income statement.

Provision for decommissioning

Decommissioning costs will be incurred by the Group at the end of the operating life of certain of the Group's facilities and properties. The ultimate decommissioning costs or asset retirement obligations are uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at production sites. The expected timing of expenditure can also change, for example in response to changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

Income taxes

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Group to make significant assumptions related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding sales taxes, royalties, and other similar levies as applicable.

Oil and gas

Revenue from the sale of oil and gas is recognised when the significant risks and rewards of ownership have been transferred, which is when title passes to the customer. This generally occurs when product is physically transferred into a vessel, pipe or other delivery mechanism.

Lifting or offtake arrangements for oil and gas produced by certain of the Group's jointly owned assets are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within current assets and current liabilities respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlements basis.

Gas storage

The income from gas storage is recognised when the service is provided and accepted by customers.

Water and electricity and supplemental fuel income

The revenue recognition of the Group is as follows:

(i) Where the Group determines that the PWPA/PPA contains a finance lease or meets the financial asset model requirements for service concession arrangements, capacity payments are recognised as finance income using a rate of return specific to the plant to give a constant periodic rate of return on the net investment in each year. Where the Group determines that the PWPA/PPA contains an operating lease, capacity payments are recognized as operating lease rentals on a systematic basis to the extent that capacity has been made available to the offtaker during the year.

(ii) Those payments which are not included as finance income or capacity payments (e.g. supplemental fuel income), are recognised as revenue in accordance with the contractual terms of the PWPA/PPA.

(iii) Energy and water payments are recognised as revenue when the contracted power and water is delivered to the offtaker.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued
Liquidated damages
Liquidated damages in respect of loss of revenue due to late commissioning are included in revenue net of liquidated damages payable to the offtaker when the right to receive the liquidated damages is established.

Interest income
Interest revenue is recognised as the interest accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Taxes
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date, in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax
Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Taxes continued

Deferred income tax

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated income statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Foreign currency translation

The consolidated financial statements are presented in UAE Dirhams (AED), which is the parent company's functional and presentation currency. Functional currency is the currency of the primary economic environment in which an entity operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group has elected to recycle the gain or loss that arises from the direct method of consolidation which is the method the Group uses to complete its consolidation.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date.

All differences are taken to the consolidated income statement with the exception of all monetary items that provide an effective hedge of a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the consolidated income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Interests in joint ventures
i) Jointly controlled entities
A jointly controlled entity is a joint venture whereby the venturers have a contractual agreement that establishes joint control over the economic activities of the entity. Where the Group has an interest in a jointly controlled entity it recognises its interest using the equity method. Under the equity method, the investment in the joint venture is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of the net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not amortised nor individually tested for impairment. The consolidated income statement reflects the share of the results of the operations of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The share of profit of the joint venture is included in the consolidated income statement. This is the profit attributable to equity holders of the joint venture and therefore is profit after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies into line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss for the Group's investment in the joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case the Group calculates the amount of the impairment and recognises the amount in the consolidated income statement. Investments in joint ventures are impairment-tested as financial assets.

ii) Oil and gas joint ventures
Certain of the Group's activities in the oil and gas segment are conducted through joint ventures where the venturers have a direct ownership interest in and jointly control the underlying assets of the venture. The Group accounts for its share of the jointly controlled assets, any liabilities it has incurred, its share of any liabilities jointly incurred with other ventures, income from the sale or use of its share of the joint venture's output, together with its share of the expenses incurred by the joint venture, and any expenses it incurs in relation to its interest in the joint venture.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and includes assessing whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as a lessee
Finance leases, which transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the consolidated income statement. Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Leases continued
Group as a lessor - Operating leases
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Group as a lessor - Finance leases
Leases where the Group transfers substantially all the risks and benefits of ownership of the asset are classified as financial leases. The amounts due from the lessee are recorded in the statement of financial position as financial assets (finance lease receivable) and are carried at the amount of the net investment in the lease after making provision for bad and doubtful debts.

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Amortisation for the year is calculated on a straight-line basis as follows:

Tolling Agreement	14 years
Connection rights	34- 40 years
Computer software	3 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement in the expense category consistent with the function of the intangible asset.

Accounting policies relating to intangible assets arising from oil and gas exploration and evaluation expenditure are explained below under oil and natural gas exploration, evaluation and development expenditure.

Oil and natural gas exploration, evaluation and development expenditure
Exploration & evaluation costs - Capitalisation
Pre-license costs and geological and geophysical exploration costs incurred prior to obtaining the rights to explore are recognised in the income statement when incurred. Costs incurred after the rights to explore have been obtained, such as geological and geophysical costs, drilling and commercial appraisal costs and other directly attributable costs of exploration and evaluation activity, including technical and administrative costs for each exploration asset, are capitalised as intangible exploration and evaluation ("E&E") assets. E&E costs are not amortised prior to the conclusion of appraisal activities.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Oil and natural gas exploration, evaluation and development expenditure continued
Exploration & evaluation costs – Capitalisation continued
At completion of appraisal activities if technical feasibility is demonstrated and commercial reserves are discovered then, following development sanction, the carrying value of the relevant E&E asset is reclassified as a development and production ("D&P") asset. This category reclassification is only performed after the carrying value of the relevant E&E asset has been assessed for impairment, and where appropriate, its carrying value adjusted. If commercial reserves are not discovered at the completion of appraisal activity of each field and it is not expected to derive any future economic benefits, the E&E asset is written off to the income statement.

Development costs
Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells, is capitalised within oil and gas properties.

Property, plant and equipment
Property, plant and equipment - general
Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. When significant parts of property, plant and equipment are required to be replaced in intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Day to day servicing and maintenance costs are recognised in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning obligation of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight line basis over the estimated useful lives of assets (except for oil and gas properties) as follows:

Building, equipment, plant and machinery	20 to 40 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date.

The cost of spare parts held as essential for the continuity of operations and which are designated as strategic spares are depreciated on a straight line basis over their estimated operating life. Spare parts used for normal repairs and maintenance are expensed when issued.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year the asset is derecognised.

Property, plant and equipment - Oil and gas properties
Oil and gas properties in the development and production phase ("D&P" assets) and other related assets are stated at cost, less accumulated depreciation and accumulated impairment losses (net of reversal of previously recognised impairment losses, if any). The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and the initial estimate of the decommissioning obligation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment continued
Property, plant and equipment - Oil and gas properties continued
Oil and gas properties are depreciated on a unit-of-production basis over the proved and probable ("2P") reserves of the field concerned. The unit-of-production rate for the amortisation of field development costs takes into account expenditures incurred to date, together with estimated future development expenditure. Depreciation on oil and gas properties does not commence until the commencement of production from the property.

Property, plant and equipment - Major maintenance and repairs
Expenditure on major maintenance refits or repairs comprises the cost of replacement assets or parts of assets, inspection costs and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the group, the expenditure is capitalised. Where an asset or part of an asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced asset (or asset part) which is immediately written off. Inspection costs associated with major maintenance programs are capitalised when the recognition criteria are met and amortised over the period to the next inspection. Day to day servicing and maintenance costs are expensed as incurred.

Property, plant and equipment - capital work in progress
Capital work in progress is included in property, plant and machinery at cost on the basis of the percentage completed at the reporting date. The capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the above policies when construction of the asset is completed and commissioned.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as a reduction to the carrying amount of the asset.

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

Initial spares fee
The fee paid for initial spares to be provided under a long-term maintenance contract is capitalised and amortised over the equivalent operating hours of the related power generating equipment.

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

Investment in associates
Investments in associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investment in associates continued
Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The share of profit of associates is included in the consolidated income statement. This is the profit attributable to equity holders of the associate and therefore is profit after tax and non-controlling interests in the subsidiaries of the associates.

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

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

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

Impairment of non-financial assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent appropriate market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognised in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets' or cash-generating units' recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets continued
The following criteria are also applied in assessing impairment of specific assets:

Goodwill
Goodwill is tested for impairment annually during the fourth quarter of each year and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit, or group of cash generating units, to which the goodwill is allocated. Where the recoverable amount of the cash-generating units or group of cash generating units is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. For the purposes of testing goodwill for impairment, any of the related deferred tax liabilities recognised on acquisition that, led to the creation of goodwill, and remain at the reporting date as estimated by the management are treated as part of the relevant CGU or group of CGUs.

Exploration & evaluation (E&E) costs
An impairment review is performed if and when facts and circumstances indicate that the carrying amount of an E&E asset may exceed its recoverable amount. For the purpose of E&E asset impairment testing, cash generating units are grouped at the operating segment level. An impairment test performed in the E&E phase therefore involves grouping all E&E assets within the relevant segment with the development & production (D&P) assets belonging to the same segment. The combined segment carrying amount is compared to the combined segment recoverable amount and any resulting impairment loss identified within the E&E asset is written off to the income statement. The recoverable amount of the segment is determined as the higher of its fair value less costs to sell and its value in use.

Inventories
Inventories are valued at the lower of cost, determined on the basis of weighted average cost, and net realisable value. Costs are those expenses incurred in bringing each item to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Service concessions
The Group accounts for service concession arrangements under IFRIC 12 when the following conditions are met:

- the grantor (usually a government entity) controls or regulates what services the operator must provide with the infrastructure, to whom it must provide them, and at what price; and
- the grantor (usually a government entity) controls – through ownership, beneficial entitlement or otherwise – any significant residual interest in the infrastructure at the end of the term of the arrangement.

In view of the above, concession infrastructure that does not meet the requirements of IFRIC 12 is presented as property, plant and equipment. Under IFRIC 12, the operator's rights over the plant operated under concession arrangements are accounted for based on the party primarily responsible for payment:

- the "intangible asset model" is applied when users have primary responsibility to pay for the concession services;
- and the "financial asset model" is applied when the grantor has the primary responsibility to pay the operator for the concession services.

Where the grantor guarantees the amounts that will be paid over the term of the contract (e.g. via a guaranteed internal rate of return), the financial asset model is used to account for the concession infrastructure, since the grantor is primarily responsible for payment. The financial asset model is used to account for BOT (Build, Operate and Transfer) contracts entered into with grantor.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Service concessions continued
Pursuant to these principles:

- infrastructure to which the operator is given access by the grantor of the concession at no consideration is not recognized in the consolidated statement of financial position;

- start-up capital expenditure is recognized as follows:
  - under the intangible asset model, the fair value of construction and other work on the infrastructure represents the cost of intangible asset and should be recognised when the infrastructure is built provided that this work is expected to generate future economic benefits,
  - under the financial asset model, the amount receivable from the grantor is recognized at the time the infrastructure is built, at the fair value of the construction and other work carried out,
  - when the grantor has a payment obligation for only part of the investment, the cost is recognized in receivables for the amount guaranteed by the grantor, with the balance included in intangible assets.

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

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

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

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

The Group has not designated any financial assets as at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest rate method less impairment charges. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method. This method uses an effective interest rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial assets continued
Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses recognised directly in other comprehensive income until the investment is derecognised, at which time the cumulative gain or loss recorded in other comprehensive income is recognised in the consolidated income statement, or determined to be impaired, at which time the cumulative loss recorded in other comprehensive income is recognised in the consolidated income statement.

Financial liabilities
Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, interest bearing loans and borrowings, Islamic loans and derivative financial instruments.

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

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39.

Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

The Group has not designated any financial liabilities as at fair value through profit or loss.

Loans and borrowings
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value of financial instruments
The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date, without any deduction for transaction costs.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 41.4.

Amortised cost of financial instruments
Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

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

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated income statement. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

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

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

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises a liability. The transferred asset and associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedge accounting
Initial recognition and subsequent measurement
The Group uses derivative financial instruments such as forward currency contracts, and interest rate swaps and forward commodity contracts to hedge its foreign exchange risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives are taken directly to the consolidated income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

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

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the consolidated income statement in finance costs.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedge accounting continued
Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in cash flow hedge reserve, while any ineffective portion is recognised immediately in the consolidated income statement in other operating expenses.

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

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

The Group uses forward currency contracts as hedges of its exposures to foreign currency risk in forecasted transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The Group has elected not to apply hedge accounting for these forward and commodity contracts.

Hedges of a net investment
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in other comprehensive income is transferred to the consolidated income statement.

Current versus non-current classification
Derivative instruments that are not a designated and effective hedging instrument are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond 12 months after the reporting date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.

- Embedded derivates that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classifed consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

Normal purchase or sale exemption
Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements fall within the exemption from IAS 32 and IAS 39, which is known as the 'normal purchase or sale exemption'. These contracts are accounted for as executory contracts. The Group recognises such contracts in its statement of financial position only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Treasury shares
Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carry amount and the consideration is recognised in other capital reserves.

Pensions and other post employment benefits
Employees’ end of service benefits
The Group provides end of service benefits to certain employees. The entitlement to these benefits is usually based upon the employees’ length of service and the completion of a minimum service period and year, the expected costs of these benefits are accrued over the years of employment. With respect to its UAE national employees, the Group makes contributions to the Abu Dhabi Retirement Pensions and Benefits Fund calculated as a percentage of the employees’ salaries. Where the Group’s obligations are limited to these contributions made to pension and benefit funds, these contributions are expensed when due.

Defined benefit pension plan
The cost of defined benefit pension plans and other post employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. The cost of providing benefits under defined benefit plans is determined using the projected unit credit method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses for an individual plan at the end of the previous reporting period exceed 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plans.

The past service costs are recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs and actuarial gains and losses not yet recognised and less the fair value of plan assets out of which the obligations are to be settled. The value of any asset is restricted to the sum of any past service cost not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Share-based payment transactions
Certain qualifying employees receive part of their remuneration in the form of share-based payment transactions. The employees are granted notional units of the Company’s ordinary shares which are settleable in cash (cash-settled transactions). The cost of the cash settled transactions is measured initially at fair value at the grant date based on the unit value determined by management of the Company. The fair value is expensed to the consolidated income statement until the vesting date with recognition of a corresponding liability (shown under “other non-current liabilities”). The liability is remeasured at each reporting date up to and including the settlement date with changes in fair value recognised in the consolidated income statement.

Cash and short-term deposits
Cash and short-term deposits in the consolidated statement of financial position comprise cash at banks and on hand and short term deposits with an original maturity of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Provisions and contingent liabilities

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Asset retirement obligations/ decommissioning liability

Certain subsidiaries have legal obligations in respect of site restoration and abandonment of their power generation and water desalination assets and oil and gas properties at the end of their useful lives (decommissioning costs). The Group records a provision for the site restoration and abandonment based upon estimated costs at the end of their useful lives. Accordingly, a corresponding asset is recognised in property, plant and equipment. Decommissioning costs are recorded at the present value of expected costs to settle the obligations using estimated cash flows and are recognised as part of the cost of that each specific asset. The cash flows are discounted at rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognised in the consolidated income statement as a finance cost. The estimated future costs of the asset retirement obligation are reviewed annually and adjusted as appropriate. Changes to provisions based on revised costs estimates or discount rate applied charges are added to or deducted from the cost of the relevant asset.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. The Group intends to adopt those standards when they become effective. In the opinion of management, the adoption of the above standards and interpretations will have no material impact on the financial position or performance of the Company.

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

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

IFRS 9 *Financial Instruments: Classification and Measurement*

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

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

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

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

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

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

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

- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (issued in May 2010)

In the opinion of management, the adoption of the above standards and interpretations will have no material impact on the financial position or performance of the Company.

3 BUSINESS COMBINATIONS

Acquisitions in 2010

During the year ended 31 December 2010, TAQA made the following acquisitions:

(i) Ruwais Power Holding Company ("RPHC")
During 2010, ADWEA transferred 90% of its holding in RPHC to TAQA. RPHC holds 60% in Ruwais Power Company ("RPC") which owns the Shuweihat 2 power and water plant. RPC entered into a Power and Water Purchase Agreement (PWPA) with Abu Dhabi and Electricity Company (ADWEC). Under the PWPA, RPC undertakes to make available and ADWEC undertakes to purchase the entire net capacity of the plant until August 2031 in accordance with various agreed terms and conditions. The estimated future capacity payments to be received by RPC under the PWPA based on projected plant availability amount to AED 21.1 billion.

The transfer of the 90% interest in RPHC to TAQA is considered to be a business combination between entities under common control in which the combining entity is ultimately controlled by the same party both before and after the business combination. Accordingly this business combination was recorded on the basis of the pooling of interest method effective 1 January 2010.

3 BUSINESS COMBINATIONS continued

Acquisitions in 2010 continued

(i) Ruwais Power Holding Company ("RPHC") continued

The carrying value of identifiable assets and liabilities of RPHC at 1 January 2010 was as follows:

	AED million
Non-current assets	4,420
Current assets	71
Non-current liabilities	(3,154)
Current liabilities	(825)
Net assets	512
Equity share	655
Non-controlling interest	(143)
	512

For the year ended 31 December 2010, RPHC has contributed AED nil revenue and a loss of AED 45 million to the Group.

(ii) Fujairah Water and Electricity Company ("FWEC")

During 2010, ADWEA transferred 90% of its holding in FWEC to TAQA. FWEC holds 60% in Fujairah Asia Power Company (FAPCO) which owns the Fujairah 2 power and water plant. FAPCO entered into a Power and Water Purchase Agreement (PWPA) with Abu Dhabi and Electricity Company (ADWEC). Under the PWPA, FAPCO undertakes to make available and ADWEC undertakes to purchase the entire net capacity of the plant until 2030 in accordance with various agreed terms and conditions. The estimated future capacity payments to be received by FAPCO under the PWPA based on projected plant availability amount to AED 23.3 billion.

The transfer of the 90% interest in FWEC to TAQA is considered to be a business combination between entities under common control in which the combining entity is ultimately controlled by the same party both before and after the business combination. Accordingly this business combination was recorded on the basis of the pooling of interest method effective 1 January 2010.

The carrying value of identifiable assets and liabilities of FWEC at 1 January 2010 was as follows:

	AED million
Non-current assets	8,462
Current assets	73
Non-current liabilities	(6,928)
Current liabilities	(2,495)
Net assets	(888)
Equity share	(480)
Non-controlling interest	(408)
	(888)

For the year ended 31 December 2010, FWEC has contributed AED 727 million of revenue and a profit of AED 526 million to the Group.

3 BUSINESS COMBINATIONS continued

(iii) Shuweihat Shared Facilities Company LLC ("SSFC")

As noted above, during 2010, ADWEA transferred 90% of its holding in RPHC to TAQA. RPHC holds 60% in Ruwais Power company ("RPC") which owns 30% equity interest in Shuweihat Shared Facilities Company ("SSFC"). As part of this acquisition, the effective holding in SSFC has now increased from 22% to 38% which gave TAQA control over SSFC. The principal activities of the SSFC are to own, develop, operate and maintain service utility infrastructure for water supply and disposal, and to provide services associated with power production and water desalination projects, currently only in the S1and S2 plant to Shuweihat CMS International Power Company PJSC and in Ruwais Power company . The Company has no employees and uses operation & maintenance services provided by Shuweihat CMS International Power Company PJSC.

The carrying value of identifiable assets and liabilities of SSFC at 1 January 2010 was as follows:

	AED million
Non-current assets	337
Current assets	3
Non-current liabilities	(338)
Current liabilities	(1)
Net assets	1

For the year ended 31 December 2010, SSFC has not contributed any revenue or profit to the Group.

(iv) Acquisition of Suncor Assets

In August 2010, TAQA NORTH, a wholly owned subsidiary of TAQA, completed the acquisition of a business constituting a package of certain oil and gas properties in West Central Alberta from Suncor Energy Oil and Gas Partnership (Suncor). The fair value of the identifiable assets and liabilities of the acquisition as at the completion date was:

	Fair value recognised on acquisition AED million
Property, plant, and equipment	1,474
Accounts payable, accruals and other liabilities	(24)
Asset retirement obligations	(205)
Deferred tax liabilities	(64)
	(293)
Net assets	1,181
Bargain purchase gain	(191)
Total acquisition cost	990

It has not been practicable to present carrying values of the assets and liabilities immediately prior to acquisition as the relevant balances were subsumed within Suncor and reported under a different GAAP framework.

The purchase price allocation has been finalised at the reporting date. The Group believes that the bargain purchase gain was generated as a result of the deal negotiation process and hydro carbon reserves and resource knowledge within the Group.

3 BUSINESS COMBINATIONS continued

Acquisitions in 2010 continued

(iv) Acquisition of Suncor Assets continued
From the date of acquisition, Suncor assets have contributed AED 75 million of revenue and AED 12 million to the profit of the Group.

Analysis of cash flows on acquisition of Suncor assets:

	AED million
Acquisition cost paid in cash	(990)
Transaction costs of the acquisition (recognised as expenses in the consolidated income statement)	(6)
	(996)

Acquisitions – Profit and revenues
If the above acquisition had taken place at the beginning of the year, the profit of the Group would have been AED 1,944 million and revenues would have been AED 21,552 million.

Acquisition in 2009

During the year ended 31 December 2009, TAQA made the following acquisition:

(i) Acquisition of DSM Energie Holding B.V.

No gains, losses, error corrections or other adjustments were recognised in the current period relating to the acquisition of the DSM business completed during the year ended 31 December 2009. The acquisition accounting was finalised in the prior period and the goodwill recognised on the acquisition remains unchanged at AED 341 million as at 31 December 2010.

4 SEGMENTAL INFORMATION

For management reporting purposes the Group is organised into business units based on their geography, products and services, and has five reportable operating segments as follows:

Power and Water Segment – U.A.E
This segment is engaged in generation of electricity and production of desalinated water for supply in UAE.

Power Segment – Others
This segment is engaged in generation of electricity in Morocco, India, Ghana, Saudi Arabia, Caribbean Islands and North America.

Oil and Gas Segment-North America
This segment comprises of the TAQA North business unit and is engaged in Upstream and Midstream oil and gas activities in Canada and the United States.

Oil and Gas Segment-United Kingdom
This segment comprises of the TAQA Bratani business unit and is engaged primarily in Upstream oil and gas activities in the United Kingdom.

4 SEGMENTAL INFORMATION continued

Oil and Gas Segment-Netherlands
This segment comprises of the TAQA Energy business unit and is engaged primarily in Upstream and Midstream oil and gas activities in the Netherlands.

No operating segments have been aggregated to form the above reportable segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Effective 2010, the power and water segment was further analysed into two segments: UAE and others, as management started monitoring the operating results of the UAE power and water separately from others. Segment performance is evaluated based on operating profit or loss. Group financing (including finance costs except for the subsidiaries involved in power and water generation with project financing arrangements and interest income) is managed on a group basis and is not allocated to operating segments.

Investment in certain associates with activities other than power and water generation and oil and gas and available for sale investments are managed on a group basis and are not allocated to operating segments.

Interest bearing loans and borrowings except for the subsidiaries involved in power and water generation with project financing arrangements and bank overdrafts are managed on a group basis and are not allocated to operating segments.

The following table presents revenue and profit information for the Group's operating segments:

	Power and water generation - UAE AED million	*Power generation-others AED million*	*Oil and gas - North America AED million*	*Oil and gas - UK AED million*	*Oil and gas - Netherlands AED million*	*Adjustments, eliminations and unallocated AED million*	*Consolidated AED million*
Year ended 31 December 2010:							
Revenue from external customers	**7,834**	**4,404**	**4,053**	**4,348**	**800**	**(38)**	**21,401**
Operating expenses	**(3,261)**	**(3,463)**	**(1,522)**	**(1,818)**	**(162)**	**50**	**(10,176)**
Administrative and other expenses	**(46)**	**(167)**	**(374)**	**(47)**	**(28)**	**(161)**	**(823)**
Earnings (loss) before interest, tax, depreciation and amortisation (EBITDA)	**4,527**	**774**	**2,157**	**2,483**	**610**	**(149)**	**10,402**
Reversal of (provision) for impairment	**-**	**-**	**457**	**-**	**(41)**	**-**	**416**
Depreciation, depletion and amortisation	**(1,125)**	**(93)**	**(2,037)**	**(925)**	**(258)**	**(52)**	**(4,490)**
Earnings (loss) before interest and tax (EBIT)	**3,402**	**681**	**577**	**1,558**	**311**	**(201)**	**6,328**
Finance costs	**(1,598)**	**(188)**	**(60)**	**(220)**	**(14)**	**(1,923)**	**(4,003)**
Changes in fair value of derivatives	**(54)**	**160**	**(51)**	**-**	**-**	**-**	**55**
Net foreign exchange gains (losses)	**6**	**61**	**(1)**	**22**	**-**	**(30)**	**58**
Share of results of associates	**-**	**12**	**-**	**-**	**-**	**214**	**226**
Share of results of joint venture	**-**	**54**	**-**	**-**	**122**	**-**	**176**
Interest income	**-**	-	**-**	**-**	**-**	**148**	**148**
Bargain purchase gain	**-**	**-**	**191**	**-**	**-**	**-**	**191**
Loss on sale of assets	**-**	**-**	**(171)**	**-**	**-**	**-**	**(171)**
Other income	**1**	**26**	**-**	**-**	**-**	**-**	**27**
Income tax (expense) credit	**-**	**(239)**	**(224)**	**(797)**	**(86)**	**194**	**(1,152)**
Profit for the year	**1,757**	**567**	**261**	**563**	**333**	**(1,598)**	**1,883**
Year ended 31 December 2009:							
Revenue from external customers	5,523	4,072	3,472	3,190	626	(28)	16,855
Operating expenses	(1,683)	(3,382)	(1,412)	(1,537)	(182)	36	(8,160)
Administrative and other expenses	(57)	(85)	(319)	(40)	(50)	(193)	(744)
Earnings (loss) before interest, tax, depreciation and amortisation (EBITDA)	3,783	605	1,741	1,613	394	(185)	7,951
Reversal (provision) for impairment	-	-	98	-	-	-	98
Provisions for impairment - property, plant and equipment	-	-	(218)	(418)	-	-	(636)
Depreciation, depletion and amortisation	(1,072)	(55)	(1,764)	(842)	(222)	(19)	(3,974)
Earnings (loss) before interest and tax (EBIT)	2,711	550	(143)	353	172	(204)	3,439
Finance costs	(1,545)	(178)	(36)	(203)	(8)	(1,762)	(3,732)
Changes in fair value of derivatives	(29)	385	-	-	-	-	356
Net foreign exchange (losses) gains	5	(116)	(51)	(25)	(1)	129	(59)
Share of results of associates	-	9	-	-	-	41	50
Share of results of joint venture	-	54	-	-	31	-	85
Interest income	-	-	-	-	-	73	73
Gain on purchase of bonds	-	-	-	-	-	260	260
Other income	-	12	-	-	-	-	12
Income tax (expense) credit	-	(242)	186	(54)	19	380	289
Profit for the year	1,142	474	(44)	71	213	(1,083)	773

4 SEGMENTAL INFORMATION continued

The following table presents segment assets and liabilities of the Group's operating segments as at 31 December 2010 and 31 December 2009.

	Power and water generation - UAE AED million	*Power generation- others AED million*	*Oil and gas - North America AED million*	*Oil and gas - UK AED million*	*Oil and gas - Netherlands AED million*	*Adjustments, eliminations and unallocated AED million*	*Consolidated AED million*
At 31 December 2010							
Investment in associates	-	47	-	-	-	267	314
Investment in joint venture	-	-	-	-	814	-	814
Assets classified as held for sale	-	1,123	-	-	-	-	1,123
Advance and loan to an associate	-	20	-	-	-	1,299	1,319
Other assets	55,060	9,100	32,991	7,976	5,533	1,829	112,489
Segment assets	**55,060**	**10,290**	**32,991**	**7,976**	**6,347**	**3,395**	**116,059**
Liabilities	**46,165**	**4,576**	**5,732**	**5,624**	**2,991**	**35,733**	**100,821**
At 31 December 2009							
Investment in associates	-	46	-	-	-	215	261
Investment in joint venture	-	699	-	-	902	-	1,601
Advance and loan to an associate	-	20	-	-	-	-	-
Other assets	36,378	8,662	30,698	7,177	4,569	2,479	89,963
Segment assets	36,378	9,427	30,698	7,177	5,471	2,694	91,845
Liabilities	30,936	3,348	4,773	4,869	1,842	33,667	79,435
Other disclosures							
Year ended December 2010							
Additions to investment in an associate	**-**	**-**	**-**	**-**	**-**	**(324)**	**(324)**
Additions to property, plant and equipment	**5,126**	**-**	**1,347**	**1,446**	**199**	**5**	**8,123**
Additions to intangibles	**-**	**-**	**206**	**-**	**-**	**23**	**229**
Loans given during the year to an associate	**-**	**-**	**-**	**-**	**-**	**1,299**	**1,299**
Reversal (provision) for impairment	**-**	**-**	**457**	**-**	**(41)**	**-**	**416**
Exploration costs written off	**-**	**-**	**(178)**	**-**	**-**	**-**	**(178)**
Year ended December 2009							
Additions to investment in joint venture	-	681	-	-	978	-	1,659
Additions to property, plant and equipment	369	-	1,156	727	166	24	2,442
Additions to intangibles	-	-	276	-	-	41	317
Loans given during the year to a joint venture	-	908	-	-	-	-	908
Provisions for impairment - property, plant and equipment	-	-	(218)	(418)	-	-	(636)
Reversal for impairment	-	-	98	-	-	-	98
Exploration costs written off	-	-	(48)	-	(68)	-	(116)

- Inter-segment transactions are on an arm's-length basis in a manner similar to transactions with third parties.
- Inter-segment revenues are eliminated on consolidation.
- Capital expenditure consists of additions of property, plant and equipment, operating financial assets and intangible assets including assets from the acquisition of subsidiaries.

Geographical information

The following tables present revenue, certain asset information relating to the Group's geographical locations based on geographical location of the subsidiaries:

	UAE AED million	*Americas AED million*	*United Kingdom AED million*	*Netherlands AED million*	*Africa AED million*	*Others AED million*	*Total AED million*
Revenue							
Year ended 31 December 2010:	**7,834**	**5,098**	**4,348**	**800**	**2,810**	**511**	**21,401**
Year ended 31 December 2009:	5,523	4,211	3,190	626	2,960	345	16,855
Non-current assets							
At 31 December 2010:	**48,524**	**33,180**	**7,143**	**3,986**	**4,272**	**960**	**98,065**
At 31 December 2009:	31,475	30,673	6,599	4,326	4,588	973	78,634

Non-current assets for this purpose consist of operating financial assets, property, plant and equipment, intangible assets and other assets.

4 SEGMENTAL INFORMATION continued

Other information

The following table provides information relating to the Group's major customers which contribute more than 10% towards the Group's revenue.

	Power and water generation - UAE AED million	*Power generation- others AED million*	*Oil and gas - North America AED million*	*Oil and gas - UK AED million*	*Oil and gas - Netherlands AED million*	*Adjustments, eliminations and unallocated AED million*	*Consolidated AED million*
Year ended 31 December 2010							
Customer 1	**7,834**	**-**	**-**	**-**	**-**	**-**	**7,834**
Customer 3	**-**	**-**	**-**	**3,321**	**-**	**-**	**3,321**
Total	**7,834**	**-**	**-**	**3,321**	**-**	**-**	**11,155**
Year ended 31 December 2009							
Customer 1	5,523	-	-	-	-	-	5,523
Customer 2	-	2,354	-	-	-	-	2,354
Customer 3	-	-	-	2,918	-	-	2,918
Total	5,523	2,354	-	2,918	-	-	10,795

5 REVENUES

5.1 Revenue from oil and gas

	2010 AED million	*2009 AED million*
Gross oil and gas revenue	**9,227**	7,263
Less: royalties	**(775)**	(624)
	8,452	6,639

5.2 Revenue from electricity and water

	2010 AED million	*2009 AED million*
Operating lease revenue	**4,080**	3,973
Revenue from operating financial assets (note 14)	**733**	768
Sale of electricity	**184**	178
Energy payments and other related revenue	**1,333**	1,209
	6,330	6,128

5.3 Net liquidated damages received

Net liquidated damages received represents delay liquidated damages recognised by the Group from its respective contractors as compensation for loss of revenue in some subsidiaries. These are recognised by the Group net of the amounts incurred as delay liquidated damages to ADWEC (a related party).

5.4 Other operating revenue

	2010 AED million	*2009 AED million*
Net processing income	**219**	134
Tariff income	**130**	102
Others	**186**	160
	535	396

6 OPERATING EXPENSES

	2010 *AED million*	*2009* *AED million*
Staff costs	**524**	402
Repairs, maintenance and consumables used	**2,043**	1,960
Fuel expenses	**5,026**	3,395
Charges by O&M contractors	**1,206**	1,108
Oil and gas operating costs	**776**	725
Transportation costs	**153**	199
Gas storage expenses	**106**	118
Exploration and evaluation assets written off (note 16)	**178**	116
Property, plant and equipment written off	**35**	-
Others	**129**	137
	10,176	8,160

7 DEPRECIATION, DEPLETION AND AMORTISATION

	2010 *AED million*	*2009* *AED million*
Depreciation of property, plant and equipment and depletion of oil and gas assets (note 13)	**4,360**	3,864
Amortisation of initial spares fees (note 21)	**13**	11
Amortisation of intangible assets (note 16)	**117**	99
	4,490	3,974

8 REVERSAL (PROVISIONS) FOR IMPAIRMENT

	2010 *AED million*	*2009* *AED million*
Provision for impairment on property, plant and equipment (note (i))	**(41)**	(636)
Reversal of provision for impairment on property, plant and equipment (note (ii))	**457**	98
	416	(538)

(i) During the year an impairment charge of AED 41 million was recognised in the consolidated income statement representing the write down of certain oil and gas properties located in the Netherlands to their recoverable amounts. These assets are included in the oil and gas segments - Netherlands. The recoverable amounts were based on fair value less cost to sell method ("FVLCS") and were determined at the level of the cash generating unit. In determining the FVLCS for the cash generating unit, the cash flows were discounted using post-tax discount rate of 6.5%. The write-down was primarily as a result of poor well performance and disappointing drilling results experienced during the year.

During 2009, an impairment charge of AED 636 million was recognised in the consolidated income statement representing the write down of certain oil and gas properties located in Canada and the United Kingdom to their recoverable amounts. These assets are included in the oil and gas segments - North America and United Kingdom. The recoverable amounts were based on the FVLCS method and were determined at the level of the cash generating units. In determining the FVLCS for the cash generating units, the cash flows were discounted using post-tax discount rates in the range of 7% to 7.5%. The write-downs were primarily as a result of downward revisions in oil and gas reserve estimates.

8 REVERSAL (PROVISIONS) FOR IMPAIRMENT continued

(ii) The reversal of impairment charges during the year relates to the write-back of prior period charges made in respect of certain oil and gas properties in the oil and gas – North America segment. The recoverable amounts were based on the FVLCS method and were determined at the cash-generating unit level. In determining the recoverable amounts, the cash flows were discounted using a post-tax discount rate of 7.0%.

The reversal of impairment charges during 2009 related to the write-back of prior period charges made in respect of certain oil and gas properties in the oil and gas – North America segment. The recoverable amount was based on FVLCS method and was determined at the cash-generating unit level. In determining the recoverable amount, the cash flows were discounted using a post-tax discount rate of 7.5%.

9 ADMINISTRATIVE AND OTHER EXPENSES

	2010 AED million	*2009 AED million*
Salaries and related expenses	**451**	392
Professional fees and business development expenses	**156**	205
Transaction costs on business combination [note 3 (iv)]	**6**	-
Others	**210**	147
	823	744

10 FINANCE COSTS & INCOME

10.1 Finance costs

	2010 AED million	*2009 AED million*
Finance costs relating to bonds and notes	**1,696**	1,537
Finance costs relating to interest bearing loans and borrowings and Islamic loans	**1,954**	1,923
Finance costs on loan from ADWEA (note 39)	**21**	-
Notional interest expense (note 34)	**2**	1
Asset retirement obligations accretion expense (note 33)	**330**	271
	4,003	3,732

10.2 Interest income

	2010 AED million	*2009 AED million*
Interest income on loan to joint venture (note 39)	**72**	16
Interest income on loan to associate (note 39)	**5**	-
Interest income on short-term deposits	**71**	57
	148	73

11 INCOME TAX

The major components of income tax(expense) credit for the years ended 31 December 2010 and 2009 are:

	2010 ***AED million***	*2009* *AED million*
Consolidated income statement		
Current income tax:		
Current income tax charge	**(919)**	(333)
Adjustment in respect to income tax of previous years	**224**	36
Deferred income tax:		
Relating to origination and reversal of temporary differences	**(457)**	586
Income tax (expense) credit reported in the consolidated income statement	**(1,152)**	289

A reconciliation between tax expense and the product of accounting profit multiplied by the applicable statutory tax rate for the years ended 31 December 2010 and 2009 is as follows:

	2010 ***AED million***	*2009* *AED million*
Accounting profit before income tax	**3,035**	484
Non-taxable income (including income in non-taxable jurisdictions)	**(1,159)**	(1,568)
Total taxable (loss) income	**1,876**	(1,084)
Applicable tax charge at statutory rates - weighted average of 44% (2009: 29%)	**823**	(311)
Adjustment in respect to income tax of previous years	**(224)**	(36)
Withholding taxes	**21**	85
Tax incentives	**(30)**	(81)
Special income tax on upstream activities	**281**	79
Others	**281**	(25)
Income tax (credit) expense reported in the consolidated income statement	**1,152**	(289)

The weighted average of statutory tax rates was 44% in 2010 (2009: 29%), reflecting higher income achieved across all business streams, with a greater proportion of the higher income arising in Upstream, attracting relatively higher tax rates than other business streams.

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		*Consolidated income statement*	
	2010 ***AED million***	*2009* *AED million*	***2010*** ***AED million***	*2009* *AED million*
Deferred tax liability:				
Temporary tax difference on property, plant and equipment	**7,083**	6,187	**(308)**	453
Temporary difference arising on asset retirement obligations	**(2,122)**	(2,109)	**(40)**	(7)
Others	**(304)**	(21)	**(109)**	140
	4,657	4,057	**(457)**	586

11 INCOME TAX continued

Deferred income tax continued
The Group has tax losses in some jurisdictions of AED 201 million (2009: AED 195 million) for which the tax benefit has not been recognised but will be available for offset against future taxable profits for a limited period.

At 31 December 2010, unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain subsidiaries amount to AED 72 million (2009: AED 45 million). The Group has determined that undistributed profits of certain subsidiaries will not be distributed in the foreseeable future, as the group has decided to reinvest the earnings towards the expansion of operations for the subsidiaries.

There are no income tax consequences attaching to the payment of dividends in either 2010 or 2009 by TAQA to its shareholders.

12 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the income and shares data used in the earnings per share computations:

	2010	*2009*
Profit for the year attributable to equity holders of the parent (*AED million*)	**1,019**	182
Weighted average number of ordinary shares issued (million)	**6,066**	6,130
Basic earnings per share (AED)	**0.17**	0.03

No figure for diluted earnings per share has been presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised. The weighted average number of shares taken into account the treasury shares as at year end.

13 PROPERTY, PLANT AND EQUIPMENT

	Capital work in progress AED million	*Building, equipment, plant and machinery AED million*	*Oil and gas assets AED million*	*Plant spares AED million*	*Total AED million*
2010					
Cost:					
At 1 January 2010	48	35,756	35,875	220	71,899
Additions relating to transfer of subsidiaries from ADWEA (note 3)	12,723	311	-	20	13,054
	12,771	36,067	35,875	240	84,953
Additions	5,878	60	2,143	42	8,123
On business combination (note 3 iv)	-	-	1,474	-	1,474
Sale of assets (note i)	-	-	(503)	-	(503)
Transfers	(6,787)	6,187	600	-	-
Exchange adjustment	7	(26)	1,262	-	1,243
At 31 December 2010	**11,869**	**42,288**	**40,851**	**282**	**95,290**
Depreciation and depletion:					
At 1 January 2010	-	5,772	5,773	35	11,580
Charge for the year	-	1,241	3,110	9	4,360
On sale of assets (note i)	-	-	(92)	-	(92)
Exchange adjustment	-	(18)	224	-	206
At 31 December 2010	**-**	**6,995**	**9,015**	**44**	**16,054**
Impairment:					
At 1 January 2010	-	-	990	-	990
Impairment during the year (note 8)	-	-	41	-	41
Reversal of provision for impairment (note 8)	-	-	(457)	-	(457)
Exchange adjustment	-	-	11	-	11
At 31 December 2010	**-**	**-**	**585**	**-**	**585**
Net carrying amount:					
At 31 December 2010	**11,869**	**35,293**	**31,251**	**238**	**78,651**
2009					
Cost:					
At 1 January 2009	1,201	34,231	30,184	200	65,816
Additions	279	80	2,045	38	2,442
Attributable to acquisition of subsidiaries (note 3)	-	-	801	-	801
Transfers	(1,432)	1,432	-	-	-
Reclassification	-	3	-	(18)	(15)
Transfer to intangible assets (note 16)	-	-	(863)	-	(863)
Exchange adjustment	-	10	3,708	-	3,718
At 31 December 2009	48	35,756	35,875	220	71,899
Depreciation and depletion:					
At 1 January 2009	-	4,621	2,521	27	7,169
Charge for the year	-	1,149	2,707	8	3,864
Exchange adjustment	-	2	545	-	547
At 31 December 2009	-	5,772	5,773	35	11,580
Impairment:					
At 1 January 2009	-	-	387	-	387
Impairment during the year (note 8)	-	-	636	-	636
Reversal of provision for impairment (note 8)	-	-	(98)	-	(98)
Exchange adjustment		-	65	-	65
At 31 December 2009		-	990	-	990
Net carrying amount:					
At 31 December 2009	48	29,984	29,112	185	59,329

Capital work in progress additions include capitalised borrowing costs of AED 856 million (2009: AED 27 million).

i) During the year, TAQA NORTH sold various oil and gas assets including non-producing lands in Western Canada and the United States for proceeds of AED 366 million. The loss on sale of the assets of AED 171 million included an allocation of goodwill written off of AED 126 million (note 16).

14 OPERATING FINANCIAL ASSETS

	2010 ***AED million***	*2009* *AED million*
Total consideration receivable	**12,589**	13,525
Unearned revenue	**(7,261)**	(7,975)
	5,328	5,550
Analysed in the consolidated statement of financial position as follows:		
Non current portion	**4,879**	5,253
Current portion	**449**	297
	5,328	5,550
The movement in unearned revenue is as follows:		
At 1 January	**7,975**	8,687
Recognised during the year (note 5.2)	**(733)**	(768)
Exchange adjustment	**19**	56
At 31 December	**7,261**	7,975

Maturity profile of gross consideration receivable is analysed as follows:

Year	***2010*** ***AED million***	*2009* *AED million*
Within 1 year	**987**	1,037
Between 1 – 5 years	**3,697**	4,037
After 5 years	**7,905**	8,451
Total	**12,589**	13,525

TAQA manages three concession contracts as defined by IFRIC 12, mainly covering electricity generation.

The foreign subsidiaries namely Jorf Lasfar Energy Company SCA (Jorf Lasfar), ST-CMS Electric Company Pvt Ltd (Neyveli) and Takoradi International Company (Takoradi) have entered into power purchase agreements (PPA) with offtakers in the countries where they are operating. Under the PPA the foreign subsidiaries undertake to make available and the offtakers undertake to purchase the available net capacity of the plant for a period of time in accordance with various agreed terms and conditions as specified in the PPA as follows:

Jorf Lasfar:
The subsidiary has the right of possession for the site and the plant units for a period of 30 years ending in September 2027. After the 30 year period, the ownership of the site and the plants will be transferred to the offtaker.

Furthermore, during 2009, Office National de l'Electricité ("ONE"), Jorf Lasfar Energy Company ("JLEC") and TAQA signed a strategic partnership agreement to extend the capacity of JLEC by two new units of an approximate gross capacity of 350 Mw each. As per this agreement, JLEC or an affiliate will build, own, and operate the new units 5 and 6 under a 30-year power purchase agreement with ONE. As at 31 December 2010, the EPC contract has been signed and advance payments of AED 140 million have been made to the EPC contractor.

14 OPERATING FINANCIAL ASSETS continued

Neyveli:
The subsidiary has a 30 year PPA with the offtaker ending in December 2032. On the expiry date of the PPA, the offtaker has the option to acquire the plant at a price equal to 50% of the terminal value as defined in the PPA.

Takoradi:
The subsidiary has a 25 year PPA with the offtaker ending in March 2024. On expiry date of the PPA, the plant is to be transferred to the offtaker at a nominal amount.

15 AVAILABLE FOR SALE INVESTMENTS

	2010 ***AED million***	*2009* *AED million*
Listed – outside UAE (note i)	**716**	-
Unquoted investments – in UAE	**-**	1
Unquoted investment in managed fund – outside UAE	**231**	158
Total	**947**	159
Movement during the year is as follows:		
At 1 January	**159**	147
Transfer to investment in a subsidiary (note 3 (iii))	**(1)**	-
	158	147
Additions during the year	**596**	12
Changes in fair value during the year	**193**	-
At 31 December	**947**	159

(i) Acquisition of Al Wahda Capital Investment LLC
In November 2010, ADWEA transferred 100% of its holding in Al Wahda Capital Investment LLC ("AWCI") to TAQA. AWCI holds 7% in Tesla Motors, a US based company that designs, manufactures and sells electric vehicles (EVs) and electric vehicle powertrain components. The fair value of the investment on the date of the transfer amounted to AED 542 million, which was recorded as available for sale investment. The difference of AED 300 million between the fair value of the investment and the consideration amount of AED 242 million has been treated as equity contributed capital by ADWEA (note 25).

The consideration of AED 242 million (US$ 66 million) was settled with ADWEA through an interest free loan with one bullet repayment on 1 January 2014 (refer to notes 25 and 34 for details).

16 INTANGIBLE ASSETS

	Exploration and evaluation assets AED million	*Tolling agreement AED million*	*Connection rights AED million*	*Goodwill AED million*	*Computer software AED million*	*Total AED million*
2010						
Cost:						
At 1 January 2010	**1,276**	**836**	**1,388**	**10,215**	**41**	**13,756**
Additions	**206**	**-**	**-**	**-**	**23**	**229**
Goodwill written off on sale of assets	**-**	**-**	**-**	**(126)**	**-**	**(126)**
Derecognised during the year	**(178)**	**-**	**-**	**-**		**(178)**
Exchange adjustment	**67**	**-**	**-**	**270**	**-**	**337**
At 31 December 2010	**1,371**	**836**	**1,388**	**10,359**	**64**	**14,018**
Amortisation and impairment:						
At 1 January 2010	**-**	**62**	**154**	**-**	**-**	**216**
Amortisation for the year	**-**	**60**	**37**	**-**	**20**	**117**
At 31 December 2010	**-**	**122**	**191**	**-**	**20**	**333**
Net book value before fair value adjustment:						
At 31 December 2010	**1,371**	**714**	**1,197**	**10,359**	**44**	**13,685**
Fair value adjustment (note 41)	**-**	**260**	**-**	**-**	**-**	**260**
Net book value after fair value adjustment:						
At 31 December 2010	**1,371**	**974**	**1,197**	**10,359**	**44**	**13,945**
2009						
Cost:						
At 1 January 2009	103	836	1,391	8,673	-	11,003
Additions	276	-	-	-	41	317
Acquisition of subsidiaries (note 3)	-	-	-	341	-	341
Reclassification from (to) property, plant and equipment (note 13)	863	-	(3)	-	-	860
Derecognised during the year (note 6)	(116)	-	-	-	-	(116)
Revision to purchase price allocation	-	-	-	253	-	253
Exchange adjustment	150	-	-	948	-	1,098
At 31 December 2009	1,276	836	1,388	10,215	41	13,756
Amortisation:						
At 1 January 2009	-	-	117	-	-	117
Amortisation for the year	-	62	37	-	-	99
At 31 December 2009	-	62	154	-	-	216
Net book value:						
At 31 December 2009	1,276	774	1,234	10,215	41	13,540

Tolling Agreement

As part of the acquisition of BE Red Oak Holding LLC on 31 December 2008, the Group acquired a fuel conversion services, capacity and ancillary services purchase agreement ("Tolling Agreement") for an amount of AED 836 million (US $227.5 million). Under the terms of the Tolling Agreement, the Group is entitled to the economic rights (revenue from sale of electricity, capacity payments and any other ancillary services) of a power plant located in New Jersey, USA and the Group is obligated to supply the fuel and also make certain fixed and variable payments to the operator.

Connection rights

The intangible assets arose from the transfer, made by the Company's subsidiaries Emirates CMS Power Company, Shuweihat CMS International Power Company, Arabian Power Company and Taweelah Asia Power Company during the years ended 31 December 2002, 31 December 2005, 31 December 2006 and 31 December 2008 respectively, of certain assets to a related party in accordance with the terms of individual agreements and represent the acquisition cost of the right of connection to the transmission systems at the connection sites for a period of 38, 33, 37 and 40 years respectively. The connection rights cost is being amortised on a straight line basis over 38, 33, 37 and 40 years respectively, being the expected period of benefit.

17 IMPAIRMENT TESTING OF GOODWILL

The Group performs goodwill impairment testing on an annual basis, at the reporting date, and when there are indicators of impairment. Goodwill acquired through business combinations has been allocated to four groups of cash-generating units (CGUs), which are also reportable operating segments, for impairment testing as follows:

- Power generation assets - others
- Oil and gas assets (North America)
- Oil and gas assets (UK)
- Oil and gas assets (Netherlands)

Carrying amount of goodwill is allocated to each of the operating segments as follows:

	Power Generation - others		*Oil and Gas North America*		*Oil and Gas UK*		*Oil and Gas Netherlands*		*Total*	
	2010	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*	***2010***	*2009*
	AED million	*AED million*	***AED million***	*AED million*	***AED million***	*AED million*	***AED million***	*AED million*	***AED million***	*AED million*
Carrying amount	**90**	90	**6,762**	6,534	**2,266**	2,266	**1,241**	1,325	**10,359**	10,215

Oil and gas assets

Recoverable amount for the oil and gas assets is based on fair value less costs to sell ('FVLCS').In determining FVLCS, an appropriate discounted cash flow valuation model is used, incorporating market based assumptions. The key assumptions for the oil and gas asset FVLCS calculations are outlined below together with the approach management has taken in determining the value to ascribe to each. The valuation models are life of asset models and therefore no extrapolation assumptions have been necessary or applied. The post-tax discount rates used to calculate FVLCS at the reporting date range between 6.5% and 7%.

The calculation of FVLCS for oil and gas assets is based upon to the following key assumptions:

- Reserve and resource volumes;
- Inflation rates;
- Commodity prices;
- Cash flows relating to gas storage;
- Foreign exchange rates; and
- Discount rates

Reserve and resource volumes

Reserve and resource volumes form the basis of the production profiles within the discounted cash flow models. Management engage external reserve auditors to review the Group's internal estimates of volume, and where appropriate value, of proved, probable and possible reserves in each segment based upon geological data and analysis. Where significant, the contingent resources within a segment are also reviewed and reported on. The data generated for each field and location takes into consideration the development plans approved by senior management and reasonable assumptions that an external party would apply in appraising the assets.

Inflation rates

Estimates are obtained from published indices for the countries from which products and services are originated, as well as data relating to specific commodities. Forecast figures are used if data is publicly available.

Commodity prices

Commodity prices are based on forward average prices for 2011 and thereafter on management's long term price assumptions. Management's long term assumptions are benchmarked against the forward price curves of a range of analysts on a regular basis.

17 IMPAIRMENT TESTING OF GOODWILL continued

Oil and gas assets continued
Cash flows relating to gas storage
Cash flows relating to gas storage are based on assumptions on delivery capacity, injection capacity, working volumes and expected availability. The assumptions have been approved by management and in most cases validated by third party consultants and are supported by non-binding expressions of interests on demand for working volumes.

Foreign exchange rates
Foreign exchange rates are based on forward average rates for 2011 and thereafter on management's long term rate assumptions. Management's long term assumptions are set with reference to a range of underlying economic indicators.

Discount rates
Discount rates used reflect the estimated weighted average cost of capital rates for potential acquirer group companies developed for each of the segments.

Power generation assets
Recoverable amount for power generation assets is based on value in use ('VIU'). The Group estimates VIU by using discounted cash flow models. The cash flow models are typically life of facility (which significantly exceeds five years in most cases) and therefore no growth rate extrapolation assumptions have been necessary or applied. Management believes it is appropriate to use cash flow forecasts over such periods due to the long term power and water purchase agreements associated with the facilities. The future cash flows are discounted using a pre-tax rate range 9% to 12% (2009: 9% to 12%).

The calculation of VIU for power and water generation assets is most sensitive to the following assumptions:

- Inflation rates;
- Discount rates

Inflation rates
Estimates are obtained from published indices for the countries from which products and services are originated. Forecast figures are used if data is publicly available.

Discount rates
Discount rates used reflect the Group weighted average cost of capital as amended to reflect risks associated with specific assets.

Sensitivity to changes in assumptions
The impairment tests are particularly sensitive to commodity prices, foreign exchange rates and discount rates. No reasonably possible change in these assumptions would lead to goodwill impairment at 31 December 2010.

18 INVESTMENT IN ASSOCIATES

Movement in investment in associates is as follows:

	2010 AED million	*2009 AED million*
At 1 January	**261**	211
Adjustments relating to acquisition of an associate from ADWEA [note (iii)]	**(324)**	-
	(63)	211
Share of results during the year	**226**	50
Share of other comprehensive income during the year	**(52)**	-
At 31 December	**111**	261

Analysed in the statement of financial position as:

Non-current assets	**314**	261
Non-current liabilities	**(203)**	-
	111	261

The following table illustrates summarised information of TAQA's associates.

Share of the associates' statement of financial position based on provisional purchase price allocation:

	2010 AED million	*2009 AED million*
Current assets	**556**	91
Non-current assets	**3,490**	406
Current liabilities	**(990)**	(102)
Non-current liabilities	**(2,960)**	(149)
Net assets	**96**	246
Consideration in excess of fair value of assets and liabilities	**15**	15
Carrying amount of investments	**111**	261
Share of the associates' revenues and profits:		
Revenues	**1,367**	181
Profits	**226**	50

The Group has the following investments in associates:

	Country of incorporation	*Ownership* ***2010***	*2009*
Al Wathba Company for Central Services PJSC	UAE	**49%**	49%
Jubail Energy Company	Saudi Arabia	**25%**	25%
Sohar Aluminium	Oman	**40%**	-

The reporting dates for the associates are identical to TAQA.

18 INVESTMENT IN ASSOCIATES continued

(i) Al Wathba Company for Central Services PJSC is mainly involved in the leasing and management of vehicles and equipment.

(ii) Jubail Energy Company is involved in the generation of electricity in Saudi Arabia.

(iii) Sohar is involved in the construction, ownership and operation of an aluminium smelter and an associated combined cycle power plant.

On 30 June 2010, TAQA entered into a sale and purchase agreement with its parent, Abu Dhabi Water and Electricity Authority ("ADWEA") for the purchase of ADWEA's 40% holding in Sohar Aluminium Company LLC ("Sohar") at a price equal to all of the equity capital and debt capital injected in Sohar by ADWEA since its inception.

Since the acquisition of the associate has been made from ADWEA in its capacity as majority shareholder of TAQA, the investment has been accounted for using the pooling of interest method. Accordingly, TAQA has recorded its share of profits and other comprehensive income in Sohar starting 1 January 2010, being the effective date of the transfer. The Company's accounting policy in relation to transactions under pooling of interest is not to restate prior year numbers. Accordingly, all adjustments relating to Sohar have been reflected in 2010.

Share of associate's commitments

Sohar:
a) In order for Sohar to reduce its exposure to interest rates fluctuations on loans from banks, the associate has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the loans. At 31 December 2010, the fixed interest rates vary from 4.74% to 4.88%. The floating interest rate is LIBOR. The notional amount outstanding at 31 December 2010 was US $673 million (AED 2,472 million).

The derivative instruments which are entered into for the purpose of cash flow hedge had a negative fair value of US $84 million (AED 307 million) at 31 December 2010. The carrying amount of the Company's investment at 31 December 2010 includes a proportionate share of the negative fair value, amounting to US $33 million (AED 123 million).

b) Sohar has also entered into aluminium forwards of highly probable forecasted sale transactions in order to hedge part of the risk arising from fluctuation in aluminium price during the operation period. Aluminium sales hedges are designated as cash flow hedges. Gains and losses initially recognized in other comprehensive income on aluminium forward transactions are recognized in the Company's associate income statement from equity in the period or periods during which the hedge affects the income statement. The notional amount outstanding at 31 December 2010 was US$ 147 million for 65,139 tonnes of aluminium.

The derivative instruments entered into had a negative fair value of US $13 million (AED 47 million) at 31 December 2010. The carrying amount of the Company's investment at 31 December 2010 includes a proportionate share of the negative fair value, amounting to US $5 million (AED 21 million).

Jubail Energy Company
In order for Jubail to reduce its exposure to interest rates fluctuations on loans from banks, the Company's associate has entered into an interest rate arrangement with counter-party banks for a notional amount that mirrors the draw down and repayment schedule of the loans. At 31 December 2010 the fixed interest rate is 4.57%. The floating interest rate is LIBOR. The notional amount outstanding at 31 December 2010 was US $117 million (AED 430 million).

The derivative instruments which are entered into for the purpose of cash flow hedge had a negative fair value of US $10 million (AED 35 million) at 31 December 2010. The carrying amount of the Company's investment at

31 December 2010 includes a proportionate share of the negative fair value, amounting to US $4 million (AED 14 million).

19 INVESTMENT IN JOINT VENTURES

Movement in investment in joint ventures is as follows:

	2010	*2009*
	AED million	*AED million*
At 1 January	**1,601**	-
Additions during the year	-	1,658
Share of results during the year	**176**	85
Dividends received	**(171)**	(78)
Transfer to assets held for sale (note i)	**(726)**	-
Exchange adjustment	**(66)**	(64)
At 31 December	**814**	1,601

The Group has the following investments in joint ventures:

	Country of incorporation	*Ownership*	
		2010	*2009*
NoordGasTransport BV	Netherlands	**40%**	40%
Marubeni TAQA Caribbean Ltd. (MTC) (note i)	Bahamas	**50%**	50%

NoordGasTransport BV was acquired in October 2009 as part of the DSM Energie acquisition for an amount of AED 978 million and is involved in midstream operations. During the year, further analysis was undertaken of the shareholder and management agreements relating to NGT BV which was originally equity accounted as an associate under IAS 28. The revised analysis concluded that the interest represented a jointly controlled entity to be equity accounted for under IAS 31. The investment has therefore been reclassified during the year. Other than the re-classification there are no other implications for the reported values in the current or prior periods.

Marubeni TAQA Caribbean Ltd. (MTC) was acquired by the Group in March 2009 and is involved in the ownership and investment in companies engaged in power generation.

(i) During the year, the Group decided to divest its investment in the Marubeni TAQA Caribbean Ltd. (MTC) joint venture. Accordingly the MTC investment and related loan balances with a carrying value of AED 1,123 million as of 31 December 2010 have been reclassified as held for sale in the financial statements in accordance with IFRS 5 ("Non-Current Assets Held For Sale And Discontinued Operations"). The MTC investment forms part of the Power and Water Generation Segment of the Group. Subsequently, on 16 January 2011, TAQA sold its share of assets for a consideration of AED 1,152 million.

TAQA accounts for investments in jointly controlled entities using the equity method.

19 INVESTMENT IN JOINT VENTURES continued

The share of the assets, liabilities, income and expenses of the joint ventures at 31 December are as follows:

	2010 ***AED million***	*2009* *AED million*
Current assets	**56**	832
Non-current assets	**858**	2,938
Current liabilities	**(42)**	(949)
Non-current liabilities	**(273)**	(1,425)
Non-controlling interests	**-**	(141)
Net assets	**599**	1,255
Consideration in excess of fair values of net assets	**215**	347
Carrying amount of investment	**814**	1,602
Share of joint venture's revenue and profit:		
Revenues	**250**	1,456
Profits	**176**	85

20 ADVANCE AND LOANS TO ASSOCIATES

	2010 ***AED million***	*2009* *AED million*
Mezzanine loan – non-current (note i)	**398**	-
Advance - current (note i)	**901**	-
Others	**20**	20
	1,319	20

(i) As described in note 18 to the consolidated financial statements, TAQA has purchased ADWEA's 40% holding in Sohar Aluminium Company LLC ("Sohar") at a consideration equal to all of the equity capital and debt capital injected in Sohar by ADWEA since its inception. The balances above arise from the transfer of loans made to Sohar. The advance is repayable on demand and has therefore been classified as current asset in the statement of financial position.

Expected settlement of gross consideration receivable is analysed as follows:

	2010 ***AED million***	*2009* *AED million*
Within 1 year	**218**	20
Between 1 – 5 years	**703**	**-**
After 5 years	**398**	-
Total	**1,319**	20

21 OTHER ASSETS

	2010 AED million	2009 AED million
Deferred expenditure	**222**	154
Initial spares fee [note (ii)]	**79**	92
Derivatives in effective hedges - interest rate swaps (note 41.1)	**118**	-
Derivatives in effective hedges - forward foreign exchange contracts (note 41.1)	**103**	2
Derivatives in effective hedges - cross currency interest rate swaps (note 41.1)	**26**	-
Advance to a related party [note (i)]	**-**	211
Others	**42**	53
	590	512

(i) Advance to a related party:
Advance to a related party represents a payment made to Shuweihat Shared Facilities Company ("SSFC") against future use of the facilities. The advance has been eliminated on consolidation as of 31 December 2010 since SSFC is now a subsidiary of TAQA [note 3 (iii)].

(ii) Initial spares fee:

	2010 AED million	2009 AED million
Cost:		
Balance at 1 January and 31 December	**146**	146
Amortisation:		
At 1 January	**(54)**	(43)
Charge for the year (note 7)	**(13)**	(11)
At 31 December	**(67)**	(54)
Net carrying amount at 31 December	**79**	92

22 INVENTORIES

	2010 AED million	2009 AED million
Fuel and crude oil	**1,333**	984
Spare parts and consumables	**884**	839
	2,217	1,823
Provision for slow moving and obsolete items	**(102)**	(50)
	2,115	1,773

Cost of inventories recognised as expense in the consolidated income statement is AED 5,092 million (2009: AED 3,618 million).

23 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2010 ***AED million***	*2009* *AED million*
Trade receivables (note (i))	**734**	727
Amounts due from related parties (note (ii))	**1,587**	837
Accrued revenue	**1,063**	636
Liquidated damages receivable from contractor	**541**	-
Advances to O&M contractors	**273**	355
Crude stock underlift	**57**	167
Deposits	**-**	121
Advances to suppliers	**107**	29
Advance to a related party	**-**	8
Prepaid insurance	**49**	40
Loan to joint venture	**-**	37
Income tax	**103**	151
Derivatives in effective hedges - forward foreign exchange contracts (note 41.1)	**13**	-
Derivatives in effective hedges – futures and forward contracts (note 41.1)	**193**	383
Other receivables	**612**	364
	5,332	3,855

(i) Trade receivables

As at 31 December 2010, trade receivables at nominal value of AED 41 million (2009: AED 30 million) were impaired and fully provided for. Trade receivables are non-interest bearing and are recoverable within 30 - 90 working days. Movements in the provision for impairment of receivables are as follows:

	2010 ***AED million***	*2009* *AED million*
At 1 January	**30**	39
Charge (reversal) for the year	**11**	(9)
At 31 December	**41**	30

As at 31 December, the ageing analysis of unimpaired trade receivables is as follows:

			Past due but not impaired				
	Total *AED million*	*Neither past due nor impaired* *AED million*	*< 30 days* *AED million*	*30 – 60 days* *AED million*	*60 – 90 days* *AED million*	*90 – 120 days* *AED million*	*>120 days* *AED million*
2010	**734**	**112**	**293**	**316**	**11**	**-**	**2**
2009	727	165	255	264	12	15	16

(ii) Amounts due from related parties

	2010 ***AED million***	*2009* *AED million*
Abu Dhabi Water and Electricity Company (ADWEC)	**1,582**	821
Others	**5**	16
	1,587	837

23 ACCOUNTS RECEIVABLE AND PREPAYMENTS continued

(ii) Amounts due from related parties continued

The amounts due from ADWEC, a fellow subsidiary are in respect of available capacity and supply of water and electricity, are payable within 30 - 90 working days.

As at 31 December 2010, amounts due from related parties at nominal value of AED 17 million (2009: AED 16 million) were impaired and fully provided for. Movements in the provision for impairment receivable from related parties are as follows:

	2010 ***AED million***	*2009* *AED million*
At 1 January	**16**	16
Charge for the year	**1**	10
Written off during the year	**-**	(10)
At 31 December	**17**	16

As at 31 December, the ageing analysis of unimpaired receivable from related parties is as follows:

			Past due but not impaired			
	Total *AED million*	*Neither past due nor impaired* *AED million*	*30 – 60 days* *AED million*	*60 – 90 days* *AED million*	*90 – 120 days* *AED million*	*>120 days* *AED million*
2010	**1,587**	**809**	**759**	**1**	**2**	**16**
2009	837	561	250	1	2	23

Trade receivables and amounts due from related parties net of provisions are expected, on the basis of past experience, to be fully recoverable.

24 CASH AND CASH EQUIVALENTS

	2010 ***AED million***	*2009* *AED million*
Cash at banks and on hand	**2,676**	2,100
Short term deposits	**2,905**	2,274
	5,581	4,374
Bank overdrafts	**(92)**	(92)
	5,489	4,282

Short term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

Bank overdrafts carry interest at floating rates and are secured by guarantees from certain shareholders of the subsidiaries.

At 31 December 2010, the Group had available AED 10,738 million (2009: AED 15,348 million) of undrawn committed borrowing facilities in respect of which all conditions precedent have been met.

24 CASH AND CASH EQUIVALENTS continued

Significant non-cash transactions, which have not been considered in the consolidated statement of cash flows are as follows:

	2010 AED million	*2009* AED million
Loans from ADWEA relating to the transfer of the following investments:		
i) Ruwais Power Holding Company PJSC [note 3(i)]	**1,076**	-
ii) Sohar Aluminium Company LLC (note 18)	**1,483**	-
iii) Al Wahda Investment Company LLC (note 34)	**242**	-

25 SHARE CAPITAL

(i) Paid up capital

	2010 AED million	*2009* AED million
Ordinary shares of AED 1 each	**6,225**	6,225

(ii) Treasury shares

	2010		*2009*	
	Shares in thousands	***AED million***	*Shares in thousands*	*AED million*
At 1 January	**158,113**	**293**	7,249	22
Purchases during the year	**600**	**-**	158,113	286
Sales during the year	**-**	**-**	(7,249)	(15)
At 31 December	**158,713**	**293**	158,113	293

(iii) Contributed capital

	2010 AED million	*2009* AED million
At 1 January	**25**	25
Additional contribution during the year	**316**	-
At 31 December	**341**	25

The additional contribution during the year represents the following:

	***2010* AED million**
Excess of fair value over consideration of available for sale investments transferred by Abu Dhabi Water and Electricity Authority (note 15)	**300**
Relating to interest free loan from Abu Dhabi Water and Electricity Authority (note 15)	**16**
	316

26 RESERVES

26.1 Other Reserves

	Statutory reserve AED million	*Legal reserve AED million*	*General reserve AED million*	*Total AED million*
Balance at 1 January 2009	2,554	291	750	3,595
Transfer during the year	18	64	-	82
Balance at 31 December 2009	2,572	355	750	3,677
Transfer during the year	102	102	-	204
Balance at 31 December 2010	**2,674**	**457**	**750**	**3,881**

Statutory reserve
As required by the UAE Commercial Companies Law of 1984 (as amended) and the articles of association of the Company and its subsidiaries, 10% of the consolidated profit for the year is transferred to the statutory reserve. The Company and its subsidiaries may resolve to discontinue such transfers when the reserve equals 50% of the share capital. The reserve is not available for distribution.

Legal reserve – subsidiaries
In accordance with the Articles of Association of certain domestic subsidiaries, 10% of the profit for the year is transferred to a legal reserve. The subsidiaries may resolve to discontinue such annual transfers when the reserve totals 50% of their share capital or in accordance with a resolution taken to this effect by the shareholders at the Annual General Meeting upon the recommendation of the Board of Directors of these subsidiaries. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders of the subsidiaries.

General reserve
The Group has establishment of the general reserve to enhance the capital base of the Company. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders of the Company.

26.2 Foreign currency translation reserve

The translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries. It is also used to record the effect of hedging net investments in foreign operations.

27 DIVIDENDS PAID AND PROPOSED

	2010 AED million	*2009 AED million*
Cash dividends proposed in respect of 2010: AED 0.10 per share other than treasury shares (2009: AED 0.10 per share)	**607**	607

Dividend on ordinary shares paid during the year amounted to AED 592 million (2009: AED 933 million).

28 NON-CONTROLLING INTERESTS

	2010 AED million	*2009 AED million*
Relating to Abu Dhabi Water and Electricity Authority (ADWEA)	**366**	292
Relating to non-controlling interest shareholdings in subsidiaries	**1,725**	1,862
	2,091	2,154

ADWEA is treated as a non-controlling interest in these consolidated financial statements due to its 10% equity interest in eight domestic subsidiaries of TAQA (refer to note 40 for details).

29 LOANS FROM NON-CONTROLLING INTEREST SHAREHOLDERS IN SUBSIDIARIES

	2010 *AED million*	*2009* *AED million*
Fujairah F2 CV	**415**	-
Total Tractebel Emirates Power Company	**73**	127
Asia Gulf Power Holding	**289**	340
International Power Holdings Limited	**23**	112
Shuweihat Limited Partnership	**91**	110
	891	689

The above loans are interest free, with no repayment terms and are unsecured and are subject to term of repayment as resolved by the Board of Directors of the subsidiaries. Accordingly they have been treated as equity.

30 LOANS FROM ABU DHABI WATER AND ELECTRICITY AUTHORITY

Movement in the loan balance during the year is as follows:

	2010 *AED million*	*2009* *AED million*
At 1 January	**265**	241
Received during the year	**2,622**	24
Repayments during the year	**(135)**	-
At 31 December	**2,752**	265

During the year, ADWEA provided loans with a total amount of AED 2,559 million to TAQA. These were in respect of the transfer of investment in Sohar (notes 18 and 20) and transfer of 90% of its holding in Ruwais Power Holding Company and Fujairah Water and Electricity Company (note 3).

31 INTEREST BEARING LOANS AND BORROWINGS

	2010 *AED million*	*2009* *AED million*
Revolving credit facilities	**6,279**	5,807
Abu Dhabi National Energy Company notes	**19,113**	19,031
Abu Dhabi National Energy Company bonds	**10,640**	10,885
Terms loans (see below)	**38,881**	24,820
	74,913	60,543

Included in the Abu Dhabi National Energy Notes is an amount of AED 3,473 million relating to a loan recorded at fair value through profit and loss since this loan has been designated as hedge item in a fair value hedge (note 41).

Disclosed in the consolidated statement of financial position as follows:

	2010	*2009*
Non-current liabilities	**69,583**	56,144
Current liabilities	**5,330**	4,399
	74,913	60,543

31 INTEREST BEARING LOANS AND BORROWINGS continued

The term loans which are shown at amortised cost are in respect of the following subsidiaries:

	2010 ***AED million***	*2009* *AED million*
Emirates CMS Power Company PJSC	**987**	1,070
Gulf Total Tractebal Power Company PJSC	**3,850**	3,940
Shuweihat CMS Power Company PJSC	**2,827**	2,980
Arabian Power Company PJSC	**2,812**	2,957
Taweelah Asia Power Company PJSC	**6,965**	7,255
Emirates SembCorp Water and Power Company PJSC	**4,341**	4,471
Fujairah Asia Power Company PJSC	**7,177**	-
Ruwais Power Company PJSC	**6,765**	-
Jorf Lasfar Energy Company	**2,823**	1,754
ST-CMS Electric Company India Private Limited	**334**	393
	38,881	24,820

Amounts payable by the Group (before deducting prepaid finance costs) over the next five years from 31 December 2010 and 2009 are as follows:

	2010	2009
Within 1 year	**2,091**	4,426
Between 1 – 2 years	**7,079**	3,582
Between 2 - 3 years	**12,111**	6,717
Between 3 - 4 years	**6,246**	8,868
Between 4 - 5 years	**5,152**	5,716
After 5 years	**42,778**	31,469
	75,457	60,778

(i) Revolving credit facilities

	2010	2009
Current liabilities		
CAD 1.325 billion facility, net of transaction costs	**-**	3,345
Non-current liabilities		
US $3.15 billion facility, net of transaction costs	-	2,462
US $3.0 billion facility, net of transactions costs (note a)	**3,272**	-
CAD 1.0 billion facility, net of transaction costs (note b)	**3,007**	-
	6,279	2,462
Total	**6,279**	5,807

a) On 21 December 2010, TAQA secured a US $3.0 billion (AED: 11.02 billion) revolver facility with a syndicate of 20 banks to replace the above US $3.15 billion revolver facility. It comprises of a US $2.0 billion three year revolving credit tranche and a US $1.0 billion five year revolving tranche. Amounts borrowed under this facility carry interest equal to LIBOR or EIBOR. At 31 December 2010, AED 3,306 million was drawn under this credit facility. The facility is stated net of prepaid finance cost of US $ 9 million (AED 34 million).

b) On 14 May 2010, TAQA NORTH refinanced its previous revolving facility with a CAD 1.0 billion 3 year revolving facility. TAQA NORTH is the borrower of this facility with TAQA providing a parent guarantee. At 31 December 2010, CAD 0.9 billion (AED 3 billion) was outstanding under this credit facility.

31 INTEREST BEARING LOANS AND BORROWINGS continued

(ii) Abu Dhabi National Energy Global Medium Term Notes

The following table summarises the terms of the notes payable:

	Issue rate %	*Effective interest rate %*	*Repayment date*	***2010 AED million***	*2009 AED million*
Non-current liabilities					
US $1,500,000,000, net of transaction costs	100%	5.65%	October 2012	**5,507**	5,505
US $1,000,000,000, net of discount and transaction costs	99.94%	6.64%	August 2013	**3,743**	3,667
US $1,200,000,000, net of discount and transaction costs	99.45%	4.92%	September 2014	**4,380**	4,378
US $500,000,000, net of transaction costs	100%	6.18%	October 2017	**1,835**	1,835
US $500,000,000, net of discount and transaction costs	99.85%	7.29%	August 2018	**1,832**	1,832
US $500,000,000, net of discount and transaction costs	99.20%	6.40%	September 2019	**1,816**	1,814
				19,113	19,031

(iii) Abu Dhabi National Energy Company Bonds

In 2006, TAQA issued long term fixed interest rate bonds at a discount. The bonds are recorded at amortised cost using effective interest rates and are direct, unconditional, and unsecured obligation of the Company. The following table summarises the terms of the bond payable:

	Issue Rate%	*Effective interest rate %*	*Repayment date*	***2010 AED million***	*2009 AED million*
Non-current liabilities					
Euro 750,000,000, net of discount and transaction costs	99.357%	4.53%	October 2013	**3,674**	3,923
US $1,000,000,000, net of discount and transaction costs	99.485%	5.98%	October 2016	**3,654**	3,651
US $1,500,000,000, net of discount and transaction costs	99.049%	6.6%	October 2036	**3,312**	3,311
				10,640	10,885

The bond liability is stated net of discount and transaction costs incurred in connection with the bond arrangements, amounting to AED 132 million as of 31 December 2010 (2009: AED 148 million), which are amortised in the consolidated income statement over the repayment period of the bond using effective interest rate method. Interest on the US dollar bonds is payable semi-annually. Interest on the Euro bonds is payable annually. Accrued interest is included under accruals and other liabilities.

During 2009, TAQA repurchased bonds with a nominal value of US$ 323 million (AED 1,188 million). This has resulted in a realised gain of AED 260 million in the 2009 consolidated income statement.

31 INTEREST BEARING LOANS AND BORROWINGS continued

Details of term loans by subsidiaries are as follows:

(iv) Emirates CMS Power Company PJSC (ECPC)

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term loan (1)	LIBOR + 0.95%	2011	**83**	74
Term loan (2)	LIBOR + 0.80%	2011	**8**	4
			91	78
Non-current				
Term loan (1)	LIBOR + 0.95%	2012 - 2020	**879**	963
Term loan (2)	LIBOR + 0.80%	2012 - 2013	**17**	29
			896	992
Total			**987**	1,070

The term loan facility (1) is repayable in half yearly instalments until June 2020 in accordance with an agreed upon instalment schedule. Term loan (1) is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of ECPC. Term loan (1) is also subject to various covenants as stipulated in the loan facility agreement. Term loan (1) is stated net of prepaid finance cost of AED 19 million (2009: AED 21 million).

During 2008, ECPC obtained loan facilities from a local bank (term loan facility (2) to finance the construction of a Heat Recovery Plant. The term loan facility (2) is US $11 million (AED 40 million) which was completely drawn down during the year 2009. Term loan (2) is repayable from June 2009 in accordance with an agreed upon repayment schedule, with the last repayment on 31 December 2013.

Under the terms of its loan facility agreement, ECPC is required to enter into interest rate swap agreements to hedge its interest rate exposure (note 41).

(v) Gulf Total Tractebel Power Company PJSC (GTTPC)

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term loan	LIBOR + 0.5%	2011	**97**	91
Non-current				
Term loan	LIBOR + (0.55% to 0.95%)	2029	**3,753**	3,849
Total			**3,850**	3,940

The term loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of GTTPC. The term loan is also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its Facility Agreement, GTTPC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 41).

The term loan above is stated net of prepaid finance cost of AED 27 million (2009: AED 28 million).

31 INTEREST BEARING LOANS AND BORROWINGS continued

(vi) Shuweihat CMS Power Company PJSC (SCIPCO)

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term loan	LIBOR + 1.25%	2011	**169**	140
Non-current				
Term loan	LIBOR + 1.25%	2012 - 2021	**2,658**	2,840
Total			**2,827**	2,980

The amount of the conventional term loan facility is US $1,035 million (AED 3,802 million) and is repayable in 35 semi annual instalments starting from December 2004 in accordance with an agreed upon instalment schedule.

The term loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of SCIPCO. The term loan is also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, SCIPCO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 41)

The term loan is stated net of prepaid finance costs of AED 33 million (2009: AED 38 million).

(vii) Arabian Power Company PJSC (APC)

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term loan	LIBOR + (1% - 1.15%)	2011	**149**	144
Non-current				
Term loan	LIBOR + (1.15%-1.65%)	2012 - 2023	**2,663**	2,813
Total			**2,812**	2,957

During 2003, APC obtained loan facilities from a syndicate of banks led by the Bank of Tokyo-Mitsubishi to finance the acquisition, refurbishment and extension of the UAN power and desalination plant.

The term loan facility is US $855 million (AED 3,140 million) and was fully drawn at 31 December 2009 (2008: AED 3,140 million). The term loan is repayable from January 2009 in accordance with an agreed upon repayment schedule with the last repayment due on 21 January 2023. The term loan is stated net of prepaid finance cost of AED 27 million (2009: AED 28 million).

The loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of APC and a pledge of the shares in APC by both shareholders. The loan is also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, APC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 41).

31 INTEREST BEARING LOANS AND BORROWINGS continued

(viii) Taweelah Asia Power Company PJSC (TAPCO)

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term loan (1)	LIBOR + 0.65%	2011	**125**	125
Term loan (2)	LIBOR + 0.825%	2011	**166**	166
			291	291
Non-current				
Term loan (1)	LIBOR + 0.65%	2012 – 2025	**2,872**	2,996
Term loan (2)	LIBOR + 0.825%	2012 – 2025	**3,802**	3,968
			6,674	6,964
Total			**6,965**	7,255

During 2005, TAPCO obtained loan facilities from a syndicate of banks to finance the acquisition, refurbishment and extension of the Taweelah B power and water desalination plant.

The term loan facility (1) amounting to US $ 911 million (AED 3,346 million) was fully drawn during 2008. Term loan (1) is stated net of prepaid finance cost of AED 42 million (2009: AED 45 million).

The term loan facility (2) amounting to US $1,200 million (AED 4,407 million) was fully drawn during 2008. Term loan (2) is stated net of prepaid finance cost of AED 35 million (2009: AED 37 million).

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of TAPCO and a pledge of the shares in the Company by the shareholders. The loans are also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, the TAPCO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 41).

(ix) Emirates SembCorp Water and Power Company PJSC (ESWPC)

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term loan	LIBOR + 0.651%	2011	**123**	131
Non-current				
Term loan	LIBOR + (0.651% - 1.201%)	2012-2029	**4,218**	4,340
Total			**4,341**	4,471

During 2006, ESWPC obtained loan facilities from a syndicate of banks to finance the acquisition and extension of the Fujairah Power and Desalination Plant.

The amount of the term loan facility is US $1,270 million (AED 4,667 million) and any unutilised portion of the facility expired during 2009. The term loan is repayable from February 2010 in accordance with an agreed upon repayment schedule with the last repayment on 31 January 2029. The term loan is stated net of prepaid finance cost of AED 37 million (2009: AED 39 million).

31 INTEREST BEARING LOANS AND BORROWINGS continued

(ix) Emirates SembCorp Water and Power Company PJSC (ESWPC) continued

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the ESWPC and a pledge of the shares in the ESWPC by the shareholders. The loans are also subject to various covenants as stipulated in the loan facility agreements.

Under the terms of its loan facility agreement, ESWPC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 41).

(x) Fujairah Asia Power Company PJSC ("FAPCO")

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term Loan (1)	LIBOR + 0.65%	2011	**8**	-
Term Loan (2)	LIBOR + 0.50%	2011	**12**	-
			20	-
Non-current				
Term loan (1)	LIBOR + 0.65%	2012-2030	**2,860**	-
Term loan (2)	LIBOR + 0.50%	2012-2030	**4,297**	-
			7,157	-
			7,177	-

Further to the transfer of 90% holding in Fujairah Water and Electricity Company (note 3) from ADWEA, additional loan facilities were consolidated into the Group. These loans are from a syndicate of banks (term loan facilities (1) and (2) and equity bridge facility) to finance the construction of the Fujairah F2 power production and water desalination plant.

The term loan facility (1) is AED 3,144 million, of which AED 2,915 million was drawn at 31 December 2010. The term loan is repayable from 28 January 2011 in accordance with an agreed upon repayment schedule with the last repayment due on 28 July 2030. Term loan (1) is stated net of prepaid finance cost of AED 47 million.

The term loan facility (2) is AED 4,716 million, of which AED 4,372 million was drawn at 31 December 2010. The term loan is repayable from 28 January 2011, in accordance with an agreed upon repayment schedule, with the last repayment due on 28 July 2030. Term loan (2) is stated net of prepaid finance cost of AED 63 million.

All loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of FAPCO and a pledge of the shares in the subsidiary company by the shareholders. Ultimate shareholders have issued guarantees toward the banks of the subsidiary company for its loans and hedging obligations. The loans are also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, FAPCO is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 41).

31 INTEREST BEARING LOANS AND BORROWINGS continued

(xi) Ruwais Power Company PJSC ("RPC")

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Non-current				
Equity bridge loans	LIBOR + 0.7%	2011	**862**	-
Interest bearing term loans	LIBOR + 2.35 % - 3.5%	2031	**5,903**	-
			6,765	-

Further to the transfer of 90% holding in Ruwais United Power Holding PJSC (note 3) from ADWEA, additional loan facilities were consolidated into the Group. These loans are from a syndicate of banks led by Sumitomo Mitsui Banking Corporation Europe Limited to finance the construction of the Shuweihat power generation and water desalination plant. The equity bridge loans carry a commitment fee of 0.5% and the interest bearing term loan carries a commitment fee of 1 % per annum of the undrawn amount.

The equity bridge loans of US $ 235 million (AED 862 million), were fully drawn at 29 October 2009 and are repayable on 31 August 2011 in full. The loan carriers interest at a variable rate of LIBOR plus a margin of 0.7% per annum. The equity bridge loans are stated net of prepaid finance cost of approximately AED 1.9 million.

During 2009, the RPC obtained interest bearing term loans facility of US $ 2,092 million (AED 7,683 million), of which US $ 1,640 million (AED 6,024 million) were drawn at 31 December 2010. The interest bearing term loans are repayable from February 2012 in accordance with an agreed upon repayment schedule with the last repayment on 31 August 2031. The loans carry interest at a variable rate of LIBOR plus a margin ranging from 2.35% and 3.5% per annum. The interest bearing term loans are stated net of prepaid finance cost of approximately AED 121 million.

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the RPC and a pledge of the shares in the RPC by the shareholders. The loans are also subject to various covenants as stipulated in the loan facility agreement.

Under the terms of its loan facility agreement, the RPC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 41).

(xii) Jorf Lasfar Energy Company

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term loan	5.637%	2010	**175**	104
Non-current				
Term loan	5.637%	2027	**2,648**	1,650
Total			**2,823**	1,754

During the year ended 31 December 2009, TAQA's wholly owned subsidiary Jorf Lasfar Energy Company SCA assumed an 18 year loan with a syndicate of banks MAD 7,400 million (AED 3,440 million) with a yearly variable interest rate capped at 6.75%. The principal and interest are to be paid quarterly with the final instalment maturing on 31 March 2027.

At 31 December 2010, MAD 6,422 million (AED 2,823 million) (2009: MAD 3,833 million [AED 1,754 million]) was outstanding on this loan. The term loan is secured by a number of security documents including the subsidiary's contractual rights, cash deposits, other assets and guarantees from the Moroccan Government and TAQA.

31 INTEREST BEARING LOANS AND BORROWINGS continued

(xiii) ST – CMS Electric Company Private Limited

	Effective interest rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Term loan	9.39%	2011	**81**	75
Non-current				
Term loan	9.39%	2015	**253**	318
Total			**334**	393

The Company's subsidiary ST-CMS Electric Company, which is part of the subsidiaries acquired in 2007, had term loans amounting to AED 334 million as of 31 December 2010 (2009: AED 393 million) as follows:

INR 237 million (AED 19 million) to be repaid quarterly with the final instalment maturing on 31 March 2015 and carries a variable interest rate at a stipulated spread below the respective Prime Lending Rates (PLR) of the lending banks.

The term loan is secured by a number of security documents including a commercial mortgage over all assets of the subsidiary.

32 ISLAMIC LOANS

Islamic loans are with respect to the following subsidiaries:

	2010 AED million	*2009 AED million*
Shuweihat CMS Power Company PJSC	**710**	748
Emirates CMS Power Company PJSC	**373**	402
Arabian Power Company PJSC	**823**	864
	1,906	2,014
Disclosed in the statement of financial position as follows:		
Non-current liabilities	**1,788**	1,909
Current liabilities	**118**	105
	1,906	2,014

Amounts payable by the Group (before deducting prepaid finance costs) over the next five years from 31 December 2010 and 2009 are as follows:

	2010	2009
Within 1 year	**121**	112
Between 1 – 2 years	**130**	121
Between 2 - 3 years	**135**	130
Between 3 - 4 years	**146**	135
Between 4 - 5 years	**149**	146
After 5 years	**1,254**	1,404
	1,935	2,048

32 ISLAMIC LOANS continued

(i) Shuweihat CMS Power Company PJSC

	Effective rental rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Islamic Ijara loan	LIBOR + 1.15%	2011	**42**	34
Non-current				
Islamic Ijara loan	LIBOR + 1.15%	2021	**668**	714
Total			**710**	748

The Islamic Ijara loan is secured by an assignation of identified parts of the plant and equipment purchased under the Islamic financing arrangement, and is repayable in thirty five semi-annual instalments starting from December 2004.

The Islamic Ijara loan is stated net of prepaid finance costs of AED 16 million (2009: AED 18 million).

(ii) Emirates CMS Power Company PJSC

	Effective rental rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Islamic Ijara loan	LIBOR + 0.95%	2011	**32**	29
Non-current				
Islamic Ijara loan	LIBOR + 0.95%	2020	**341**	373
Total			**373**	402

The Islamic Ijara loan is secured by an assignment of identified parts of the plant and equipment purchased under the Islamic financing arrangement, and is repayable in thirty three semi annual instalments commencing from 30 June 2004. A fluctuating profit charge is paid under the Islamic financing agreement, which is based on LIBOR plus a margin.

The Islamic Ijara loan is stated net of prepaid finance costs of AED 5 million (2009: AED 6 million).

(iii) Arabian Power Company PJSC

	Effective rental rate %	*Maturity*	***2010 AED million***	*2009 AED million*
Current				
Muqawala	LIBOR + (1% - 1.15%)	2011	**44**	42
Non-current				
Muqawala	LIBOR + (1% - 1.15%)	2012 - 2023	**779**	822
Total			**823**	864

The Muqawala loan is in respect of the procurement and manufacturing of certain generation assets under an Islamic loan facility agreement dated 2 July 2003. The facility of US $250 million (AED 918 million) is repayable in thirty semi annual instalments commencing from January 2009. The Muqawala loan is stated net of prepaid finance costs of AED 8 million (2009: AED 8 million).

Under the terms of its loan facility agreements, the subsidiaries are required to enter into interest rate swap agreements to hedge their interest cost exposure against fluctuations in rental rates (note 41).

33 ASSET RETIREMENT OBLIGATIONS

As part of the land lease agreements between ADWEA and the Company's local subsidiaries, the subsidiaries have a legal obligation to remove the power and water desalination plants at the end of the plants' useful lives or before if the subsidiaries became unable to continue their operations to that date and to restore the land. The subsidiaries shall at their sole cost and expense dismantle, demobilize, safeguard and transport the assets, eliminate soil and ground water contamination, fill all excavation and return the surface to grade of the designated areas.

In addition, the Company's foreign subsidiaries involved in the oil and gas sector make provision for the future cost of decommissioning oil and gas properties and facilities at the end of their economic lives.

The fair value of ARO liability has been calculated using an expected present value technique.

	2010 ***AED million***	*2009* *AED million*
ARO liability at 1 January	**5,974**	5,025
Adjustments relating to transfer of subsidiary from ADWEA (note 3)	**100**	-
	6,074	5,025
On business combination [note 3(iv)]	**205**	332
Utilised during the year	**(167)**	(140)
Provided during the year	**159**	354
Accretion expense (note 10)	**330**	271
Revision in estimated cash flows	**91**	40
Exchange adjustment	**12**	92
ARO liability at 31 December	**6,704**	5,974
Disclosed in the consolidated statement of financial position as follows:		
Current liabilities (note 36)	**147**	176
Non-current liabilities	**6,557**	5,798
	6,704	5,974

34 ADVANCES AND LOANS FROM RELATED PARTIES

	2010 ***AED million***	*2009* *AED million*
Loans from related parties (note (i))	**258**	30
Advances from related parties	**79**	22
	337	52

Movement in the loan balances during the year was as follows:

	2010	*2009*
Balance at 1 January	**30**	29
Adjustments relating to acquisition of a subsidiary (note b)	**226**	-
Notional interest expense (note 10)	**2**	1
Balance at 31 December	**258**	30

34 ADVANCES AND LOANS FROM RELATED PARTIES continued

(i) Loans from related parties are from the following:

	2010 AED million	*2009* AED million
Abu Dhabi Power Company ("ADPC")	**32**	30
Abu Dhabi Water and Electricity Authority ("ADWEA")	**226**	-
	258	30

a) During 2005, Company's subsidiary was granted a loan amounting to AED 70 million by a fellow subsidiary of the Company. The loan is interest free and unsecured and is due for payment in full in June 2025. On inception, the Company's management measured the loan at its fair value of AED 24 million. The difference of AED 46 million between the loan amount of AED 70 million and its fair value has been treated as an equity contribution from the ultimate holding company.

b) During 2010, the Company was granted a loan amounting to AED 242 million by a ADWEA in relation to the consideration for transfer of 100% of Al Wahda Investment Company ("AWIC") to TAQA. The loan is interest free and unsecured and is due for payment in full in January 2014. On inception, the Company's management measured the loan at its fair value of AED 226 million. The difference of AED 16 million between the loan amount of AED 242 million and its fair value has been treated as an equity contribution from ADWEA (note 25).

35 OTHER LIABILITIES

	2010 AED million	*2009* AED million
Provisions recognised on business combinations (note *i*)	**448**	489
Negative fair value of derivatives – interest rate swaps (note 41.1)	**4,369**	1,975
Negative fair value of derivatives – forward exchange contracts (note 41.1)	**60**	-
Employee benefits obligations	**94**	68
Share based payment liabilities	**17**	9
Others	**144**	146
	5,132	2,687

(i) Provisions recognised on business combinations relate mainly to certain onerous contracts in relation to market conditions recognised at fair value at the date of acquisition of Pioneer Canada Limited in 2007. The current portion of the provisions amounting to AED 32 million (2009: AED 31 million) is shown under accounts payable, accruals and other liabilities (note 36).

Movement in total provision recognised on business combinations during the year is as follows:

	2010 AED million	*2009* AED million
Balance at 1 January	**520**	501
Release to income statement during the year	**(81)**	(65)
Exchange adjustment	**41**	84
Balance at 31 December	**480**	520

36 ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2010 ***AED million***	*2009* *AED million*
Trade payables	**1,437**	559
Payable to joint venture partners	**61**	15
Accrued interest expense	**915**	713
Accrual for operating costs	**1,342**	1,028
Payable for capital expenditure	**700**	330
Provisions recognised on business combinations (note 35)	**32**	31
Negative fair value of derivatives – interest rate swaps (note 41.1)	**776**	371
Negative fair value of derivatives – commodity forward contracts (note 41.1)	**39**	55
Negative fair value of derivatives – forward exchange contracts (note 41.1)	**24**	-
Asset retirement obligations (note 33)	**147**	176
Dividends payable to non-controlling interests	**33**	33
Others	**765**	419
	6,271	3,730

Terms and conditions of the above liabilities:

- Trade payables are non-interest bearing and are normally settled between 30 to 60 day terms.
- Payable to joint venture partners are non-interest bearing and have an average term of 60 days.
- Interest payable is normally settled throughout the financial year in accordance with the terms of the loans.

37 AMOUNTS DUE TO ADWEA AND OTHER RELATED PARTIES

	2010 ***AED million***	*2009* *AED million*
Loan due to ADWEA (note i)	**237**	-
Amounts due to a fellow subsidiaries – ADWEC & ADPC	**164**	-
Others	**60**	18
	461	18

(i) Loan due to ADWEA

Loan payable to ADWEA relates to a loan given to a subsidiary for an amount of AED 237 million. The loan is unsecured and carries interest at 9% per annum. The loan is repayable upon request.

38 COMMITMENTS AND CONTINGENCIES

(i) Capital expenditure commitments

The authorised capital expenditure contracted for at 31 December 2010 but not provided for amounted to AED 1,213 million (2009: AED 843 million). AED 564 million of these commitments relate to power plant construction within Ruwais Power Company which is newly acquired subsidiary (see note 3).

(ii) Other commitments

a) TAQA has entered into an agreement with an infrastructure fund (note 15) managed by a third party and has committed to invest US $200 million (AED 735 million) in the fund over a period of five years. The total investment made to date in the fund amounted to US $81 million (AED 299 million) (2009: US $56 million (AED 206 million)) and has been treated as available for sale investment.

b) During 2009, Office National de l'Electricité ("ONE"), Jorf Lasfar Energy Company ("JLEC") and TAQA signed a strategic partnership agreement to extend the capacity of JLEC by two new units of an approximate gross capacity of 350 Mw each. As per this agreement, JLEC or an affiliate will build, own, and operate the new units 5 and 6 under a 30-year power purchase agreement with ONE. The EPC contract has been signed which commits the Group to spend approximately AED 3,805 million in the construction of the facilities.

c) During the year, TAQA Bratani signed a sale and purchase agreement relating to the acquisition of 81% equity stake in production licenses for two blocks in the Otter field development area for a total consideration of US $50 million (AED 183 million). The acquisition is expected to be completed in the second quarter of 2011.

d) As of the reporting date TAQA Energy has entered into contracts under which it is committed to spend AED 417 million in the development of the Bergermeer gas storage project in the Netherlands. The commitments are however subject to final permitting and have not therefore been included within the capital commitments value disclosed above.

e) As at the reporting date TAQA North has entered into pipeline usage commitments under which they are committed to spend AED 890 million between 1 January 2011 and 31 December 2015.

(iii) Operating lease commitments

Group as a lessor:

Future capacity payments to be received by the Group under non-cancellable operating leases as at 31 December are as follows:

	2010	*2009*
	AED million	*AED million*
Within one year	**5,218**	3,985
After one year but not more than five years	**24,533**	15,264
More than five years	**76,520**	46,135
	106,271	65,384

Group as a lessee:

Future minimum payments under non-cancellable operating leases as at 31 December are as follows:

	2010	*2009*
Within one year	**273**	467
After one year but not more than five years	**1,064**	1,871
More than five years	**1,820**	1,963
	3,157	4,301

38 COMMITMENTS AND CONTINGENCIES continued

(iv) Contingencies

a) As a result of acquisitions made in prior periods, there are contingent liabilities arising from (a) tax assessments or proposed assessments and (b) certain other disputes, all of which are being contested. Pursuant to the Purchase and Sale Agreements between TAQA and the sellers, the sellers have provided TAQA and its subsidiaries with indemnity obligations with respect to such contingent liabilities for the periods prior to date of the respective acquisitions.

b) TAQA GEN X LLC ("LLC") is the owner by assignment of a Fuel Conversion Services, Capacity and Ancillary Services Purchase Agreement dated as of September 17, 1999 (the "Tolling Agreement") by and between AES Red Oak, L.L.C. ("AES") and Williams Energy Marketing & Trading Company, as well as other ancillary rights and agreements. LLC entered into an Energy Management Agreement ("EMA") and an ISDA Master Agreement ("ISDA") both dated 28 December 2010 with Morgan Stanley Capital Group Inc. to manage the energy products under the Tolling Agreement and ancillary rights and agreements. At the end of the year, the Group guaranteed the obligations of LLC to Morgan Stanley Capital Group Inc. under the EMA and ISDA agreement. Payments under this guarantee shall not exceed US$100m (AED 367 million) over the life of the EMA

c) In August 2010, the former CEO of TAQA parent filed a lawsuit against TAQA parent and its subsidiary TAQA New World Inc. alleging various causes of action, including breach of contract, retaliatory termination, and physical and emotional distress. In general, the complaint seeks damages of over US$80 million (AED 294 million) in actual damages and in excess of $50 million (AED 183 million) in exemplary damages. TAQA parent has filed a motion to dismiss on jurisdictional grounds that remains pending.

39 RELATED PARTY TRANSACTIONS

As stated in note 1 to the financial statements the Group is a subsidiary of ADWEA which is wholly owned by the Government of Abu Dhabi and as such the group is a government related entity as defined by IAS 24 Amended. The Group is therefore exempt from disclosing certain information relating to transactions and balances with entities related to the same government.

Individually significant transactions

(i) As detailed in notes 3 and 18 to the consolidated financial statements, ADWEA transferred its 90% holding in Fujairah Water and Electricity Company ("FWEC") and Ruwais Power Holding Company ("RPHC") and 40% of its investment in Sohar to TAQA during 2010. The consideration for these transfers amounting to AED 2,559 million were financed through interest free loans with no fixed repayments terms (refer to note 30) with ADWEA.

(ii) As detailed in note 3(iii) to the consolidated financial statements, as a result of the above transfer of RPHC, the Group's effective holding in Shuweihat Shared Facilities Company LLC ("SSFC") has now increased from 22% to 38% and has been accounted for as a subsidiary in 2010 as TAQA has the ability to exercise control.

(iii) As detailed in note 15, in November 2010, ADWEA transferred 100% of its holding in Al Wahda Capital Investment LLC ("AWCI") to TAQA. AWCI holds 7% in Tesla Motors, a US based company. The fair value of the investment on the date of the transfer amounted to AED 542 million, which was recorded as available for sale investment. The difference between the fair value of the investment and the consideration amounting to AED 300 million has been treated as equity contributed capital by ADWEA.

(iv) As detailed in note 34, during 2010, the Group was granted a loan amounting to AED 242 million by ADWEA in relation to the purchase price for transfer of 100% of AWCI to TAQA. The loan is interest free and unsecured and is due for payment in full in January 2014. On inception, the Company's management measured the loan at its fair value of AED 226 million. The difference of AED 16 million between the loan

amount of AED 242 million and its fair value has been treated as an equity contribution from ADWEA.

39 RELATED PARTY TRANSACTIONS continued

Collectively but not individually significant transactions
All domestic power and water production is acquired by ADWEC (a fellow subsidiary of the Group) under long term PWPAs. Natural gas fuel is supplied by ADWEC to the domestic subsidiaries at no cost in accordance with the terms of the PWPAs

The following table provides summary of significant related party transactions included in the consolidated income statement during the year:

	2010	*2009*
	AED million	*AED million*
Fellow subsidiary (Abu Dhabi Water and Electricity Company):		
Sale of electricity and water	**5,117**	4,875
Supplemental fuel income	**2,863**	621
Liquidated damages paid	**(424)**	(2)
Others:		
Interest income on loan to associate and joint venture	**77**	16
Interest expense on loan from ADWEA	**(21)**	-
Notional interest expense on loan from ADWEA and ADPC	**(2)**	(1)

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

	2010	*2009*
	AED million	*AED million*
Non-current assets:		
Loan to a joint venture	-	871
Advance to a fellow subsidiary	-	211
Advance and loan to an associate (note 20)	**398**	-
Current assets:		
Advance and loan to an associate (note 20)	**901**	-
Accounts receivable		
Amounts due from fellow subsidiaries (note 23)	**1,587**	837
Advances to fellow subsidiary	-	8
Loan to an associate (note 23)	**20**	20
Loan to a joint venture	-	37
Non-current liabilities:		
Loan due to ADWEA (note 34)	**226**	-
Loan from a fellow subsidiary - ADPC (note 34)	**32**	30
Advances from a fellow subsidiary (note 34)	**79**	22
Current liabilities:		
Amounts due to ADWEA (note 37)	**60**	18
Loan due to ADWEA (note 37)	**237**	-
Amounts due to fellow subsidiaries – ADWEC & ADPC (note 37)	**164**	-

39 RELATED PARTY TRANSACTIONS continued

Other transactions
Compensation of key management personnel
For certain subsidiaries key management personnel are provided by operation and maintenance companies under contractual agreements with the subsidiaries.

The remuneration of senior key management personnel of the Group during the year was as follows:

	2010 ***AED million***	*2009* *AED million*
Short-term benefits	**40**	25
Post employment benefits	**4**	3
	44	28

40 SUBSIDIARIES

The consolidated financial statements include the financial statements of TAQA and all its subsidiaries. The Group's major operating subsidiaries are listed below:

	Country of registration	*Percentage holding* ***31 December 2010***	*31 December 2009*
Domestic Subsidiaries			
Emirates CMS Power Company PJSC (ECPC)	UAE	**54%**	54%
Gulf Total Tractebel Power Company PJSC (GTTPC)	UAE	**54%**	54%
Arabian Power Company PJSC (APC)	UAE	**54%**	54%
Shuweihat CMS International Power Company PJSC (SCIPCO)	UAE	**54%**	54%
Taweelah Asia Power Company PJSC (TAPCO)	UAE	**54%**	54%
Emirates Semb Corp Water and Power Company PJSC (ESWPC)	UAE	**54%**	54%
Fujairah Asia Power Company PJSC (FAPCO)	UAE	**54%**	-
Ruwais Power Company PJSC (RPC)	UAE	**54%**	-
Taweelah Shared Facilities Company LLC (TSFC)*	UAE	**48%**	48%
Shuweihat Shared Facilities Company LLC (SSFC)*	UAE	**38%**	22%
Foreign Subsidiaries			
TAQA New World, Inc.	Delaware, USA	**100%**	100%
TAQA GEN XLP	Delaware, USA	**85%**	85%
TAQA Bratani Limited	UK	**100%**	100%
TAQA International B.V.	Netherlands	**100%**	100%
TAQA Energy B.V.	Netherlands	**100%**	100%
TAQA North Ltd.	Canada	**100%**	100%
Jorf Lasfar Energy Company, SCA	Morocco	**100%**	100%
Jorf Lasfar Energy Company 5&6 S.A.	Morocco	**100%**	-
Takoradi International Company	Cayman Islands	**90%**	90%
ST-CMS Electric Company Pvt. Ltd.	India	**100%**	100%

*These entities are treated as subsidiaries even though TAQA's holding in these entities are below 50% due to the Group's control through the direct holding in these subsidiaries by two of the Group's subsidiaries being above 50%, thus enabling TAQA to have the ability to exercise control in the Board.

40 SUBSIDIARIES continued

Further details on the main subsidiaries are as follows:

Domestic subsidiaries

Emirates CMS Power Company PJSC
Emirates CMS Power Company PJSC ("ECPC") is a private joint stock company registered and incorporated in the United Arab Emirates ("UAE") and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. ECPC is 60% owned by Emirates Power Company PJSC, a 90% owned subsidiary of Abu Dhabi National Energy Company PJSC ("TAQA") and 40% owned by CMS Generation Taweelah Limited.

ECPC has a management operation and maintenance agreement with Taweelah A2 Operating Company whereby the latter has undertaken to manage the day-to-day operations and maintain ECPC's plant. The ECPC has entered into a power and water purchase agreement ("PWPA") with Abu Dhabi Water and Electricity Company ("ADWEC"), a related party (a wholly-owned subsidiary of ADWEA). Under the PWPA, ECPC undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until October 2021 in accordance with various agreed terms and conditions. The output payments cover variable operation and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by ECPC at the end of the PWPA term.

Gulf Total Tractebel Power Company PJSC
Gulf Total Tractebel Power Company PJSC ("GTTPC") is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. GTTPC is 60% owned by Gulf Power Company, a 90% owned subsidiary of TAQA and 40% owned by Total Tractebel Emirates Power Company.

GTTPC has a management operation and maintenance agreement with Total Tractebel Emirates O & M Company, whereby the latter has undertaken to manage the day-to-day operations and maintain the GTTPC plant. Further, GTTPC has entered into a power and water purchase agreement with ADWEC. Under the agreement, GTTPC undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until May 2023 in accordance with various agreed terms and conditions. The output payments cover variable operation and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by GTTPC at the end of the PWPA term.

Following completion of the A10 extension project, the PWPA was amended resulting in an extension to the term by an additional six years until April 2029. The output payments cover variable operation and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant and its A10 extension will be retained by the Company at the end of the PWPA term.

Arabian Power Company PJSC
Arabian Power Company PJSC ("APC") is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. APC is 60% owned by Arabian United Power Company, a 90% owned subsidiary of TAQA and 40% owned by ITM Investment Company Limited.

APC has a management operation and maintenance agreement with ITM O & M Company Limited, whereby the latter has undertaken to manage the day-to-day operations and maintain APC's plant. Further, APC has entered into a PWPA with ADWEC. Under the PWPA, APC undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until July 2027 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by APC at the end of the PWPA term.

40 SUBSIDIARIES continued

Domestic subsidiaries continued

Taweelah Asia Power Company PJSC
Taweelah Asia Power Company PJSC ("TAPCO") is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. TAPCO is 60% owned by Taweelah United Power Company, a 90% subsidiary of TAQA and 40% owned by Asia Gulf Power Holding Company Limited.

TAPCO has a management operation and maintenance agreement with Asia Gulf Power Service Company Limited, whereby the latter has undertaken to manage the day-to-day operations and maintain TAPCO's plant. Further, TAPCO has entered into a PWPA with ADWEC. Under the PWPA, TAPCO undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until March 2028 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by TAPCO at the end of the PWPA term.

Shuweihat CMS Power Company PJSC
Shuweihat CMS International Power Company PJSC ("SCIPCO") is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the Abu Dhabi grid. SCIPCO is 60% owned by Al Shuweihat Power Company, a 90% subsidiary of TAQA and 40% owned by Shuweihat Limited.

SCIPCO has a management operation and maintenance agreement with Shuweihat O & M Limited Partnership, whereby the latter has undertaken to manage the day-to-day operations and maintain SCIPCO's plant. Further, SCIPCO has entered into a PWPA with ADWEC. Under the agreement, SCIPCO undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until June 2025 in accordance with various agreed terms and conditions. The output payments cover variable operation and maintenance costs and fuel efficiency bonuses or penalty for actual output. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by SCIPCO at the end of the PWPA term.

Emirates SembCorp Water and Power Company PJSC
Emirates SembCorp Water & Power Company PJSC ("ESWPC") is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water. ESWPC is 60% owned by Union Power Holding Company, a 90% subsidiary of TAQA and 40% owned by SembCorp Gulf Holding Company Limited.

ESWPC has a management operation and maintenance agreement with SembCorp Gulf O & M Company Limited, whereby the latter has undertaken to manage the day-to-day operations and maintain ESWPC's plant. Further, ESWPC has entered into a PWPA with ADWEC. Under the PWPA, ESWPC undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until January 2029 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by ESWPC at the end of the PWPA term.

Fujairah Asia Power Company PJSC
Fujairah Asia Power Company PJSC ("FAPCO") is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water for supply into the UAE grid. FAPCO is 60% owned by Fujairah Water and Electricity Company, a 90% subsidiary of TAQA and 40% owned by Fujairah F2 CV.

During the year, the principal activities of the Company were to develop, finance, design and construct a power generation and desalination plant (the "Plant"). In 2007, Fujairah F2 CV entered into a turnkey agreement ("EPC") with third party contractors for the engineering, procurement and construction of the Plant in Fujairah. This agreement was subsequently novated to the Company.

40 SUBSIDIARIES continued

Domestic subsidiaries continued

Fujairah Asia Power Company PJSC continued
FAPCO has a management operation and maintenance agreement with Fujairah F2 O & M Company Ltd, whereby the latter has undertaken to manage the day-to-day operations and maintain the Company's plant until 2030. Further, FAPCO has a gas turbine long-term service agreement ("LTSA") with Alstrom O&M Limited and Alstrom Power Service (Arabia) until 2026. FAPCO has entered into a power and water purchase agreement ("PWPA") with Abu Dhabi Water and Electricity Company ("ADWEC"), a related party and a wholly-owned subsidiary of ADWEA. Under the PWPA, the Company undertakes to make available, and ADWEC undertakes to purchase, the entire net capacity of the plant until July 2030 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by FAPCO at the end of the PWPA term.

Ruwais Power Company PJSC
Ruwais Power Company PJSC ("RPC") is a private joint stock company registered and incorporated in the UAE and is engaged in the generation of electricity and the production of desalinated water. RPC is 60% owned by Ruwais Power Holding Company, a 90% subsidiary of TAQA and 40% owned by Shuweihat 2 Holding Company Limited.

During the year, the principal activities of RPC were to develop, finance, design and construct a power generation and desalination plant ("the Plant"). In 2008, RPC entered into a turnkey agreement with third party contractors for the engineering, procurement and construction of the Plant in Ruwais for an amount of USD 2.2 billion.

RPC has a management operation and maintenance agreement with S2 Operation and Maintenance Company W.L.L, whereby the latter has undertaken to manage the day-to-day operations and maintain the Company's plant. In July 2008, RPC has entered into a power and water purchase agreement ("PWPA") with Abu Dhabi Water and Electricity Company ("ADWEC"), a related party, (a wholly-owned subsidiary of ADWEA). Under the PWPA, RPC undertakes to make available, and ADWEC undertakes to purchase, the available net capacity of the plant until August 2031 in accordance with various agreed terms and conditions. Natural gas fuel is supplied by ADWEC at no cost. The ownership of the plant will be retained by RPC at the end of the PWPA term.

Foreign operating subsidiaries

TAQA Bratani Limited and TAQA Bratani LNS Limited
TAQA Bratani Limited was incorporated in 2006 to oversee TAQA's investments in the UK. In 2006, TAQA Bratani Limited and TAQA Bratani LNS Limited acquired the working interests of Talisman Energy Inc. in the Brae area of the UKCS (UK Continental Shelf). The interests in the Brae asset area includes part ownership of platforms, pipelines and offshore facilities, together with a large number of contracts which were entered into as part of the acquisition (mainly processing, tariffing and supply contracts). Control was transferred to the subsidiary during December 2007. In November 2008, TAQA Bratani Limited acquired a business from the UK subsidiaries of Shell UK Limited and Esso Exploration and Production UK Limited comprising a package of upstream assets in the Northern North Sea together with related infrastructure, personnel and processes.

TAQA Energy B.V.
In January 2007, TAQA, through its wholly owned subsidiary TAQA Europa B.V., acquired BP Nederland Energie B.V. (subsequently renamed TAQA Energy B.V.) from Amoco Netherlands Petroleum Company ("Amoco"). TAQA Energy is involved in the exploration, production and transportation of oil and natural gas in the Netherlands. TAQA Energy is also involved in the peak gas business by commissioning the first peak shaver in the Netherlands, the Alkmaar Piek Gas Installatie ("PGI"). In October 2009, TAQA Energy completed the acquisition of all issued and outstanding interest in DSM Energie Holding B.V. ("DSM Energy") from the Netherlands based Royal DSM N.V. TAQA Energy took control of the company which includes new and existing licenses in the North Sea as well as 40% interest in Noordgastransport B.V.

40 SUBSIDIARIES continued

Foreign operating subsidiaries continued

TAQA North Ltd.
TAQA North, formerly Northrock Resources Limited ("Northrock") is a Calgary-based oil and gas exploration company with operations in Alberta, British Columbia, Saskatchewan, Ontario and the Northwest Territories in Canada and in Montana, North Dakota and Wyoming in the United States. Northrock was acquired by TAQA in August 2007 from Pogo Producing Company and amalgamated with TAQA North. TAQA North subsequently entered into agreements to acquire Pioneer Canada Ltd. ("Pioneer"), a subsidiary of US-based Pioneer Natural Resources Company, and Calgary-based PrimeWest Energy Trust ("PrimeWest"). The former transaction closed on 27 November 2007 and the latter on 16 January 2008.

Jorf Lasfar Energy Company, SCA (JLEC)
JLEC was incorporated in Morocco as a société en commandite par actions (which is similar to a limited partnership) in January 1997. Through affiliated companies, TAQA owns 100% of JLEC. JLEC was established to operate two existing power generation units at Jorf Lasfar, each having 330 MW gross capacity ("units 1 and 2"), and to construct and operate two units of 348 MW gross capacity each ("units 3 and 4") at the same site.

Through the power purchase agreement ("PPA"), transfer of possession agreement and the construction and procurement agreement, JLEC acquired the right to design, construct, finance and commission units 3 and 4, operate all four units and sell all power generation capacity and net electricity production generated by these four units to Morocco's state-owned "Office National de Electricite" ("ONE") for a period of thirty years from financial close of the Jorf Lasfar project, which occurred in September 1997.

ONE retained legal title to units 1 and 2 and acquired legal title to each of units 3 and 4 as they were constructed. JLEC operates and possesses all four units and ancillary infrastructure comprising the Jorf Lasfar power station through a right of quiet enjoyment (droit de jouissance), a concept recognised under Moroccan law which transfers possession together with the right to use, enjoy and profit from the assets transferred.

As of May 2007, the operating company, JLEC, became an indirect wholly owned subsidiary of TAQA when TAQA acquired a 50% interest in the operating company as part of the acquisition of TAQA Generation, and acquired the remaining 50% interest from an affiliate of ABB Ltd.

In December of 2010, JLEC formed a subsidiary called Jorf Lasfar Energy Company 5&6 S.A., which subsidiary was established to construct, own, and operate two units of approximately 350 MW gross capacity each ("units 5 and 6") adjacent to the existing JLEC project.

Takoradi International Company
Takoradi International Company (TICO) is the Ghana Branch of a Cayman Islands limited liability company. The company is authorised to develop, design, finance, construct, commission, complete, own, operate, and maintain a power generation plant to be located adjacent to the existing power station in Aboadze, near Takoradi, within the TTPP complex. As of May 2007, TAQA Generation, a wholly owned subsidiary of TAQA acquired a 90% interest in TICO.

ST-CMS Electric Company Pvt. Ltd. (SCECPL)
SCECPL was incorporated on 17 November 1993, principally for the purposes of owning and operating the 250 MW lignite thermal power plant facility located in Neyveli, Tamil Nadu, Republic of India. SCECPL sells the entire capacity of the power plant to TNEB, the local state government owned utility, under a 30-year power purchase agreement. The plant was developed and constructed by SCECPL and commenced commercial operations in December 2002. The plant is operated by CMS (India) Operation and Maintenance Company Private Limited under a 30-year operation and maintenance agreement.

As of May 2007, the operating company, SCECPL, became an indirect wholly owned subsidiary of TAQA when TAQA acquired a 50% interest in SCECPL as part of the acquisition of TAQA Generation, and acquired the remaining 50% interest in May 2007 from an affiliate of ABB Ltd.

40 SUBSIDIARIES continued

Foreign operating subsidiaries continued

TAQA GEN X LP
TAQA GEN X limited partnership was incorporated during 2008 and is a 85% subsidiary of TAQA. During the fourth quarter of 2008, TAQA GEN X acquired 100% holding in BE Red Oak holding LLC, a company which holds a contractual interest in a tolling agreement for a combined cycle generation facility with a design electric generation capacity of approximately 764 MW located in Sayreville, New Jersey which facility is owned by AES Red Oak. The Tolling Agreement is defined as certain Fuel Conversion Services, Capacity and Ancillary Services Purchase Agreement dated 17 September 1999 between BE Red Oak and AES Red Oak, as amended. The acquisition was completed on 31 December 2008.

Other subsidiaries

O&M Companies
As part of the acquisition of Jorf Lasfar, SCECPL and TICO as described above, TAQA also acquired the related operating and maintenance companies.

Taweelah Shared Facilities LLC (TSFC)
TAQA acquired a controlling interest in Al Taweelah Shared Facilities LLC through its subsidiaries Al Taweelah Asia Power Company PJSC, Emirates CMS Power Company PJSC and Gulf Total Tractebel Power Company PJSC.TSFC is a closely held private company incorporated in United Arab Emirates which maintains shared utility facilities in Al Taweelah complex for the supply and discharge of sea water and provides other related services to TAQA subsidiaries.

Shuweihat Shared Facilities LLC (TSFC)
TAQA acquired a controlling interest in Shuweihat Shared Facilities LLC through its subsidiaries Ruwais Power Company PJSC and Shuweihat CMS Power Company PJSC.SSFC is a closely held private company incorporated in United Arab Emirates which maintains shared utility facilities in Shuweihat complex for the supply and discharge of sea water and provides other related services to TAQA subsidiaries.

TAQA International BV
The subsidiary was created in 2006 to oversee certain investments made by TAQA. As of 31 December 2009, the Company held investments in TAQA Energy, TAQA North, TAQA Bratani, Jorf Lasfar, ST-CMS Electric Company, and TAQA Financial Services.

TAQA New World – Delaware and Aglauros Inc.
The subsidiary was created in 2006 to oversee TAQA's investments in United States of America.

TAQA Financial Services
The subsidiary was created in 2008 for the purpose of centralizing the group's treasury operations. The primary goal of TAQA Financial Services ("TFS") is to act as an in house bank through which all of the Group's entities direct their cash flow.

Al Wahda Investment Company LLC
Al Wahda Investment Company LLC ("AWIC") is a limited liability company registered and incorporated in the UAE and is engaged in the investment activities. AWIC holds 7% in Tesla Motors, a US based company that designs, manufactures and sells electric vehicles (EVs) and electric vehicle powertrain components.

41 FINANCIAL INSTRUMENTS

41.1 Hedging activities

	Current 2010 AED million	*Non-current 2010 AED million*	*Current 2009 AED million*	*Non-current 2009 AED million*
Cash flow hedges				
Assets				
Interest rate swaps (note 21)	-	43	-	-
Cross currency interest rate swap (note 21)	-	26	-	-
Forward foreign exchange contracts (notes 21 & 23)	13	103	2	-
	13	172	2	-
Liabilities				
Interest rate swaps (notes 35 & 36)	776	4,369	371	1,975
Forward foreign exchange contracts (notes 35 & 36)	24	60	-	-
Commodity forward contracts (note 36)	-	39	-	-
	800	4,468	371	1,975
Fair value hedges				
Assets				
Interest rate swap (note 21)	-	75	-	-
Futures and forward contracts (note 23)	193	-	383	-
	193	75	383	-
Liabilities				
Futures and forward contracts (note 36)	-	-	55	-

(i) Interest Rate Swaps – Cash flow hedge

In order to reduce their exposures to interest rates fluctuations on variable interest bearing loans and borrowings (note 31) and Islamic loans (note 32) some subsidiaries entered into interest rate swap arrangements with counter-party banks for a notional amount that matches the outstanding interest bearing loans and borrowings and Islamic loans. The derivative instruments were designated as cash flow hedges. The following table summarises certain information relating to the derivatives for each subsidiary as of 31 December 2010 and 31 December 2009:

Subsidiary	*Notional amount*		*Derivative assets*	*Derivative liabilities*		*Fix leg on instrument*	*Fix leg on instrument*
	2010 AED million	*2009 AED million*	*2010 AED million*	*2010 AED million*	*2009 AED million*	*2010*	*2009*
ECPC	1,415	1,466	-	204	187	6.31% to 6.33%	6.31%-6.33%
GTTPC	3,165	3,239	43	414	310	2.89% to 6.99%	3.75% to 6.99%
SCIPCO	3,585	3,783	-	611	539	5.04% to 6.35%	5.04%-6.35%
APC	2,935	3,085	-	325	224	4.6% to 4.89%	4.6% to 4.89%
TAPCO	7,041	7,335	-	841	581	2.81% to 5.28%	2.81% to 5.28%
ESWPC	4,375	4,507	-	675	505	3.0% to 5.85%	3.0% to 5.85%
FAPCO	5,922	-	-	1,153	-	5.65% to 5.72%	-
RPC	7,035	-	-	922	-	3.86 % to 5.4 %	-
	35,473	23,415	43	5,145	2,346		

TAQA Corporate
In December 2010, the Group entered into a cross currency interest rate swap agreements with a group of banks to hedge the Group's exposure to foreign exchange for a portion of the Euro bond amounting EUR 197 million. The notional amount outstanding at 31 December 2010 was EUR 197 million.

The derivative instrument had a positive fair value of AED 26 million of which is included within other assets (note 21).

41 FINANCIAL INSTRUMENTS continued

41.1 Hedging activities continued

(ii) Hedge of net investment in foreign operations

Included in loans at 31 December 2010 is a portion of a borrowing amounting to Euro 553 million (AED 2,719 million) (2009: Euro 553 million (AED 2,904 million)) which has been designated as a hedge of the net investment in the Netherlands subsidiary TAQA Energy B.V. and is being used to hedge the Group's exposure to foreign exchange risk on this investment. During the year ended 31 December 2010, a gain of AED 186 million (2009: loss of AED 66 million) on the retranslation of this borrowing was transferred to equity to offset any gains or losses on translation of the net investment in this subsidiary.

There is no ineffectiveness in the years ended 31 December 2010 and 2009.

(iii) Forward Foreign Exchange Contracts

Shuweihat CMS International Power Company PJSC (SCIPCO)
SCIPCO uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The outstanding forward foreign exchange commitment at 31 December 2010 amounted to AED 435 million (2009: AED 118 million).

The derivative instrument had a positive fair value of AED 13 million which has been included within accounts receivable and prepayments (note 23)(2009: AED 2 million representing the non-current derivative asset has been disclosed in the statement of financial position under other assets(note 21)).

Fujairah Asia Power Company PJSC (FAPCO)
FAPCO uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The notional amount outstanding at 31 December 2010 was AED 498 million (note 21).

The derivative instrument had a positive fair value of AED 103 million, which has been included within other assets.

Ruwais Power Company PJSC (RPC)
RPC uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The notional amount outstanding at 31 December 2010 was AED 730 million.

The derivative instrument had a negative fair value of AED 84 million, of which AED 24 million has been included within accounts payable, accruals and other liabilities (note 36) and AED 60 million has been included within other liabilities (note 36).

(iv) Forward Sales Transactions – Cash flow hedges

TAQA North
In order to reduce its exposure to commodity prices, the Company's wholly owned subsidiary TAQA North utilizes derivative financial instruments, including zero cost collars, to mitigate the impact of crude oil and natural gas price fluctuations on highly probable forecast (sale) transactions. These commodity derivatives are designated as cash flow hedges; the effective portion of gain and losses being initially recorded in other comprehensive income and deferred in equity before being transferred to the income statement when the hedged transaction affects the income statement or the forecast transaction is no longer highly probable. Effectiveness is assessed only during those periods in which there is a change in intrinsic value of the hedging instrument. Changes in the time value of the options are excluded from the assessment of effectiveness and together with any ineffective portion of gains and losses are recognized directly in the income statement in each reporting period. The notional amount outstanding at 31 December 2010 was bbls 3.4 million of crude oil and GJ 1.8 million of natural gas. The negative fair market value of these instruments, as at 31 December 2010, was CAD 11 million (AED 39 million). The net realised and unrealised losss recognised in the income statement relating to such instruments are AED 51 million for the year ended 31 December 2010 (2009: nil).

41 FINANCIAL INSTRUMENTS continued

41.2 Hedging activities – Fair Value hedges

(v) Interest Rate Swaps – Fair value hedges

In April 2010, the Group entered into interest rate swap agreements with a group of banks to hedge the changes in fair value of US$ 1 billion Global Medium Term Notes (AED 3.7 billion) attributable to movements in the LIBOR rate component. Under the swap agreement, the group receives a fixed rate of interest of 6.6% and pays a variable rate equal to LIBOR plus margin on a notional amount. The swap has been designated as fair value hedge.

The changes in the fair value of the interest rate swap as at 31 December 2010 of AED 75 million, which has been included within other assets (note 21)(2009: nil) has been recognized in the income statement to offset the changes in fair value of the notes amounting to AED 74 million.

(vi) Other
TAQA GEN X LLC, a subsidiary of TAQA utilises derivative instruments, which include futures and forwards as a hedging strategy to manage the exposure in the underlying Tolling Agreement. Forward and future transactions are contracts for delayed delivery of commodity instruments in which the counterpart agrees to make or take delivery at a specified price. As at 1 April 2010, these derivative instruments were designated as a fair value hedge of the delta of the option value in the Tolling Agreement.

As at 31 December 2010, the net fair value of exchange-traded derivative instruments was AED 193 million shown under other accounts receivable and prepayments (note 23)(2009: AED 383 million shown under other accounts receivable and prepayments (note 23) and the negative portion of AED 55 million shown under accounts payable, accruals and other liabilities (note 36)). The net realised and unrealised losses recognised in the income statement relating to such instruments are AED 100 million for the year ended 31 December 2010 (2009: gain of AED 411 million).

During the year, the Tolling Agreement recognized as an intangible at acquisition was adjusted for the change in fair value for movements in the designated hedge risk. The changes in the fair value of the Tolling Agreement as at 31 December 2010 was a gain of AED 260 million, (note 16) which was recognized in the consolidated income statement.

41.3 Derivatives not designated as hedging instruments

(vii) Forward Foreign Exchange Contracts

Emirates CMS Power Company PJSC (ECPC)
ECPC uses forward foreign exchange contracts to hedge its risk associated with foreign currency fluctuations relating to scheduled maintenance cost payments to an overseas supplier. The outstanding forward foreign exchange commitment at 31 December 2010 was AED 52 million (2009: AED 132 million). The forward foreign exchange contracts do not qualify for hedge accounting and accordingly, changes in fair value are recorded in the consolidated income statement. The net realised and unrealised losss recognised in the income statement relating to such instruments are AED 7 million for the year ended 31 December 2010 (2009: loss of AED 35 million).

41 FINANCIAL INSTRUMENTS continued

41.4 Fair values

The fair values of the financial instruments of the Group are not materially different from their carrying values at the reporting date except for certain fixed interest borrowings and operating financial assets. Set out below is a comparison of the carrying amounts and fair values of fixed interest borrowings and operating financial assets:

	Carrying amount		*Fair value*	
	2010	*2009*	***2010***	*2009*
	AED million	*AED million*	***AED million***	*AED million*
Operating financial assets	**5,328**	5,551	**5,527**	5,748
Interest-bearing loans and borrowings - fixed rate borrowings	**26,010**	31,670	**27,286**	31,268

The fair value of operating financial assets and fixed rate borrowings is calculated by discounting the expected future cash flows using appropriate interest rates.

41.5 Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	31 December AED million	*Level 1 AED million*	*Level 2 AED million*	*Level 3 AED million*
2010				
Financial assets measured at fair value				
Available-for-sale investments	**947**	**716**	**-**	**231**
Interest rate swaps	**118**	**-**	**118**	**-**
Forward foreign exchange contracts	**116**	**-**	**116**	**-**
Cross currency interest rate swaps	**26**	**-**	**26**	**-**
Futures and forward contracts	**193**	**-**	**193**	**-**
Financial liabilities measured at fair value				
Interest rate swaps – hedged	**5,145**	**-**	**5,145**	**-**
Forward foreign exchange contracts	**84**	**-**	**84**	**-**
Commodity forward contracts	**39**	**-**	**39**	**-**
2009				
Financial assets measured at fair value				
Available-for-sale investments	159	-	-	159
Forward foreign exchange contracts	2	-	2	-
Futures and forward contracts	383	383	-	-
Financial liabilities measured at fair value				
Interest rate swaps – hedged	2,346	-	2,346	-
Futures and forward contracts	55	55	-	-

During the year ended 31 December 2010 and 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, accounts payable and related party payables. The main purpose of these financial liabilities is to raise finance for the Group's operations, business combinations and acquisition of property, plant and equipment. The Group has various financial assets such as operating financial assets, available for sale investments, trade and other receivables and cash and short-term deposits, which arise mainly from its operations.

The Group also enters into derivative transactions, primarily interest rate swap, cross currency swaps, forward currency contracts and commodity options and contracts. The purpose is to manage the interest rate risks, currency risks and commodity price risks arising from the Group's operations and sources of finance.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised as follows:

Market risk
Market price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks comprise the following types of risk: interest rate risk, currency risk, commodity price risk and other price risk such as equity. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December 2010 and 2009.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2010.

The following assumptions have been made in calculating the sensitivity analyses:

- The statement of financial position sensitivity relates to derivatives and available-for-sale debt instruments.
- The sensitivity of the relevant income statement item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2010 and 2009 including the effect of hedge accounting.
- The sensitivity of equity is calculated by considering the effect of any associated cash flow hedges and hedges of a net investment in a foreign subsidiary at 31 December 2010 for the effects of the assumed changes in the underlying.

Interest rate risk
The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations and short-term deposits with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2010, after taking into account the effect of interest rate swaps, approximately 84% of the Group's borrowings are at a fixed rate of interest (2009: 86%).

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Interest rate risk continued
Interest rate sensitivity
The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings and deposits, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax and equity is affected as follows:

	Effect on profit AED million	*Effect on equity AED million*
2010		
+15 increase in basis point	**(14)**	**244**
-15 decrease in basis point	**14**	**(271)**
2009		
+15 increase in basis point	(8)	125
-15 decrease in basis point	8	(124)

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to risk of changes in foreign exchange rates relates primarily to the operating activities (when revenue or expense are denominated in a difference currency from the functional currencies of the subsidiaries), carrying values of assets and liabilities in Canadian Dollars, Euros and Moroccan Dirhams and the Group's net investment in foreign subsidiaries.

The Group hedges part of its net exposure to fluctuations on the translation into AED of its foreign operations by holding certain borrowings in foreign currencies, primarily in Euros.

The following table demonstrates the sensitivity to a reasonably possible change in the Euro, GBP, CAD and Moroccan Dirham exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in foreign currency translation reserve). The Group's exposure to foreign currency changes for all other currencies is not material.

	Increase/ decrease in Euro, GBP Moroccan Dirham and CAD rates	*Effect on profit before tax AED million*	*Effect on equity AED million*
2010	**+5%**	**61**	**(1,283)**
	-5%	**(61)**	**1,283**
2009	+5%	7	(1,346)
	-5%	(7)	1,346

The movement in equity arises from changes in Euro borrowings in the hedge of net investments in the Netherlands. These movements will partly offset the translation of the Netherland's operations net assets into AED.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Commodity price risk
TAQA GEN X LLC, a subsidiary of TAQA is affected by the volatility of certain commodities. Its operating activities require the ongoing purchase of gas and sale of electricity. Due to volatility in the prices of these commodities, the subsidiary's management has developed and enacted a risk management strategy regarding commodity price risk and its mitigation. The Group hedges the commodity price risks using forward commodity contracts.

The following table shows the effect of price changes on the fair value of the forward commodity contracts on the profit before tax:

	Change in Year end price	*Effect on profit before tax AED million*	*Effect on equity AED million*
2010	**+10%**	**134**	**-**
	-10%	**(134)**	**-**
2009	+10%	132	-
	-10%	(132)	-

TAQA North, a subsidiary of TAQA is affected by the volatility of crude oil and natural gas prices. Due to volatility in the prices of these commodities, the subsidiary's management has developed and enacted a risk management strategy regarding commodity price risk and its mitigation. The Group hedges the commodity price risks using zero cost collar contracts.

The following table shows the effect of price changes on the fair value of the zero cost collars of crude oil and natural gas:

	Change in Year end price	*Effect on profit before tax AED million*	*Effect on equity AED million*
2010	**+10%**	**83**	**1,287**
	-10%	**(83)**	**(1,287)**
2009	+10%	-	-
	10%	-	-

Equity price risk
The Group's listed and unlisted securities are susceptible to market price risk arising from uncertainties about future values of the investment securities.

At the reporting date, the exposure to available for sale investment at fair value was AED 231 million (2009: AED 159 million). A change of 5% in overall earnings stream of the valuations performed could have an impact of approximately AED 12 million (2009: AED 8 million) on the equity of the Group.

At the reporting date, the exposure to listed securities at fair value was AED 716 million (2009: nil). A change of 5% in overall earnings stream of the valuations performed could have an impact of approximately AED 36 million (2009: nil) on the equity of the Group.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and other financial instruments.

Trade and other receivables
Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit limits are established for all customers based on internal rating criteria. Credit quality of the customer is assessed based on an extensive credit rating scorecard.

Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other form of credit insurance. The Group's largest 3 customers account for approximately 86% of outstanding trade receivables at 31 December 2010 (2009: 80%). The requirement for impairment is analysed at each reporting date on an individual basis for major costumers. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 23. The Group does not hold collateral as security.

Other financial instruments and cash deposits
Credit risk from balances with banks and financial institutions is managed by the Group's treasury in accordance with the Group's policy. Investments of surplus funds are made only with reputable banks and financial institutions. The Group's maximum exposure to credit risk for the components of the statement of financial position at 31 December 2010 and 2009 is the carrying amounts as illustrated in note 24 except for derivative financial instruments. The Group's maximum exposure for derivative instruments is noted in note 41 and in the liquidity table below, respectively.

Liquidity risk
The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and other borrowings. The Group's policy is that the amount of borrowings that mature in the next 12 month period should not cause in the current ratio to be less than 100%. 8% of the Group's debt will mature in less than one year at 31 December 2010 (2009: 8%) based on the carrying value of borrowings reflected in the consolidated financial statements.

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted payments:

	On demand AED million	*Less than 3 months AED million*	*3 to 12 months AED million*	*1 to 5 years AED million*	*> 5 years AED million*	*Total AED million*
At 31 December 2010						
Trade and other payables	**193**	**2,978**	**92**	**-**	**1**	**3,264**
Bank overdrafts	**92**	**-**	**-**	**-**	**-**	**92**
Interest bearing loans, borrowings and Islamic loans	**-**	**655**	**4,099**	**38,064**	**52,953**	**95,771**
Loan from a related party	**-**	**-**	**-**	**242**	**70**	**312**
Loans from non-controlling interest shareholders in subsidiaries	**20**	**27**	**1**	**10**	**235**	**293**
Amounts due to ADWEA and other related parties	**357**	**104**	**-**	**-**	**-**	**461**
Derivative financial instruments	**-**	**654**	**1,475**	**9,305**	**7,175**	**18,609**
Total	**662**	**4,418**	**5,667**	**47,621**	**60,434**	**118,802**
At 31 December 2009						
Trade and other payables	132	603	900	-	-	1,635
Bank overdrafts	92	-	-	-	-	92
Interest bearing loans, borrowings and Islamic loans	-	3,230	2,969	33,829	39,046	79,074
Loan from a related party	-	-	-	-	70	70
Loans from non-controlling interest shareholders in subsidiaries	20	27	1	9	194	251
Amounts due to ADWEA and other related parties	13	4	1	-	-	18
Derivative financial instruments	-	247	1,012	4,999	3,010	9,268
Total	257	4,111	4,883	38,837	42,320	90,408

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

	Less than 3 months AED million	*3 to 12 months AED million*	*1 to 5 years AED million*	*> 5 years AED million*	*Total AED million*
At 31 December 2010					
Inflows	**408**	**830**	**5,978**	**4,745**	**11,961**
Outflows	**(609)**	**(1,520)**	**(9,305)**	**(7,175)**	**(18,609)**
Net	**(201)**	**(690)**	**(3,327)**	**(2,430)**	**(6,648)**
Discounted at the applicable interbank rates	**(194)**	**(600)**	**(2,738)**	**(1,736)**	**(5,268)**
At 31 December 2009					
Inflows	165	692	3,483	2,153	6,493
Outflows	(247)	(1,012)	(4,999)	(3,010)	(9,268)
Net	(82)	(320)	(1,516)	(857)	(2,775)
Discounted at the applicable interbank rates	(80)	(312)	(1,331)	(623)	(2,346)

42 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. There are no regulatory imposed requirements on the level of share capital which the Group has not met. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2010 and 31 December 2009.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio within a range to meet the business needs of the Group. The Group includes within net debt, interest bearing loans and borrowings, Islamic loans, less cash and cash equivalents. Capital includes total equity including non-controlling interests less cumulative changes in fair value of derivatives and available for sale investments.

	2010 ***AED million***	*2009* *AED million*
Interest bearing loans and borrowings	**74,913**	60,543
Islamic loans	**1,906**	2,014
Less cash and cash equivalents	**(5,489)**	(4,282)
Net debt	**71,330**	58,275
Equity	**15,238**	12,410
Less cumulative changes in fair value of available for sale investments	**(180)**	13
Less cumulative changes in fair value of derivatives	**2,822**	1,190
Total capital	**17,880**	13,613
Capital and net debt	**89,210**	71,888
Gearing ratio	**80%**	81%

43 COMPARATIVE INFORMATION

Certain comparative figures were reclassified to conform with the current year presentation. Such reclassifications as discussed below have no effect on the profit or the equity of the Group.

- Investment in Noordgastransport amounting to AED 103 million as of 31 December 2009 previously shown under investment in associates has now been classified as investment in joint ventures and disclosed in note 19 to the consolidated financial statements. The related share of results amounting to AED 30 million has also been reclassified from share of results of associates to share of results of joint ventures in the income statement.

- Loan to an associate amounting to AED 20 million previously included within accounts receivable and prepayments has now been reclassified to advance and loan to associates.

The statement of financial position as of 1 January 2009 has not been presented since the investment in Noordgastransport was made during 2009 and reclassification of the loan to an associate is not material to the financial statements as of 1 January 2009.