Abu Dhabi National Energy Company PJSC
("TAQA")

REPORT OF THE BOARD OF DIRECTORS AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

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(“TAQA”)

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CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

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") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2011 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 information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and 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 in 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 2011 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

13 March 2012
Abu Dhabi

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2011

	Notes	***2011 AED million***	*2010 AED million*
Revenues			
Revenue from oil and gas	5.1	**10,825**	8,419
Revenue from electricity and water	5.2	**7,309**	6,330
Fuel revenue	5.3	**4,768**	5,343
Gas storage revenue		**271**	290
Net liquidated damages received	5.4	**49**	451
Other operating revenue	5.5	**965**	568
		24,187	21,401
Cost of sales			
Operating expenses	6	**(9,782)**	(10,176)
Depreciation, depletion and amortisation	7	**(5,289)**	(4,490)
(Provisions) reversal for impairment – property, plant and equipment	8	**(616)**	416
		(15,687)	(14,250)
GROSS PROFIT		**8,500**	7,151
Administrative and other expenses	9	**(798)**	(823)
Finance costs	10.1	**(4,555)**	(4,003)
Interest income	10.2	**44**	148
Changes in fair values of derivatives and fair value hedges		**281**	55
Net foreign exchange gains		**117**	58
Bargain purchase gain	3(iv)	**-**	191
Gain (loss) on sale of land and oil and gas assets	13	**91**	(171)
Loss on repurchase of global medium term notes	32	**(81)**	-
Share of results of associates	18	**298**	226
Share of results of joint ventures	19	**103**	176
Gain from sale of a joint venture	25	**28**	-
Other income		**90**	27
PROFIT BEFORE TAX		**4,118**	3,035
Income tax expense	11	**(2,534)**	(1,152)
PROFIT FOR THE YEAR		**1,584**	1,883
Attributable to:			
Owners of the parent		**744**	1,019
Non-controlling interests		**840**	864
PROFIT FOR THE YEAR		**1,584**	1,883
Basic and diluted earnings per share attributable to equity holders of the parent (AED)	12	**0.12**	0.17

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2011

	2011 ***AED million***	*2010* *AED million*
Profit for the year	**1,584**	1,883
Other comprehensive income		
Changes in fair values of derivative instruments in cash flow hedges	**(4,332)**	(2,300)
Share of other comprehensive income of associates (note 18)	**(1)**	(52)
Reclassification adjustments for losses included in the income statement	**1,494**	1,177
Board of Directors' remuneration	**(4)**	(4)
Exchange differences arising on translation of overseas operations	**(767)**	1,171
Changes in fair value of available for sale investments (note 15)	**74**	193
Other comprehensive income for the year	**(3,536)**	185
Total comprehensive income for the year	**(1,952)**	2,068
Attributable to:		
Owners of the parent	**(1,475)**	1,703
Non-controlling interests	**(477)**	365
	(1,952)	2,068

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2011

	Notes	*2011* *AED million*	*2010* *AED million*
ASSETS			
Non-current assets			
Property, plant and equipment	13	**77,439**	78,651
Operating financial assets	14	**4,363**	4,879
Available for sale investments	15	**1,122**	947
Intangible assets	16	**13,430**	13,945
Investment in associates	18	**512**	314
Investment in joint ventures	19	**735**	814
Advance and loan to an associate	20	**398**	398
Other assets	21	**420**	590
		98,419	100,538
Current assets			
Inventories	22	**3,122**	2,115
Operating financial assets	14	**417**	449
Advance and loan to associates	20	**810**	921
Accounts receivable and prepayments	23	**6,537**	5,332
Cash and short-term deposits	24	**3,988**	5,581
		14,874	14,398
Assets classified as held for sale	25	**1,400**	1,123
		16,274	15,521
TOTAL ASSETS		**114,693**	116,059
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Issued capital	26	**6,225**	6,225
Treasury shares	26	**(293)**	(293)
Equity contributed capital	26	**341**	341
Other reserves	27	**4,048**	3,881
Retained earnings		**1,138**	1,172
Proposed dividends	28	**607**	607
Foreign currency translation reserve	27	**(554)**	213
Cumulative changes in fair value of available for sale investments		**254**	180
Cumulative changes in fair value of derivatives in cash flow hedges		**(4,344)**	(2,822)
		7,422	9,504
Non-controlling interests	29	**1,433**	2,091
Loans from non-controlling interest shareholders in subsidiaries	30	**1,060**	891
Loan from Abu Dhabi Water and Electricity Authority (ADWEA)	31	**2,675**	2,752
		5,168	5,734
Total equity		**12,590**	15,238
Non-current liabilities			
Investment in associate	18	**86**	203
Interest bearing loans and borrowings	32	**67,178**	72,855
Islamic loans	33	**1,661**	1,788
Deferred tax	11	**4,606**	4,657
Asset retirement obligations	34	**7,502**	6,557
Advances and loans from related parties	35	**345**	337
Loan from non-controlling interest shareholders in subsidiaries		**94**	119
Other liabilities	36	**7,317**	5,132
		88,789	91,648
Current liabilities			
Accounts payable, accruals and other liabilities	37	**6,627**	6,271
Interest bearing loans and borrowings	32	**4,911**	2,058
Islamic loans	33	**127**	118
Loans from non-controlling interest shareholders in subsidiaries		**20**	46
Amounts due to ADWEA and other related parties	38	**444**	461
Income tax payable		**955**	127
Bank overdrafts	24	**169**	92
		13,253	9,173
Liabilities classified as held for sale	25	**61**	-
		13,314	9,173
Total liabilities		**102,103**	100,821
TOTAL EQUITY AND LIABILITIES		**114,693**	116,059

DIRECTOR DIRECTOR CHIEF EXECUTIVE OFFICER

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable toe owners of the parent													
	Share capital AED million	*Treasury shares AED million*	*Equity contributed capital AED million*	*Other reserves 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 in cash flow hedges AED million*	*Total AED million*	*Non-controlling interests AED million*	*Loans from non-controlling interest shareholders in subsidiaries AED million*	*Loan from ADWEA AED million*	*Total equity AED million*
Balance at 1 January 2010	6,225	(293)	25	3,677	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)	25	3,677	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 income for the year	-	-	-	-	(4)	-	1,171	193	(676)	684	(499)	-	-	185
Total comprehensive 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 28)	-	-	-	-	(607)	607	-	-	-	-	-	-	-	-
Capital contributed during the year (note 26)	-	-	316	-	-	-	-	-	-	316	-	-	-	316
Dividends paid (note 28)	-	-	-	-	-	(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 31)	-	-	-	-	-	-	-	-	-	-	-	-	2,622	2,622
Repayment of loans	-	-	-	-	-	-	-	-	-	-	-	(212)	(135)	(347)
Balance at 31 December 2010	6,225	(293)	341	3,881	1,172	607	213	180	(2,822)	9,504	2,091	891	2,752	15,238
Profit for the year	-	-	-	-	744	-	-	-	-	744	840	-	-	1,584
Other comprehensive income for the year	-	-	-	-	(4)	-	(767)	74	(1,522)	(2,219)	(1,317)	-	-	(3,536)
Total comprehensive income for the year	-	-	-	-	740	-	(767)	74	(1,522)	(1,475)	(477)	-	-	(1,952)
Transfer to statutory reserve	-	-	-	74	(74)	-	-	-	-	-	-	-	-	-
Transfer to legal reserve	-	-	-	93	(93)	-	-	-	-	-	-	-	-	-
Proposed dividends (note 28)	-	-	-	-	(607)	607	-	-	-	-	-	-	-	-
Dividends paid (note 28)	-	-	-	-	-	(607)	-	-	-	(607)	-	-	-	(607)
Dividends paid to non-controlling interest shareholders in subsidiaries	-	-	-	-	-	-	-	-	-	-	(613)	-	-	(613)
Share capital injection by non-controlling interest shareholders in a subsidiary	-	-	-	-	-	-	-	-	-	-	432	-	-	432
Loans received from non-controlling interest shareholders in a subsidiary	-	-	-	-	-	-	-	-	-	-	-	432	-	432
Loans received from ADWEA (note 31)	-	-	-	-	-	-	-	-	-	-	-	-	10	10
Repayment of loans	-	-	-	-	-	-	-	-	-	-	-	(263)	(87)	(350)
Balance at 31 December 2011	**6,225**	**(293)**	**341**	**4,048**	**1,138**	**607**	**(554)**	**254**	**(4,344)**	**7,422**	**1,433**	**1,060**	**2,675**	**12,590**

The attached notes 1 to 44 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	*2011* *AED million*	*2010* *AED million*
OPERATING ACTIVITIES			
Profit before tax		**4,118**	3,035
Adjustments for:			
Depreciation, depletion and amortisation	7	**5,289**	4,490
Employee benefit obligations, net		**23**	7
Gain on exchange - loans and borrowings and operating financial assets		**(138)**	(17)
Provisions/ (reversal) for impairment - property, plant and equipment and asset held for sale		**616**	(416)
Exploration and evaluation costs derecognised during the year		**149**	178
Bargain purchase price		**-**	(191)
Gain (loss) on sale of assets		**(91)**	171
Gain on sale of joint venture		**(28)**	-
Loss on repurchase of notes		**81**	-
Interest expense and notional interest		**4,175**	3,673
Accretion expense		**380**	330
Share of results of associates	18	**(298)**	(226)
Share of results of joint venture	19	**(103)**	(176)
Unrealised gains on fair valuation of derivatives and fair value of hedges		**(281)**	(55)
Interest income		**(44)**	(148)
Working capital changes:			
Inventories		**(979)**	(342)
Accounts receivables, prepayments and other assets		**(438)**	(1,396)
Amount due to ADWEA and other related parties		**(17)**	145
Accounts payables, accruals and other liabilities		**196**	594
Income tax paid		**(1,724)**	(790)
Interest paid		**(4,112)**	(3,361)
Board of directors' remuneration paid		**(4)**	(4)
Asset retirement obligation payments		**(128)**	(167)
Movement of operating financial assets		**269**	239
Net cash from operating activities		**6,911**	5,573
INVESTING ACTIVITIES			
Proceeds from sale of interest in joint venture	25	**1,151**	-
Proceeds from the sale of assets		**410**	366
Purchase of property, plant and equipment		**(5,697)**	(7,503)
Purchase of operating financial assets		**(1,027)**	-
Receipt (purchase) of subsidiaries, net of cash acquired		**58**	(881)
Purchase of available for sale investments		**(101)**	(53)
Purchase of an associate		**(163)**	-
Dividend received from associates		**147**	-
Dividend received from joint venture		**160**	171
Loan repayment by an associate		**111**	184
Advance from a related party		**8**	-
Repayment of loan and interest by joint venture		**-**	474
Purchase of intangible assets		**(231)**	(229)
Interest received		**44**	148
Other assets		**(16)**	(27)
Net cash used in investing activities		**(5,146)**	(7,350)
FINANCING ACTIVITIES			
Interest bearing loans and borrowings received		**10,091**	12,237
Repayment of interest bearing loans and borrowings		**(11,831)**	(8,525)
Repayment of Islamic loans		**(121)**	(113)
Share capital injection by non-controlling interest shareholders		**-**	476
Dividend paid to equity holders of the parent	28	**(607)**	(592)
Dividend paid to non-controlling interest shareholders		**(613)**	(353)
Loans received from Abu Dhabi Water and Electricity Authority		**10**	61
Repayment of loans to Abu Dhabi Water and Electricity Authority		**(87)**	(135)
Loans received from non-controlling interest shareholders		**-**	414
Repayment of loans to non-controlling interest shareholders		**(314)**	(255)
Net cash (used in) from financing activities		**(3,472)**	3,215
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,707)**	1,438
Net foreign exchange difference		**37**	(231)
Cash and cash equivalents at 1 January		**5,489**	4,282
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	24	**3,819**	5,489

The attached notes 1 to 44 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 exploration, 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 2011 include the financial statements of TAQA and all its subsidiaries. Details of the major operating subsidiaries are provided in note 41 to the consolidated financial statements.

The consolidated financial statements of the Group were authorised for issuance by the Board of Directors on 13 March 2012.

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 available for sale investments and derivative financial instruments that have been measured at fair value. The carrying values of recognised assets such as intangible assets (refer to note 16) 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

The consolidated financial statements comprise the financial statements of the Company and each of its subsidiaries as at 31 December 2011.

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, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

2.2 BASIS OF CONSOLIDATION 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.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations
The accounting policies adopted 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 2011 and not previously adopted by the Group:
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 32 Financial Instruments: Presentation (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position or performance of the Group.

Improvements to IFRSs (May 2010)
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.
- IFRS 3 Business Combinations: The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.
- IFRS 7 Financial Instruments — Disclosures: The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Improvements to IFRSs (May 2010) continued

- IAS 1 Presentation of Financial Statements: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from Improvements to IFRSs (May 2010) to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 Customer Loyalty Programs (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that 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:

Judgements

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*.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Judgements continued
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 described 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.

Acquisitions of business and associates
Accounting for the acquisition of a business and for associates 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.

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.

2.4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS continued

Estimates and assumptions continued

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, their fair value is 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.

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

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

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

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

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. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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 the consolidated income statement.

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, unless when the Group believes that some other method better reflects the goodwill associated with the operation disposed of.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

Water and electricity and fuel revenue
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 recognised 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. fuel revenue), 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.

(iv) Fuel revenue represents reimbursements from the offtakers in the power and water subsidiaries at market prices for fuel consumed in power generation in accordance with the terms of the power and water purchase agreements and the power purchase agreements.

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 income 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Taxes continued
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 at the reporting date. 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.

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 Group's consolidated financial statements are presented in UAE Dirhams (AED), which is also 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Foreign currency translation continued
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. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

ii) Group companies
On consolidation, 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 spot rate of exchange on the reporting rate.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Interests in joint ventures continued
i) Jointly controlled entities continued
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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets continued
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 costs, appraisal and development study 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.

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 asset 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment continued
Property, plant and equipment – general continued
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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

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 Group’s 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 on the investment in its associates. 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 the consolidated income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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 consolidated income statement.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill
Goodwill is tested for impairment on annual basis, at the reporting date, 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. Where applicable, 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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.

Pursuant to these principles:
- infrastructure to which the operator is given access by the grantor of the concession at no consideration is not recognised in the consolidated statement of financial position;

- start-up capital expenditure is recognised 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 recognised 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 recognised 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition 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.

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:

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial liabilities continued
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.

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 42.5.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of financial assets continued

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derecognition of financial instruments continued
Financial assets continued
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.

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 ; 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedge accounting continued
Initial recognition and subsequent measurement continued
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.

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Derivative financial instruments and hedge accounting continued
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.

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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Pensions and other post employment benefits continued
Defined benefit pension plan continued
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.

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. Explanations are provided for standards and interpretations issued where the Group reasonably expects their adoption to have an impact on disclosures, financial position or performance when applied at a future date. Standards and interpretations where the Group expects no impact to result from adoption are also listed below. The Group intends to adopt all these standards when they become effective.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income ("OCI")*
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 *Employee Benefits* (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group is currently assessing the full impact of the new standard. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

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 and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected during 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 *Consolidated Financial Statements*
IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 *Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the full impact of the new standard. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.6 STANDARDS ISSUED BUT NOT YET EFFECTIVE continued

IFRS 11 ***Joint Arrangements***
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. A wide range of changes are introduced in IFRS 11 including the removal of the option to account for jointly controlled entities (JCEs) using proportionate consolidation and changes relating to the definition and categorisation of joint arrangements.. The Group is currently assessing the full impact of the new standard. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 ***Disclosure of Involvement with Other Entities***
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The Group is currently assessing the full impact of the new standard. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 ***Fair Value Measurement***
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The following standard amendments are not expected to have any impact on the Group:
- IAS 12 *Income Taxes – Recovery of Underlying Assets*
- IAS 27 *Separate Financial Statements* (as revised in 2011)

3 BUSINESS COMBINATIONS

<u>Acquisition in 2011</u>

During the year ended 31 December 2011, TAQA made the following acquisition which represent business combinations under IFRS 3:

Acquisition of 31% undivided interest in Otter Assets:

On 1 July 2011, TAQA Bratani completed the acquisition of a 31% undivided interest in the producing Otter field and associated infrastructure and agreements. The Otter field is tied back to the TAQA operated Eider subsea platform in the Northern North Sea (NNS) area of the UK continental shelf. There is no non-controlling interest related to the acquisition. The acquisition agreement for the 31% undivided interest includes an option clause under which TAQA can acquire a further 50% undivided interest on commercially agreed terms. The option was exercised after the reporting date (note 44). The fair values of the identifiable assets and liabilities relating to the 31% undivided interests as at the transaction completion date were as follows:

3 BUSINESS COMBINATIONS continued

Acquisition in 2011 continued

	Fair value recognised on acquisition AED million
Property, plant, and equipment	65
Deferred tax assets	54
Inventories	1
Accounts receivables and prepayments	12
	132
Accounts payable, accruals and other liabilities	(60)
Asset retirement obligations	(130)
	(190)
Net liabilities and receipt at acquisition	(58)

The fair values presented above represent the final acquisition accounting for the business combination.

From the date of acquisition, Otter assets have contributed AED 107 million of revenue and AED 38 million to the profit of the Group.

If the above acquisition had taken place at the beginning of the year, the profit of the Group would have been AED 1,772 million and revenue would have been AED 24,593 million.

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. 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.

(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. 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.

3 BUSINESS COMBINATIONS continued

<u>Acquisitions in 2010</u> 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.

(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 purchase price allocation was finalised in 2010 which resulted in a bargain purchase gain of AED 191 million. 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.

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.

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. 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.

4 SEGMENTAL INFORMATION continued

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 2011:							
Revenue from external customers	**8,102**	**4,102**	**4,523**	**6,123**	**1,337**	**-**	**24,187**
Operating expenses	**(2,820)**	**(3,348)**	**(1,678)**	**(1,368)**	**(556)**	**(12)**	**(9,782)**
Administrative and other expenses	**(81)**	**(103)**	**(340)**	**(50)**	**(39)**	**(185)**	**(798)**
Share of results of associates	**-**	**7**	**-**	**-**	**-**	**291**	**298**
Share of results of joint venture	**-**	**-**	**-**	**-**	**103**	**-**	**103**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**5,201**	**658**	**2,505**	**4,705**	**845**	**94**	**14,008**
Provision for impairment – property plant and equipment	**-**	**-**	**(616)**	**-**	**-**	**-**	**(616)**
Depreciation, depletion and amortisation	**(1,491)**	**(64)**	**(2,177)**	**(1,216)**	**(321)**	**(20)**	**(5,289)**
Earnings before interest and tax (EBIT)	**3,710**	**594**	**(288)**	**3,489**	**524**	**74**	**8,103**
Finance costs	**(2,037)**	**(238)**	**(130)**	**(232)**	**(15)**	**(1,903)**	**(4,555)**
Changes in fair value of derivatives and fair value hedges	**23**	**249**	**12**	**-**	**-**	**(3)**	**281**
Net foreign exchange gains (losses)	**1**	**101**	**2**	**35**	**2**	**(24)**	**117**
Gain from sale of joint venture	**-**	**28**	**-**	**-**	**-**	**-**	**28**
Interest income	**-**	**-**	**-**	**-**	**-**	**44**	**44**
Loss on repurchase of bonds	**-**	**-**	**-**	**-**	**-**	**(81)**	**(81)**
Gain on sale of assets	**-**	**-**	**91**	**-**	**-**	**-**	**91**
Other income	**1**	**58**	**-**	**1**	**-**	**30**	**90**
Income tax (expense) credit	**-**	**(237)**	**22**	**(2,359)**	**(150)**	**190**	**(2,534)**
Profit (loss) for the year	**1,698**	**555**	**(291)**	**934**	**361**	**(1,673)**	**1,584**
Year ended 31 December 2010:							
Revenue from external customers	7,834	4,366	4,053	4,348	800	-	21,401
Operating expenses	(3,245)	(3,423)	(1,522)	(1,818)	(162)	(6)	(10,176)
Administrative and other expenses	(46)	(114)	(374)	(47)	(28)	(214)	(823)
Share of results of associates	-	12	-	-	-	214	226
Share of results of joint ventures	-	54	-	-	122	-	176
Earnings before interest, tax, depreciation and amortisation (EBITDA)	4,543	895	2,157	2,483	732	(6)	10,804
Reversal/ (provision) for impairment	-	-	457	-	(41)	-	416
Depreciation, depletion and amortisation	(1,142)	(93)	(2,037)	(925)	(258)	(35)	(4,490)
Earnings before interest and tax (EBIT)	3,401	802	577	1,558	433	(41)	6,730
Finance costs	(1,598)	(188)	(60)	(220)	(14)	(1,923)	(4,003)
Changes in fair value of derivatives and fair value hedges	(54)	160	(51)	-	-	-	55
Net foreign exchange gains (losses)	6	61	(1)	22	-	(30)	58
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 (loss) for the year	1,756	622	261	563	333	(1,652)	1,883

4 SEGMENTAL INFORMATION continued

The following table presents segment assets and liabilities of the Group's operating segments as at 31 December 2011 and 2010.

	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 2011							
Investment in associates	**-**	**54**	**-**	**-**	**-**	**458**	**512**
Investment in joint venture	**-**	**-**	**-**	**-**	**735**	**-**	**735**
Assets classified as held for sale	**-**	**-**	**1,400**	**-**	**-**	**-**	**1,400**
Advance and loan to an associate	**-**	**20**	**-**	**-**	**-**	**1,188**	**1,208**
Operating financial assets	**-**	**4,780**	**-**	**-**	**-**	**-**	**4,780**
Other assets	**55,338**	**4,884**	**30,632**	**8,824**	**4,501**	**1,879**	**106,058**
Segment assets	**55,338**	**9,738**	**32,032**	**8,824**	**5,236**	**3,525**	**114,693**
Liabilities	**48,762**	**4,292**	**6,596**	**6,922**	**1,733**	**33,798**	**102,103**
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 associates	-	20	-	-	-	1,299	1,319
Operating financial assets	-	5,328	-	-	-	-	5,328
Other assets	55,060	3,772	32,991	7,976	4,719	2,643	107,161
Segment assets	55,060	10,290	32,991	7,976	5,533	4,209	116,059
Liabilities	46,165	4,576	5,732	5,624	1,688	37,036	100,821
Other disclosures							
Year ended December 2011							
Additions to investment in an associate	**-**	**-**	**-**	**-**	**-**	**163**	**163**
Additions to property, plant and equipment	**1,321**	**31**	**3,034**	**1,732**	**316**	**-**	**6,434**
Other capital expenditure	**-**	**1,027**	**-**	**-**	**-**	**-**	**1,027**
Additions to intangible assets	**-**	**-**	**193**	**36**	**-**	**2**	**231**
Provision for impairment	**-**	**-**	**(616)**	**-**	**-**	**-**	**(616)**
Exploration costs written off	**-**	**-**	**(149)**	**-**	**-**	**-**	**(149)**
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)

- 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.
- Other capital expenditure represents expenditure incurred on Jorf 5&6 expansion in Morocco (note 14).

Geographical information

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

	UAE AED million	North America AED million	United Kingdom AED million	Netherlands AED million	Africa AED million	Others AED million	Total AED million
Revenue							
Year ended 31 December 2011:	**8,101**	**5,542**	**6,123**	**1,337**	**2,576**	**508**	**24,187**
Year ended 31 December 2010:	7,834	5,098	4,348	800	2,810	511	21,401
Non-current assets							
At 31 December 2011:	**48,274**	**31,128**	**7,680**	**3,852**	**3,922**	**796**	**95,652**
At 31 December 2010:	48,524	33,180	7,143	3,986	4,272	960	98,065

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 - International AED million*	*Oil and Gas - UK AED million*	*Total AED million*
Year ended 31 December 2011				
Customer 1	**8,193**	**-**	**-**	**8,193**
Customer 2	**-**	**-**	**5,531**	**5,531**
Customer 3	**-**	**2,303**	**-**	**2,303**
Total	**8,193**	**2,303**	**5,531**	**16,027**
Year ended 31 December 2010				
Customer 1	7,834	-	-	7,834
Customer 2	-	-	3,321	3,321
Customer 3	-	1,965	-	1,965
Total	7,834	1,965	3,321	13,120

5 REVENUES

5.1 Revenue from oil and gas

	2011 AED million	*2010 AED million*
Gross oil and gas revenue	**11,770**	9,194
Less: royalties	**(945)**	(775)
	10,825	8,419

5.2 Revenue from electricity and water

Operating lease revenue	**5,225**	4,080
Revenue from operating financial assets (note 14)	**674**	733
Sale of electricity	**138**	184
Energy payments and other related revenue	**1,272**	1,333
	7,309	6,330

5 REVENUES continued

5.3 Fuel revenue

Fuel revenue represents reimbursements from the offtakers of the power and water subsidiaries at market prices for fuel consumed in power generation in accordance with the terms of the power and water purchase agreements and the power purchase agreements. Fuel revenue is further analysed as follows:

	2011 ***AED million***	*2010* *AED million*
Backup fuel in domestic subsidiaries reimbursed by ADWEC (note 40)	**1,806**	2,242
Reimbursement of coal and other fuel costs in foreign power subsidiaries	**2,962**	3,101
	4,768	5,343

5.4 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 (note 40).

5.5 Other operating revenue

	2011 ***AED million***	*2010* *AED million*
Net processing income	**242**	219
Tariff income	**105**	130
Gas trading	**386**	33
Others	**232**	186
	965	568

6 OPERATING EXPENSES

	2011 ***AED million***	*2010* *AED million*
Staff costs	**367**	321
Repairs, maintenance and consumables used	**2,598**	2,246
Fuel expenses	**4,240**	5,026
Charges by operating and maintenance contractors	**1,329**	1,206
Oil and gas operating costs	**390**	776
Gas purchases for trading	**366**	10
Exploration and evaluation assets written off (note 16)	**149**	178
Transportation costs	**133**	153
Gas storage expenses	**97**	106
Property, plant and equipment written off	**-**	35
Others	**113**	119
	9,782	10,176

7 DEPRECIATION, DEPLETION AND AMORTISATION

	2011 AED million	*2010 AED million*
Depreciation of property, plant and equipment and depletion of oil and gas assets (note 13)	**5,156**	4,360
Amortisation of initial spares fees (note 21)	**12**	13
Amortisation of intangible assets (note 16)	**121**	117
	5,289	4,490

8 IMPAIRMENT PROVISIONS AND REVERSALS – PROPERTY, PLANT AND EQUIPMENT

	2011 AED million	*2010 AED million*
Provision for impairment on property, plant and equipment (note (i))	**(587)**	(41)
Impairment loss on assets held for sale (note 25)	**(29)**	-
Reversal of provision for impairment on property, plant and equipment (note (ii))	**-**	457
	(616)	416

(i) During the year ended 31 December 2011, an impairment charge of AED 587 million was recognised in the consolidated income statement representing the write down of certain oil and gas properties located in Canada to their recoverable amounts. These assets are included in the oil and gas segment – North America. 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 7% (2010: 7%). The write-down was primarily as a result of a deteriorating gas price environment and poor asset performance in the CGU.

During the year ended 31 December 2010, 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 determined using the FVLCS method.

(ii) The reversal of impairment charges during the year ended 31 December 2010 relates to the write-back of prior period charges made in respect of certain oil and gas properties in the oil and gas segment – North America. 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%.

9 ADMINISTRATIVE AND OTHER EXPENSES

	2011 AED million	*2010 AED million*
Salaries and related expenses	**411**	412
Professional fees and business development expenses	**201**	198
Others	**186**	213
	798	823

10 FINANCE COSTS & INCOME

10.1 Finance costs

	2011 *AED million*	*2010* *AED million*
Finance costs relating to bonds and notes	**1,752**	1,660
Finance costs relating to interest bearing loans and borrowings and Islamic loans	**926**	814
Finance costs on loan from ADWEA (note 40)	**21**	21
Notional interest expense (note 35)	**7**	2
Interest expense on interest rate swaps	**1,469**	1,176
Asset retirement obligation accretion expense (note 34)	**380**	330
	4,555	4,003

10.2 Interest income

	2011 *AED million*	*2010* *AED million*
Interest income on loan to joint venture (note 40)	**-**	72
Interest income on loan to associate (note 40)	**5**	5
Interest income on short-term deposits	**39**	71
	44	148

11 INCOME TAX

The major components of income tax expense/ (credit) for the years ended 31 December 2011 and 2010 are:

	2011 *AED million*	*2010* *AED million*
Consolidated income statement		
Current income tax:		
Current income tax charge	**2,357**	919
Adjustment in respect to income tax of previous years	**14**	(224)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**163**	457
Income tax expense reported in the consolidated income statement	**2,534**	1,152

Incorporated within deferred income tax expense above are exchange differences on deferred foreign tax liabilities and assets which are recognised in the statement of comprehensive income and are classified within income tax as they are considered to be part of the tax expense of the Group. In 2011, these differences amounted to deferred income tax benefit of 115 AED million (2010: deferred income tax benefit of 149 AED million).

11 INCOME TAX continued

Reconciliation between tax expense and the product of accounting profit multiplied by the applicable statutory tax rate for the years ended 31 December 2011 and 2010 is as follows:

	2011 ***AED million***	*2010* *AED million*
Accounting profit before income tax	**4,118**	3,035
Non-taxable income (including income in non-taxable jurisdictions)	**(889)**	(1,159)
Total taxable income	**3,229**	1,876
Applicable tax charge at statutory rates - weighted average of 59% (2010: 44%)	**1,913**	823
Adjustment in respect to income tax of previous years	**14**	(224)
Withholding taxes	**25**	21
Tax incentives	**(45)**	(30)
Special production taxes on upstream activities	**800**	281
Others	**(173)**	281
Income tax expense reported in the consolidated income statement	**2,534**	1,152

The weighted average of statutory tax rates was 59% in 2011 (2010: 44%), reflecting higher income achieved in the oil and gas operations in the United Kingdom, exacerbated by the imposition of significant additional taxes on United Kingdom oil and gas producing companies which came into effect on 24 March 2011..

Deferred income tax

Deferred income tax at 31 December relates to the following:

	Consolidated statement of financial position		*Consolidated income statement*	
	2011 ***AED million***	*2010* *AED million*	***2011*** ***AED million***	*2010* *AED million*
Deferred tax liability:				
Temporary tax difference on property, plant and equipment	**8,127**	7,382	**972**	215
Temporary difference arising on asset retirement obligations	**(3,337)**	(2,421)	**(810)**	133
Others	**(184)**	(304)	**1**	109
	4,606	4,657	**163**	457

The Group has tax losses in some jurisdictions of AED 243 million (2010: AED 201 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 2011, unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of certain subsidiaries amount to AED 127 million (2010: AED 72 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.

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:

	2011	*2010*
Profit for the year attributable to owners holders of the parent (*AED million*)	**744**	1,019
Weighted average number of ordinary shares issued (million)	**6,066**	6,066
Basic earnings per share (AED)	**0.12**	0.17

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*
2011					
Cost:					
At 1 January 2011	11,869	42,288	40,851	282	95,290
On business combination (note 3)	-	-	65	-	65
Transfer to assets held for sale (note 25)	-	-	(1,422)	-	(1,422)
Additions	3,031	154	3,222	27	6,434
Sale of assets (note i)	(1)	(16)	(368)	-	(385)
Transfers	(14,026)	12,781	1,152	93	-
Exchange adjustment	(47)	(131)	(816)	-	(994)
At 31 December 2011	**826**	**55,076**	**42,684**	**402**	**98,988**
Depreciation and depletion:					
At 1 January 2011	-	6,995	9,015	44	16,054
Transfer to assets held for sale (note 25)	-	-	(374)	-	(374)
Charge for the year	-	1,588	3,545	23	5,156
On sale of assets (note i)	-	(7)	(92)	-	(99)
Exchange adjustment	-	(104)	(242)	-	(346)
At 31 December 2011	**-**	**8,472**	**11,852**	**67**	**20,391**
Impairment:					
At 1 January 2011	-	-	585	-	585
Impairment during the year (note 8)	-	-	587	-	587
Exchange adjustment	-	-	(14)	-	(14)
At 31 December 2011	**-**	**-**	**1,158**	**-**	**1,158**
Net carrying amount:					
At 31 December 2011	**826**	**46,604**	**29,674**	**335**	**77,439**
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)	-	-	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

Capital work in progress additions include capitalised borrowing costs of AED 394 million (2010: AED 856 million).

i) During the year ended 31 December 2011, TAQA NORTH sold various non-core land assets located in the United States and Canada for proceeds of AED 410 million (2010: AED 366 million). The gain on sale of assets of AED 91 million (2010: loss of AED 171 million) included goodwill written off of AED 71 million (2010: AED 126 million) (note 16).

Property, plant and equipment with a carrying amount of AED 46,312 million (2010: AED 46,410 million) are pledged as security for the related loans.

14 OPERATING FINANCIAL ASSETS

	2011 AED million	*2010 AED million*
Total consideration receivable	**11,100**	12,449
Unearned revenue	**(6,320)**	(7,121)
	4,780	5,328

Analysed in the consolidated statement of financial position as follows:

	2011 AED million	*2010 AED million*
Non current portion	**4,363**	4,879
Current portion	**417**	449
	4,780	5,328

The movement in unearned revenue is as follows:

	2011 AED million	*2010 AED million*
At 1 January	**7,121**	7,835
Recognised during the year (note 5.2)	**(674)**	(733)
Exchange adjustment	**(127)**	19
At 31 December	**6,320**	7,121

Maturity profile of gross consideration receivable is analysed as follows:

Year	***2011 AED million***	*2010 AED million*
Within 1 year	**967**	987
Between 1 – 5 years	**3,923**	3,697
After 5 years	**6,210**	7,765
Total	**11,100**	12,449

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.

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, out of which AED 1,027 million has been incurred as at 31 December 2011 and recorded as accounts receivable from the offtaker in accordance of the terms of the agreement pending project financing closing date (note 23).

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.

Operating financial assets with a carrying amount of AED 4,780 million (2010: AED 5,328 million)are pledged as security for the related borrowings in the subsidiaries.

15 AVAILABLE FOR SALE INVESTMENTS

	2011 ***AED million***	*2010* *AED million*
Listed – outside UAE	**768**	716
Listed - in UAE	**7**	-
Unquoted investment in managed fund – outside UAE	**347**	231
Total	**1,122**	947

Movement during the year is as follows:

At 1 January	**947**	159
Transfer to investment in a subsidiary	**-**	(1)
	947	158
Additions during the year	**101**	596
Changes in fair value during the year	**74**	193
At 31 December	**1,122**	947

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*
2011						
Cost:						
At 1 January 2011	1,371	836	1,388	10,359	64	14,018
Additions	171	-	-	-	60	231
Written off on sale of assets (note 13)	(9)	-	-	(71)	-	(80)
Transfer to assets held for sale (note 25)	(81)	-	-	(300)	-	(381)
Transfers to oil and gas assets	(69)	-	-	-	-	(69)
Derecognised during the year (note 6)	(149)	-	-	-	-	(149)
Exchange adjustment	(31)	-	-	(188)	-	(219)
At 31 December 2011	**1,203**	**836**	**1,388**	**9,800**	**124**	**13,351**
Amortisation:						
At 1 January 2011	-	122	191	-	20	333
Amortisation for the year	-	60	37	-	24	121
At 31 December 2011	**-**	**182**	**228**	**-**	**44**	**454**
Net book value before fair value adjustment:						
At 31 December 2011	1,203	654	1,160	9,800	80	12,897
Fair value adjustment on effective fair value hedges (note 42 vi)	-	533	-	-	-	533
Net book value after fair value adjustment:						
At 31 December 2011	**1,203**	**1,187**	**1,160**	**9,800**	**80**	**13,430**
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 (note 13)	-	-	-	(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 on effective fair value hedges (note 42 vi)	-	260	-	-	-	260
Net book value after fair value adjustment:						
At 31 December 2010	1,371	974	1,197	10,359	44	13,945

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*	
	2011	*2010*	***2011***	*2010*	***2011***	*2010*	***2011***	*2010*	***2011***	*2010*
	AED million	*AED million*	***AED million***	*AED million*	***AED million***	*AED million*	***AED million***	*AED million*	***AED million***	*AED million*
Carrying amount	**90**	90	**6,241**	6,762	**2,266**	2,266	**1,203**	1,241	**9,800**	10,359

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. A post tax discount rate of 7% (2010:6.5% - 7%) was used to calculated the FVLCS at the reporting date.

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 2012 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 an annual 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 2012 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% (2010: 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 adverse change in these assumptions would lead to goodwill impairment at 31 December 2011.

18 INVESTMENT IN ASSOCIATES

Movement in investment in associates is as follows:

	2011 *AED million*	*2010* *AED million*
At 1 January	**111**	261
Adjustments relating to acquisition of an associate from ADWEA	**-**	(324)
	111	(63)
Additions during the year (note iv)	**163**	-
Share of results during the year	**298**	226
Dividends received during the year	**(147)**	-
Share of other comprehensive income (loss) during the year	**1**	(52)
At 31 December	**426**	111

Analysed in the statement of financial position as:

Non-current assets	**512**	314
Non-current liabilities	**(86)**	(203)
	426	111

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

Share of the associates' statement of financial position based on provisional purchase price allocation for associate acquired during the year:

	2011 *AED million*	*2010* *AED million*
Current assets	**670**	556
Non-current assets	**3,510**	3,490
Current liabilities	**(1,240)**	(990)
Non-current liabilities	**(2,529)**	(2,960)
Net assets	**411**	96
Consideration in excess of fair value of assets and liabilities on acquisition	**15**	15
Carrying amount of investments	**426**	111
Share of the associates' revenues and profits:		
Revenues	**1,573**	1,367
Profits	**298**	226

The Group has the following investments in associates:

	Country of incorporation	*Ownership* *2011*	*2010*
Al Wathba Company for Central Services PJSC	UAE	**49.0%**	49.0%
Jubail Energy Company	Saudi Arabia	**25.0%**	25.0%
Sohar Aluminium Company LLC	Oman	**40.0%**	40.0%
WesternZagros Resources Ltd.	Canada	**19.9%**	-

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 ("Jubail") is involved in the generation of electricity in Saudi Arabia.

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

(iv) On 25 October 2011, TAQA acquired 19.9% shareholding in WesternZargos Resources Ltd. ("WesternZagros"), a listed company on the TSX Venture Exchange of Canada, for an amount of AED 163 million. WesternZagros is an international natural resources company engaged in acquiring properties and exploring for, developing and producing crude oil and natural gas. WesternZagros holds two Production Sharing Contracts ("PSCs") with the Kurdistan Regional Government in the Kurdistan region of Iraq. The acquisition has been accounted for as an associate since TAQA exercises significant influence through representation on the board of directors of Western Zagros.

The fair value of the identifiable assets and liabilities of Western Zagros at acquisition date based on provisional purchase price allocation was:

	AED million
Non-current assets	124
Current assets	59
Non-current liabilities	(19)
Current liabilities	(1)
Net assets and cost of associate	163

As at year end, the fair value of TAQA's shares in WesternZargos listed on the TSX Venture Exchange of Canada amounted to CAD 50 million (AED 178 million).

Share of associates' commitments and contingencies at the reporting date is as follows:

Associate	***Share of associates' notional amount***		***Share of associates' derivative liabilities***		***Fix leg on instrument***	*Fix leg on instrument*
	2011	*2010*	***2011***	*2010*	***2011***	*2010*
	AED million	*AED million*	***AED million***	*AED million*		
Sohar (note a)	**933**	989	**140**	123	4.74% to 4.88%	4.74% to 4.88%
Sohar (note b)	-	59[1]	-	18	N/A	N/A
Jubail (note c)	**90**	108	**11**	11	4.57%	4.57%
			151	152		

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. The derivative instruments are entered into for the purpose of a cash flow hedge.

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 prices during the operation period. Aluminium sales hedges are designated as cash flow hedges. Gains and losses initially recognised in other comprehensive income on aluminium forward transactions are recognised in the Company's associate income statement from equity in the period or periods during which the hedge affects the income statement. There are no aluminium forward sales contracts as of 31 December 2011.

c) 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.

19 INVESTMENT IN JOINT VENTURE

Movement in investment in joint venture is as follows:

	2011 ***AED million***	*2010* *AED million*
At 1 January	**814**	1,601
Share of results during the year	**103**	176
Dividends received	**(160)**	(171)
Transfer to assets held for sale (note 25)	**-**	(726)
Exchange adjustment	**(22)**	(66)
At 31 December	**735**	814

The Group has the following investments in joint ventures:

	Country of incorporation	*Ownership* ***2011***	*2010*
NoordGasTransport BV	Netherlands	**40%**	40%
Marubeni TAQA Caribbean Ltd. (MTC) (note 25)	Bahamas	-	50%

NoordGasTransport BV is involved in midstream operations.

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

	2011 ***AED million***	*2010* *AED million*
Current assets	**40**	56
Non-current assets	**759**	858
Current liabilities	**(21)**	(42)
Non-current liabilities	**(250)**	(273)
Net assets	**528**	599
Consideration in excess of fair values of net assets on acquisition date	**207**	215
Carrying amount of investment	**735**	814
Share of joint venture's revenue and profit:		
Revenues	**252**	250
Profits	**103**	176

20 ADVANCE AND LOANS TO ASSOCIATES

	2011 *AED million*	*2010* *AED million*
Mezzanine loan – non-current (note i)	**398**	398
Advance - current (note i)	**790**	901
Others	**20**	20
	1,208	1,319

(i) The balances above arise from the loans and advances made to Sohar in previous years. The advance is repayable on demand and has therefore been classified as current asset in the consolidated statement of financial position. The mezzanine loan is interest bearing at a rate equal to the lowest rate of interest payable on Sohar's Senior Debt less a discount of 5bp as approved by its shareholders.

Expected settlement of gross consideration receivable is analysed as follows:

	2011 *AED million*	*2010* *AED million*
Within 1 year	**20**	218
Between 1 – 5 years	**-**	703
After 5 years	**1,188**	398
Total	**1,208**	1,319

21 OTHER ASSETS

	2011 *AED million*	*2010* *AED million*
Deferred expenditure	**205**	222
Initial spares fee [note (i)]	**67**	79
Derivatives in effective hedges - interest rate swaps (note 42.1)	**-**	118
Derivatives in effective hedges - forward foreign exchange contracts (note 42.1)	**86**	103
Derivatives in effective hedges - cross currency interest rate swaps (note 42.1)	**6**	26
Others	**56**	42
	420	590

(i) Initial spares fee:

	2011 *AED million*	*2010* *AED million*
Cost:		
Balance at 1 January and 31 December	**146**	146
Amortisation:		
At 1 January	**(67)**	(54)
Charge for the year (note 7)	**(12)**	(13)
At 31 December	**(79)**	(67)
Net carrying amount at 31 December	**67**	79

22 INVENTORIES

	2011 AED million	2010 AED million
Fuel and crude oil	**2,212**	1,333
Spare parts and consumables	**994**	884
	3,206	2,217
Provision for slow moving and obsolete items	**(84)**	(102)
	3,122	2,115

Cost of inventories recognised as expense in the consolidated income statement is AED 4,320 million (2010: AED 5,092 million).

Inventories with a carrying amount of AED 2,574 million (2010: AED 1,827 million) are pledged as security for loans of the UAE domestic subsidiaries and certain foreign subsidiaries in the Power business.

23 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 AED million	2010 AED million
Trade receivables (note (i))	**1,162**	734
Receivable from offtaker pending project financing closing date (note 14)	**1,027**	-
Amounts due from related parties (note (ii))	**1,491**	1,587
Accrued revenue	**899**	1,063
Liquidated damages receivable from contractor	**572**	541
Advances to O&M contractors	**20**	273
Crude stock underlift	**395**	57
Deposits	**19**	-
Advances to suppliers	**32**	107
Prepaid insurance	**60**	49
Income tax	**50**	103
Derivatives in effective hedges - forward foreign exchange contracts (note 42.1)	**13**	13
Derivatives in effective hedges – futures and forward contracts (note 42.1)	**21**	193
Other receivables	**776**	612
	6,537	5,332

(i) Trade receivables

As at 31 December 2011, trade receivables at nominal value of AED 47 million (2010: AED 41 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:

	2011 AED million	2010 AED million
At 1 January	**41**	30
Charge for the year	**6**	11
At 31 December	**47**	41

23 ACCOUNTS RECEIVABLE AND PREPAYMENTS continued

(i) Trade receivables continued

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

	Total AED million	*Neither past due nor impaired AED million*	*Past due but not impaired* < 30 days AED million	*30 – 60 days AED million*	*60 – 90 days AED million*	*90 – 120 days AED million*	*>120 days AED million*
2011	**1,162**	**324**	**277**	**315**	**28**	**40**	**178**
2010	734	112	293	316	11	-	2

Subsequent to the reporting date, the Group collected AED 130 million of balances past due for more than 120 days.

(ii) Amounts due from related parties

	2011 AED million	*2010 AED million*
Abu Dhabi Water and Electricity Company (ADWEC)	**1,484**	1,582
Others	**7**	5
	1,491	1,587

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 2011, amounts due from related parties at nominal value of AED 17 million (2010: AED 17 million) were impaired and fully provided for. Movements in the provision for impairment receivable from related parties are as follows:

	2011 AED million	*2010 AED million*
At 1 January	**17**	16
Charge for the year	**-**	1
At 31 December	**17**	17

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

	Total AED million	*Neither past due nor impaired AED million*	*Past due but not impaired* < 30 days AED million	*30 – 60 days AED million*	*60 – 90 days AED million*	*90 – 120 days AED million*	*>120 days AED million*
2011	**1,491**	**998**	**301**	**1**	**108**	**-**	**83**
2010	1,587	809	759	1	2	-	16

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

	2011 *AED million*	*2010* *AED million*
Cash at banks and on hand	**2,607**	2,676
Short term deposits	**1,381**	2,905
	3,988	5,581
Bank overdrafts	**(169)**	(92)
	3,819	5,489

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 2011, the Group had available AED 14,206 million (2010: AED 10,738 million) of undrawn committed borrowing facilities in respect of which all conditions precedent have been met.

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

	2011 *AED million*	*2010* *AED million*
Loans from ADWEA relating to the transfer of the following investments:		
i) Ruwais Power Holding Company PJSC (note 3)	**-**	1,076
ii) Sohar Aluminium Company LLC (note 18)	**-**	1,483
iii) Al Wahda Investment Company LLC (note 3)	**-**	242
Interest bearing loans and borrowings repaid through injection of capital and loan by non-controlling interest shareholders	**864**	-

25 ASSETS AND LIABILITIES HELD FOR SALE

	2011 *AED million*	*2010* *AED million*
Non-core oil and gas assets in TAQA NORTH - (note i)	**1,339**	-
Marubeni TAQA Caribbean Ltd. (MTC) (note ii)	**-**	1,123
	1,339	1,123

25 ASSETS AND LIABILITIES HELD FOR SALE continued

(i) During the year ended 31 December 2011, the Board of Directors approved the sale of certain non-core assets in Canada. The major classes of assets and liabilities of the disposal group as at 31 December 2011 are as follows:

	AED million
Assets	
Property, plant and equipment	**1,048**
Intangible assets	**381**
Assets classified as held for sale	**1,429**
Liabilities	
Asset retirement obligation	**61**
Net assets directly associated with disposal group	**1,368**
Loss on non-core assets recognised in consolidated income statement (note 8)	**(29)**
Amount recognised in the consolidated statement of financial position	**1,339**

Except for an impairment loss of AED 29 million on certain assets classified as held for sale, the consideration for assets classified as held for sale is expected to be higher than their carrying amounts.

Subsequent to the year end, on 9th January 2012 an amount of AED 508 million was realised as part of the sale. On 8th March 2012, a further amount of AED 1,230 million (less deposit of AED 65 million) was realised upon completion of the sale of assets held for sale.

(ii) During the year ended 31 December 2010, 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 total carrying value of AED 1,123 million as of 31 December 2010 were reclassified as assets held for sale in the annual financial statements in accordance with IFRS 5 ("Non-Current Assets Held For Sale And Discontinued Operations"). On 16 January 2011, TAQA sold its share of assets for a consideration of AED 1,151 million resulting in a gain of AED 28 million recognised in the consolidated income statement for the year ended 31 December 2011.

26 SHARE CAPITAL

(i) Paid up capital

	2011 ***AED million***	*2010* *AED million*
Ordinary shares of AED 1 each	**6,225**	6,225

(ii) Treasury shares

	2011		*2010*	
	Shares in thousands	***AED million***	*Shares in thousands*	*AED million*
At 1 January	**158,713**	**293**	158,113	293
Purchased during the year	**-**	**-**	600	-
At 31 December	**158,713**	**293**	158,713	293

26 SHARE CAPITAL continued

(iii) Contributed capital

	2011 ***AED million***	*2010* *AED million*
At 1 January	**341**	25
Additional contribution during the year	**-**	316
At 1 January	**341**	341

27 RESERVES

27.1 Other reserves

	Statutory reserve AED million	*Legal reserve AED million*	*General reserve AED million*	*Total AED million*
Balance at 1 January 2010	2,572	355	750	3,677
Transfers during the year	102	102	-	204
Balance at 31 December 2010	2,674	457	750	3,881
Transfers during the year	74	93	-	167
Balance at 31 December 2011	**2,748**	**550**	**750**	**4,048**

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 established a 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.

27.2 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.

28 DIVIDENDS PAID AND PROPOSED

	2011 ***AED million***	*2010* *AED million*
Cash dividends proposed in respect of 2011: AED 0.10 per share other than treasury shares (2010: AED 0.10 per share)	**607**	607

Dividend on ordinary shares paid during the year amounted to AED 607 million (2010: AED 592 million).

29 NON-CONTROLLING INTERESTS

	2011 AED million	2010 AED million
Relating to Abu Dhabi Water and Electricity Authority (ADWEA)	**257**	366
Relating to non-controlling interest shareholdings in subsidiaries	**1,176**	1,725
	1,433	2,091

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 41 for details).

30 LOANS FROM NON-CONTROLLING INTEREST SHAREHOLDERS IN SUBSIDIARIES

	2011 AED million	2010 AED million
S2 Offshore Holding Company	**432**	-
Fujairah F2 CV	**263**	415
Asia Gulf Power Holding	**237**	289
Shuweihat Limited Partnership	**73**	91
Total Tractebel Emirates Power Company	**55**	73
International Power Holdings Limited	**-**	23
	1,060	891

During the year ended 31 December 2011, S2 Offshore Holding Company provided loans with a total amount of AED 432 million to Ruwais Power Company, a subsidiary of TAQA.

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.

31 LOANS FROM ABU DHABI WATER AND ELECTRICITY AUTHORITY

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

	2011 AED million	2010 AED million
At 1 January	**2,752**	265
Received during the year	**10**	2,622
Repaid during the year	**(87)**	(135)
At 31 December	**2,675**	2,752

During the year ended 31 December 2010, ADWEA provided loans with a total amount of AED 2,559 million to TAQA. These were in respect of the transfer of investment, loans and advances in Sohar and transfer of 90% of its holding in Ruwais Power Holding Company and Fujairah Water and Electricity Company (note 3) to TAQA.

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 TAQA. Accordingly they have been treated as equity.

32 INTEREST BEARING LOANS AND BORROWINGS

	2011 *AED million*	*2010* *AED million*
Revolving credit facilities (note i)	**549**	6,279
Abu Dhabi National Energy Company Global Medium Term notes (note ii)	**22,343**	19,113
Abu Dhabi National Energy Company bonds (note iii)	**10,529**	10,640
Term loans (note iv)	**38,668**	38,881
	72,089	74,913

Disclosed in the consolidated statement of financial position as follows:

Non-current liabilities	**67,178**	72,855
Current liabilities	**4,911**	2,058
	72,089	74,913

Amounts payable by the Group (before deducting prepaid finance costs) over the next five years from 31 December 2011 and 2010 are as follows:

Within 1 year	**4,930**	2,091
Between 1 – 2 years	**8,998**	7,079
Between 2 - 3 years	**6,794**	12,111
Between 3 - 4 years	**1,875**	6,246
Between 4 - 5 years	**5,609**	5,152
After 5 years	**44,356**	42,778
	72,562	75,457

(i) Revolving credit facilities

Non-current liabilities		
US $3.0 billion facility, net of transactions costs (note a)	**-**	3,272
CAD 1.0 billion facility, net of transaction costs (note b)	**549**	3,007
Total	**549**	6,279

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 previous 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 2011, no amounts (2010: AED 3,306 million) were drawn under this credit facility. The facility is stated net of prepaid finance cost of nil (2010: 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 2011, CAD 0.2 billion (AED 0.5 billion) (2010: CAD 0.9 billion, AED 3 billion) was outstanding under this credit facility.

32 INTEREST BEARING LOANS AND BORROWINGS continued

(ii) Abu Dhabi National Energy Global Medium Term Notes

Abu Dhabi National Energy Company global medium term notes are recorded at amortised cost using effective interest rates and are direct, unconditional, and unsecured obligations of TAQA. The following table summarises the terms of the notes payable:

	Issue rate %	*Effective interest rate %*	*Repayment date*	***2011 AED million***	*2010 AED million*
Current liability					
US $1,500,000,000, net of transaction costs (note i)	100%	5.65%	October 2012	3,345	-
Total current				3,345	-
Non-current liabilities					
US $1,500,000,000, net of transaction costs (note i)	100%	5.65%	October 2012	-	5,507
US $1,000,000,000, net of discount and transaction costs	99.94%	6.64%	August 2013	**3,672**	3,743
US $1,200,000,000, net of discount and transaction costs	99.45%	4.92%	September 2014	**4,386**	4,380
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**	1,816
US $750,000,000, net of discount and transaction costs	99.50%	4.34%	March 2017	**2,729**	-
US $750,000,000, net of discount and transaction costs	99.52%	6.00%	December 2021	2,728	-
Total non-current				**18,998**	19,113
Total				**22,343**	19,113

Included in Abu Dhabi National Energy Notes in 2010, is an amount of AED 3,473 million relating to a loan recorded at fair value through profit and loss since this loan was designated as hedge item in a fair value hedge. The hedge was discontinued during the year [note 42 v].

The notes liability is stated net of discount and transaction costs incurred in connection with the notes arrangements, amounting to AED 102 million as of 31 December 2011 (2010: AED 61 million), which are amortised to the consolidated income statement over the repayment period of the notes using effective interest rate method. Interest on the US dollar notes is payable semi-annually. Interest on the Euro bonds is payable annually. Accrued interest is included under accruals and other liabilities.

(i) During the year, TAQA repurchased a portion of the US $1.5 billion notes with a nominal value of US $589 million (AED 2,164 million). This resulted in a realised loss of AED 81 million in the consolidated income statement.

32 INTEREST BEARING LOANS AND BORROWINGS continued

(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*	***2011 AED million***	*2010 AED million*
Non-current liabilities					
Euro 750,000,000, net of discount and transaction costs	99.357%	4.53%	October 2013	**3,562**	3,674
US $1,000,000,000, net of discount and transaction costs	99.485%	5.98%	October 2016	**3,656**	3,654
US $1,500,000,000, net of discount and transaction costs	99.049%	6.6%	October 2036	**3,311**	3,312
				10,529	10,640

The bond liability is stated net of discount and transaction costs incurred in connection with the bond arrangements, amounting to AED 65 million as of 31 December 2011 (2010: AED 71 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.

(iv) Term loans

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

	2011 AED million	*2010 AED million*
Emirates CMS Power Company PJSC	**896**	987
Gulf Total Tractebal Power Company PJSC	**3,754**	3,850
Shuweihat CMS Power Company PJSC	**2,658**	2,827
Arabian Power Company PJSC	**2,663**	2,812
Taweelah Asia Power Company PJSC	**6,665**	6,965
Emirates SembCorp Water and Power Company PJSC	**4,218**	4,341
Fujairah Asia Power Company PJSC	**7,731**	7,177
Ruwais Power Company PJSC	**7,294**	6,765
Jorf Lasfar Energy Company	**2,575**	2,823
ST-CMS Electric Company India Private Limited	**214**	334
	38,668	38,881

32 INTEREST BEARING LOANS AND BORROWINGS continued

(iv) Term loans continued

Details of term loans by subsidiaries are as follows:

Emirates CMS Power Company PJSC (ECPC):

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term loan (1)	LIBOR + 0.95%	2012	**92**	83
Term loan (2)	LIBOR + 0.80%	2012	**8**	8
			100	91
Non-current				
Term loan (1)	LIBOR + 0.95%	2013 - 2020	**788**	879
Term loan (2)	LIBOR + 0.80%	2013 - 2013	**8**	17
			796	896
Total			**896**	987

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 17 million (2010: AED 19 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 42).

Gulf Total Tractebel Power Company PJSC (GTTPC):

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term loan	LIBOR + 0.5%	2012	**110**	97
Non-current				
Term loan	LIBOR + (0.55% to 0.95%)	2013-2029	**3,644**	3,753
Total			**3,754**	3,850

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 42).

The term loan above is stated net of prepaid finance cost of AED 25 million (2010: AED 27 million).

33 INTEREST BEARING LOANS AND BORROWINGS continued

(iv) Term loans continued

Shuweihat CMS Power Company PJSC (SCIPCO):

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term loan	LIBOR + 1.40%	2012	**184**	169
Non-current				
Term loan	LIBOR + 1.40%	2013 - 2021	**2,474**	2,658
Total			**2,658**	2,827

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 42)

The term loan is stated net of prepaid finance costs of AED 28 million (2010: AED 33 million).

Arabian Power Company PJSC (APC):

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term loan	LIBOR + (1% - 1.15%)	2012	**156**	149
Non-current				
Term loan	LIBOR + (1.15%-1.65%)	2013 - 2023	**2,507**	2,663
Total			**2,663**	2,812

During 2003, APC obtained loan facilities from a syndicate of banks led 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. 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 costs of AED 25 million (2010: AED 27 million).

The loan is secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of APC. 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 42).

32 INTEREST BEARING LOANS AND BORROWINGS continued

(iv) Term loans continued

Taweelah Asia Power Company PJSC (TAPCO):

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term loan (1)	LIBOR + 0.65%	2012	**141**	125
Term loan (2)	LIBOR + 0.825%	2012	**187**	166
			328	291
Non-current				
Term loan (1)	LIBOR + 0.65%	2013 – 2025	**2,727**	2,872
Term loan (2)	LIBOR + 0.825%	2013 – 2025	**3,610**	3,802
			6,337	6,674
Total			**6,665**	6,965

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 39 million (2010: AED 42 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 32 million (2010: AED 35 million).

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of TAPCO. 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 42).

Emirates SembCorp Water and Power Company PJSC (ESWPC):

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term loan	LIBOR + 0.651%	2012	**147**	123
Non-current				
Term loan	LIBOR + (0.651% - 1.201%)	2013-2029	**4,071**	4,218
Total			**4,218**	4,341

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). 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 35 million (2010: AED 37 million).

The loans are secured by a number of security documents including a commercial mortgage over all tangible and intangible assets of the ESWPC. 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 42).

32 INTEREST BEARING LOANS AND BORROWINGS continued

(iv) Term loans continued

Fujairah Asia Power Company PJSC ("FAPCO"):

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term Loan (1)	LIBOR + 0.65%	2012	**54**	8
Term Loan (2)	LIBOR + 0.50%	2012	**81**	12
			135	20
Non-current				
Term loan (1)	LIBOR + 0.65%	2013-2030	**3,036**	2,860
Term loan (2)	LIBOR + 0.50%	2013-2030	**4,560**	4,297
			7,596	7,157
			7,731	7,177

During 2007, the Company obtained loan facilities 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 44 million (2010: 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 61 million (2010: 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. 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 42).

Ruwais Power Company PJSC ("RPC"):

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Equity bridge loans	LIBOR + 0.7%	2012	**-**	862
Interest bearing term loans	LIBOR + 2.35 % - 3.5%	2012	**170**	-
			170	862
Non-current				
Interest bearing term loans	LIBOR + 2.35 % - 3.5%	2013- 2031	**7,124**	5,903
			7,294	6,765

During 2009, the Company obtained equity bridge loan facilities from a syndicate of banks to finance the construction of the Shuweihat power generation and water desalination plant.

The equity bridge loans of US $ 235 million (AED 864 million) were fully paid in 2011.

32 INTEREST BEARING LOANS AND BORROWINGS continued

(iv) Term loans continued

Ruwais Power Company PJSC ("RPC"): continued

During 2009, the Company obtained term loans facility of US $ 2,092 million (AED 7,683 million), of which US $ 2,025 million (AED 7,437) were drawn at 31 December 2011 (2010: US $ 1,640 million (AED 6,024 million)). The loans carry a commitment fee of 1% of the undrawn amount and are repayable starting 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 term loans are stated net of prepaid finance costs of AED 142 million (2010: AED 122 million).

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

Under the terms of its loan facility agreement, RPC is required to enter into interest rate swap agreements to hedge its interest cost exposure against fluctuations in interest rates (note 42).

Jorf Lasfar Energy Company:

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term loan	5.637%	2012	**171**	175
Non-current				
Term loan	5.637%	2013-2027	**2,404**	2,648
Total			**2,575**	2,823

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 2011, MAD 6,022 million (AED 2,575 million) (2010: MAD 6,422 million, AED 2,823 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.

ST – CMS Electric Company Private Limited:

	Effective interest rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Term loan	9.39%	2012	**66**	81
Non-current				
Term loan	9.39%	2013-2015	**148**	253
Total			**214**	334

32 INTEREST BEARING LOANS AND BORROWINGS continued

(iv) Term loans continued

ST – CMS Electric Company Private Limited: continued

The Company's subsidiary ST-CMS Electric Company has term loans amounting to AED 214 million as of 31 December 2011 (2010: AED 334 million) as follows:

INR 237 million (AED 16 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.

33 ISLAMIC LOANS

Islamic loans are with respect to the following subsidiaries:

	2011 ***AED million***	*2010* *AED million*
Shuweihat CMS Power Company PJSC	**668**	710
Emirates CMS Power Company PJSC	**341**	373
Arabian Power Company PJSC	**779**	823
	1,788	1,906
Disclosed in the consolidated statement of financial position as follows:		
Non-current liabilities	**1,661**	1,788
Current liabilities	**127**	118
	1,788	1,906

Amounts payable by the Group (before deducting prepaid finance costs) over the next five years from 31 December 2011 and 2010 are as follows:

Within 1 year	**130**	121
Between 1 – 2 years	**135**	130
Between 2 - 3 years	**146**	135
Between 3 - 4 years	**149**	146
Between 4 - 5 years	**158**	149
After 5 years	**1,095**	1,254
	1,813	1,935

33 ISLAMIC LOANS continued

(i) Shuweihat CMS Power Company PJSC

	Effective rental rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Islamic Ijara loan	LIBOR + 1.15%	2012	**46**	42
Non-current				
Islamic Ijara loan	LIBOR + 1.15%	2013 - 2021	**622**	668
Total			**668**	710

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 13 million (2010: AED 16 million).

(ii) Emirates CMS Power Company PJSC

	Effective rental rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Islamic Ijara loan	LIBOR + 0.95%	2012	**35**	32
Non-current				
Islamic Ijara loan	LIBOR + 0.95%	2013 - 2020	**306**	341
Total			**341**	373

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 (2010: AED 5 million).

(iii) Arabian Power Company PJSC

	Effective rental rate %	*Maturity*	***2011 AED million***	*2010 AED million*
Current				
Muqawala	LIBOR + (1% - 1.15%)	2012	**46**	44
Non-current				
Muqawala	LIBOR + (1% - 1.15%)	2013 - 2023	**733**	779
Total			**779**	823

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 7 million (2010: AED 8 million).

Under the terms of its loan facility agreements, the subsidiaries are required to enter into rental rate swap agreements to hedge their rental cost exposure against fluctuations in rental rates (note 42).

34 ASSET RETIREMENT OBLIGATIONS

As part of the land lease agreements between ADWEA and the Company's domestic 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.

	2011 ***AED million***	*2010* *AED million*
ARO liability at 1 January	**6,704**	5,974
Adjustments relating to transfer of subsidiary from ADWEA (note 3)	**-**	100
	6,704	6,074
On business combination (note 3)	**130**	205
Utilised during the year	**(128)**	(167)
Provided during the year	**136**	159
Transfer to liabilities held for sale (note 25)	**(61)**	-
Accretion expense (note 10.1)	**380**	330
Revision in estimated cash flows	**531**	91
Exchange adjustment	**(64)**	12
ARO liability at 31 December	**7,628**	6,704
Disclosed in the consolidated statement of financial position as follows:		
Current liabilities (note 37)	**126**	147
Non-current liabilities	**7,502**	6,557
	7,628	6,704

35 ADVANCES AND LOANS FROM RELATED PARTIES

	2011 ***AED million***	*2010* *AED million*
Loans from related parties (note (i))	**265**	258
Advances from related parties	**80**	79
	345	337

(i) Movement in the loan balances during the year was as follows:

	2011	*2010*
Balance at 1 January	**258**	30
Adjustments relating to acquisition of a subsidiary (note b)	**-**	226
Notional interest expense (note 10.1)	**7**	2
Balance at 31 December	**265**	258

35 ADVANCES AND LOANS FROM RELATED PARTIES continued

Loans from related parties are from the following:

	2011 ***AED million***	*2010* *AED million*
Abu Dhabi Power Corporation ("ADPC") (*note a*)	**34**	32
Abu Dhabi Water and Electricity Authority ("ADWEA") (*note b*)	**231**	226
	265	258

a) During 2005, the 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 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 was recorded as an equity contribution from ADWEA.

36 OTHER LIABILITIES

	2011 ***AED million***	*2010* *AED million*
Provisions recognised on business combinations (note *i*)	**277**	448
Negative fair value of derivatives – interest rate swaps (note 42.1)	**6,834**	4,369
Negative fair value of derivatives – forward exchange contracts (note 42.1)	**70**	60
Employee benefits obligations	**71**	94
Share based payment liabilities	**6**	17
Others	**59**	144
	7,317	5,132

(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 83 million (2010: AED 32 million) is shown under accounts payable, accruals and other liabilities (note 37).

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

	2011 ***AED million***	*2010* *AED million*
Balance at 1 January	**480**	520
Release to income statement during the year	**(116)**	(81)
On sale of assets	**(12)**	-
Revision in estimates	**26**	-
Exchange adjustment	**(18)**	41
Balance at 31 December	**360**	480

37 ACCOUNTS PAYABLE, ACCRUALS AND OTHER LIABILITIES

	2011 ***AED million***	*2010* *AED million*
Trade payables	**1,438**	1,437
Payable to joint venture partners	**107**	61
Accrued interest expense	**971**	915
Accrual for operating costs	**978**	1,147
Payable for capital expenditure	**929**	895
Provisions recognised on business combinations (note 36)	**83**	32
Negative fair value of derivatives – interest rate swaps (note 42.1)	**1,074**	776
Negative fair value of derivatives – commodity forward contracts (note 42.1)	**43**	39
Negative fair value of derivatives – forward exchange contracts (note 42.1)	**7**	24
Asset retirement obligations (note 34)	**126**	147
Dividends payable to non-controlling interests	**54**	33
Others	**817**	765
	6,627	6,271

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.

38 AMOUNTS DUE TO ADWEA AND OTHER RELATED PARTIES

	2011 ***AED million***	*2010* *AED million*
Loan due to ADWEA (note i)	**237**	237
Amounts due to fellow subsidiaries – ADWEC & ADPC	**142**	164
Others	**65**	60
	444	461

(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.

39 COMMITMENTS AND CONTINGENCIES

(i) Capital expenditure commitments
The authorised capital expenditure contracted for at 31 December 2011 but not provided for amounted to AED 1,663 million (2010: AED 1,213 million).

(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. As of 31 December 2011, an amount of AED 400 million (US $109 million) (2010: AED 299 million, US $81 million) has been invested in the fund and is treated as an 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 through its affiliate JLEC 5&6 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, out of which AED 1,027 million has been incurred at 31 December 2011.

c) During 2010, TAQA Bratani signed a sale and purchase agreement relating to the acquisition of a 31% and a 50% equity stake in production licenses for two blocks in the Otter field development area for a headline consideration of US $50 million (AED 183 million), with economic adjustments from 1 September 2009. The acquisition was structured as two separate transactions and partly completed on 1 July 2011 when 31% of the equity interest was acquired. The remaining 50% interest was subject to an option clause which was exercised during January 2012 and the acquisition of this interest completed on 24 February 2012.

d) As of the reporting date TAQA Energy has entered into contracts under which it is committed to spend AED 1,166 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 contractual commitments, mainly pipeline usage commitments, under which they are committed to spend AED 665 million prior to 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:

	2011 ***AED million***	*2010* *AED million*
Within one year	**5,892**	5,218
After one year but not more than five years	**24,009**	24,533
More than five years	**73,575**	76,520
	103,476	106,271

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

Within one year	**418**	273
After one year but not more than five years	**1,148**	1,064
More than five years	**1,744**	1,820
	3,310	3,157

39 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$100 million (AED 367 million) (2010: US$ 100 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. TAQA filed a motion to dismiss on jurisdictional grounds, and this motion was granted by the U.S. District Court on 28 September 2011. The former CEO gave notice of his intention to appeal the dismissal on 24 October 2011 and filed his opening brief on 25 January 2012. TAQA filed its brief on 5 March 2012.

d) In addition to the above, there are certain guarantees and letters of credit arising in the ordinary course of business to which TAQA and certain other subsidiaries are parties. These do not create any material additional obligations other than what is disclosed in the statement of financial position as at year end.

40 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) During 2010, 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 was financed through interest free loans with no fixed repayments terms with ADWEA.

(ii) 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) 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 was treated as equity contributed capital by ADWEA.

(iv) 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 was treated as an equity contribution from ADWEA.

40 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:

	2011 ***AED million***	*2010* *AED million*
Fellow subsidiary (Abu Dhabi Water and Electricity Company):		
Sale of electricity and water	**6,208**	5,117
Fuel revenue	**1,806**	2,242
Liquidated damages expensed	**(14)**	(424)
Others:		
Interest income on loan to associate and joint venture	**5**	77
Interest expense on loan from ADWEA	**(21)**	(21)
Notional interest expense on loan from ADWEA and ADPC	**(7)**	(2)

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

	2011 ***AED million***	*2010* *AED million*
Non-current assets:		
Advance and loan to an associate (note 20)	**398**	398
Current assets:		
Advance and loan to an associate (note 20)	**790**	901
Accounts receivable		
Amounts due from fellow subsidiaries (note 23)	**1,026**	1,587
Loan to an associate (note 20)	**20**	20
Non-current liabilities:		
Loan due to ADWEA (note 35)	**231**	226
Loan from a fellow subsidiary - ADPC (note 35)	**34**	32
Advances from a fellow subsidiary (note 35)	**80**	79
Current liabilities:		
Amounts due to ADWEA (note 38)	**65**	60
Loan due to ADWEA (note 38)	**237**	237
Amounts due to fellow subsidiaries – ADWEC & ADPC (note 38)	**142**	164

40 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:

	2011 ***AED million***	*2010* *AED million*
Short-term benefits	**32**	40
Post employment benefits	**14**	4
	46	44

41 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 2011***	*31 December 2010*
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%**	54%
Ruwais Power Company PJSC (RPC)	UAE	**54%**	54%
Taweelah Shared Facilities Company LLC (TSFC)*	UAE	**48%**	48%
Shuweihat Shared Facilities Company LLC (SSFC)*	UAE	**38%**	38%
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%**	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.

41 SUBSIDIARIES continued

Further details on the main subsidiaries are as follows:

<u>Domestic subsidiaries</u>

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.

41 SUBSIDIARIES continued

Domestic subsidiaries continued

Shuweihat CMS International 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.

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.

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.

41 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 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.

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.

41 SUBSIDIARIES continued

Foreign operating subsidiaries continued

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.

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.

41 SUBSIDIARIES continued

Foreign operating subsidiaries continued

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.

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 Company LLC (TSFC)
TAQA acquired a controlling interest in Taweelah Shared Facilities Company LLC through its subsidiaries 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 Company LLC (TSFC)
TAQA acquired a controlling interest in Shuweihat Shared Facilities Company LLC through its subsidiaries Ruwais Power Company PJSC and Shuweihat CMS International 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.

42 FINANCIAL INSTRUMENTS

42.1 Hedging activities

	Current 2011 AED million	Non-current 2011 AED million	Current 2010 AED million	Non-current 2010 AED million
Cash flow hedges				
Assets				
Interest rate swaps (note 21)	-	-	-	43
Cross currency interest rate swap (note 21)	-	6	-	26
Forward foreign exchange contracts (notes 21 & 23)	13	86	13	103
	13	92	13	172
Liabilities				
Interest rate swaps (notes 36 & 37)	1,074	6,834	776	4,369
Forward foreign exchange contracts (notes 36 & 37)	7	70	24	60
Commodity forward contracts (note 37)	43	-	-	39
	1,124	6,904	800	4,468
Fair value hedges				
Assets				
Interest rate swap (note 21)	-	-	-	75
Futures and forward contracts (note 23)	21	-	193	-
	21	-	193	75

(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 32) and Islamic loans (note 33) 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 2011 and 31 December 2010:

Subsidiary	**Notional amount** 2011 AED million	Notional amount 2010 AED million	**Derivative assets** 2011 AED million	Derivative assets 2010 AED million	**Derivative liabilities** 2011 AED million	Derivative liabilities 2010 AED million	**Fix leg on instrument 2011**	Fix leg on instrument 2010
ECPC	1,242	1,415	-	-	209	204	6.31% to 6.33%	6.31% to 6.33%
GTTPC	3,086	3,165	-	43	555	414	2.89% to 6.99%	2.89% to 6.99%
SCIPCO	3,367	3,585	-	-	652	611	5.04% to 6.35%	5.04% to 6.35%
APC	2,782	2,935	-	-	513	325	4.6% to 4.89%	4.6% to 4.89%
TAPCO	6,736	7,041	-	-	1,178	841	2.81% to 5.28%	2.81% to 5.28%
ESWPC	4,250	4,375	-	-	1,017	675	3.0% to 5.85%	3.0% to 5.85%
FAPCO	5,904	5,922	-	-	2,013	1,153	5.65% to 5.72%	5.65% to 5.72%
RPC	5,578	7,035	-	-	1,771	922	5.28% to 5.4 %	3.86 % to 5.4 %
	32,945	35,473	-	43	7,908	5,145		

TAQA Corporate
In December 2010, the Group entered into 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 2011 was EUR 197 million (2010: EUR 197 million).

The derivative instrument had a positive fair value of AED 6 million (2010: AED 26 million) of which is included within other assets (note 21).

42 FINANCIAL INSTRUMENTS continued

42.1 Hedging activities continued

(ii) Hedge of net investment in foreign operations

Included in loans at 31 December 2011 is a portion of borrowings amounting to Euro 553 million (AED 2,633 million) (2010: Euro 553 million (AED 2,719 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 2011, a loss of AED 86 million (2010: gain of AED 186 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 2011 and 2010.

(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 2011 amounted to AED 388 million (2010: AED 435 million).

The derivative instrument had a positive fair value of AED 6 million representing the non-current derivative asset, and has been included in the statement of financial position under other assets (note 21)(2010: AED 13 million).

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 2011 was AED 436 million (2010: AED 498 million).

The derivative instrument had a positive fair value of AED 93 million (2010: AED 103 million.) as of 31 December 2011. An amount of AED 80 million (2010: AED 90 million), representing the non-current portion of the derivative asset has been included within other assets (note 21) and the current portion amounting to AED 13 million (2010: AED 13 million) is included within accounts receivable and prepayments (note 23) (2010: AED 103 million).

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 2011 was AED 511 million (2010: AED 730 million).

The derivative instrument had a negative fair value of AED 77 million (2010: AED 84 million). An amount of AED 7 million (2010: AED 24 million), representing the current portion has been included within accounts payable, accruals and other liabilities (note 37) and AED 70 million (2010: AED 60 million) representing the noncurrent portion has been included within other liabilities (note 37).

(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 recognised directly in the income statement in each reporting period. The notional amount outstanding at 31 December 2011 was bbls 3.2 million of crude oil and GJ 1.8 million of natural gas (2010: 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 2011, was CAD 12 million (AED 43 million) (2010: CAD 11 million (AED 39 million). The net realised and unrealised gains recognised in the income statement relating to such instruments are AED 6 million for the year ended 31 December 2011 (2010: net realised and unrealised losses of AED 51 million).

42 FINANCIAL INSTRUMENTS continued

42.2 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.

In March 2011, the Group entered into an early settlement agreement with the hedging institution to terminate those interest rate swaps resulting in a total gain of AED 79 million, out of which AED 28 million has been recognised as other income in the income statement and the remaining balance deferred in the statement of financial position and amortised to income statement on monthly basis.

(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 fair value of 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 31 December 2011, the net fair value of exchange-traded derivative instruments was AED 21 million shown under other accounts receivable and prepayments (note 23)(2010: AED 193 million shown under other accounts receivable and prepayments (note 23) and the negative portion of AED 39 million shown under accounts payable, accruals and other liabilities (note 37)). The net realised and unrealised losses recognised in the income statement relating to such instruments are AED 29 million for the year ended 31 December 2011 (2010: gain of AED 100 million).

The Tolling Agreement recognised as an intangible at acquisition was adjusted for the change in fair value for movements in the designated hedge risk in a fair value hedge relationship. The changes in the fair value of the Tolling Agreement attributable to the hedged risk for the year ended 31 December 2011 was a gain of AED 273 million (2010: AED 260 million)(note 16), which was recognised in the consolidated income statement.

42.3 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 2011 was AED 16 million (2010: AED 52 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 loss recognised in the income statement relating to such instruments is AED 2 million for the year ended 31 December 2011 (2010: AED 7 million).

42 FINANCIAL INSTRUMENTS continued

42.4 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*	
	2011 ***AED million***	*2010* *AED million*	***2011*** ***AED million***	*2010* *AED million*
Operating financial assets	**4,813**	5,328	**5,088**	5,527
Interest-bearing loans and borrowings - fixed rate borrowings	**29,216**	26,010	**31,172**	27,286

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

42.5 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*
2011				
Financial assets measured at fair value				
Available-for-sale investments	**1,125**	**779**	**-**	**346**
Forward foreign exchange contracts	**99**	**-**	**99**	**-**
Cross currency interest rate swaps	**6**	**-**	**6**	**-**
Futures and forward contracts	**21**	**-**	**21**	**-**
Financial liabilities measured at fair value				
Interest rate swaps – hedged	**7,908**	**-**	**7,908**	**-**
Forward foreign exchange contracts	**77**	**-**	**77**	**-**
Commodity forward contracts	**43**	**-**	**43**	**-**
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	-

During the year ended 31 December 2011 and 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

43 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 2011 and 2010.

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 2011.

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 2011 and 2010 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 2011 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 2011, after taking into account the effect of interest rate swaps, approximately 89% of the Group's borrowings are at a fixed rate of interest (2010: 84%).

43 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 before tax AED million	*Effect on equity AED million*
2011		
+15 increase in basis point	**(10)**	**530**
-15 decrease in basis point	**10**	**(658)**
2010		
+15 increase in basis point	(14)	244
-15 decrease in basis point	14	(271)

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, Moroccan Dirhams and Indian rupees 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, Moroccan Dirham and Indian rupees 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, Indian rupees and CAD rates	*Effect on profit before tax AED million*	*Effect on equity AED million*
2011	**+5%**	**40**	**1,076**
	-5%	**(40)**	**(1,076)**
2010	+5%	61	(1,283)
	-5%	(61)	1,283

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.

43 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*
2011	**+10%**	**(144)**
	-10%	**144**
2010	+10%	(134)
	-10%	134

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*
2011	**+10%**	**80**	**(264)**
	-10%	**(80)**	**264**
2010	+10%	83	(117)
	-10%	(83)	117

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 unquoted available for sale investment at fair value was AED 347 million (2010: AED 231 million). A change of 5% in overall earnings stream of the valuations performed could have an impact of approximately AED 17 million (2010: AED 12 million) on the equity of the Group.

At the reporting date, the exposure to listed securities at fair value was AED 775 million (2010: AED 716 million). A change of 5% in overall earnings stream of the valuations performed could have an impact of approximately AED 39 million (2010: AED 36 million) on the equity of the Group.

43 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 84% of outstanding trade receivables at 31 December 2011 (2010: 86%). 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 2011 and 2010 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 42 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%. 7% of the Group's debt will mature in less than one year at 31 December 2011 (2010: 3%) based on the carrying value of borrowings reflected in the consolidated financial statements.

43 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 2011 and 2010 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 2011						
Trade and other payables	**672**	**2,462**	**-**	**-**	**-**	**3,134**
Bank overdrafts	**169**	**-**	**-**	**-**	**-**	**169**
Interest bearing loans, borrowings and Islamic loans	**-**	**791**	**3,369**	**39,192**	**49,848**	**93,200**
Loan from a related party	**-**	**-**	**-**	**242**	**70**	**312**
Loans from non-controlling interest shareholders in subsidiaries	**20**	**1**	**1**	**10**	**284**	**316**
Amounts due to ADWEA and other related parties	**365**	**79**	**-**	**-**	**-**	**444**
Derivative financial instruments	**-**	**465**	**1,305**	**7,248**	**6,374**	**15,392**
Total	**1,226**	**3,798**	**4,675**	**46,692**	**56,576**	**112,967**
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

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 2011					
Inflows	**179**	**505**	**2,935**	**2,800**	**6,419**
Outflows	**(465)**	**(1,305)**	**(7,248)**	**(6,374)**	**(15,392)**
Net	**(286)**	**(800)**	**(4,313)**	**(3,574)**	**(8,973)**
Discounted at the applicable interbank rates	**(277)**	**(794)**	**(4,077)**	**(2,880)**	**(8,028)**
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)

43 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 2011 and 31 December 2010.

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 total cumulative changes in fair value of derivatives and available for sale investments.

	2011 ***AED million***	*2010* *AED million*
Interest bearing loans and borrowings	**72,089**	74,913
Islamic loans	**1,788**	1,906
Less cash and cash equivalents	**(3,819)**	(5,489)
Net debt	**70,058**	71,330
Equity	**12,590**	15,238
Less cumulative changes in fair value of available for sale investments	**(254)**	(180)
Less cumulative changes in fair value of derivatives	**7,924**	5,084
Total capital	**20,260**	20,142
Capital and net debt	**90,318**	91,472
Gearing ratio	**78%**	78%

44 EVENTS AFTER THE REPORTING DATE

i) Acquisition of 50% undivided interest in Otter Assets
On 24 February 2012 TAQA Bratani completed the acquisition of a 50% undivided interest in the producing Otter field and associated infrastructure and agreements. An option to acquire the 50% interest was included in the agreement under which the 31% interest was acquired during 2011, and the option was exercised on 4 January 2012.

ii) Malaysian Ringgit (MYR) Sukuk Programme
In November 2011, TAQA had established a MYR 3.5 billion programme ($1.1 billion). On 5 March 2012, TAQA completed MYR 650 million ($215 million) issuance as part of this programme. The 10 year Sukuk was raised with a profit rate of 4.65%, with a full swapped rate to US Dollars of 5.3%.

44 EVENTS AFTER THE REPORTING DATE continued

iii) Acquisition of a 16.6% interest in the North Sea Cladhan oil

On 15 November 2011 TAQA Bratani announced the conditional acquisition for a consideration of $54.8 million (AED 201 million) including an allocation for tax allowances of a 16.6% interest in the North Sea Cladhan oil discovery from Premier Oil plc (Premier), which Premier was expected to own following completion of its proposed acquisition of Encore Oil plc. Since 1 January 2012, Premier has completed the acquisition of Encore, and completion of the Cladhan asset acquisition by TAQA Bratani is expected shortly.

iv) Acquisition of 50% working interest in UK North Sea licences

On 30 January 2012, TAQA Bratani entered into two farm in agreements with a subsidiary of Fairfield Energy Limited to acquire a 50% working interest in UK North Sea licences P184, P474 and P1634 which includes the Darwin oil discovery and related exploration acreage, adjacent to the North Cormorant and Pelican fields. The transactions are subject to government and certain third party approvals and are expected to complete in the coming months.