

**QATAR GAS TRANSPORT COMPANY LIMITED
(NAKILAT) (QSC)
DOHA - QATAR**

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

QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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Independent Auditor's Report

To the Shareholders
Of Qatar Gas Transport Company Limited (Q.S.C) ("Nakilat")

Report on the audit of the consolidated financial statements

Opinion

We have audited the accompanying consolidated financial statements of Qatar Gas Transport Company Limited (Q.S.C) ("Nakilat") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for opinion

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

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 18 February 2016.

Key audit matters

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



INDEPENDENT AUDITOR'S REPORT (Continued)

Fair valuation and hedge effectiveness of cash flow hedges - refer to note 12 and note 14 to the consolidated financial statements

We focused on this area because:

- the Group entered into a number of interest rate swaps agreements to hedge its exposure to interest rate risk. These hedge transactions gave rise to derivative financial liabilities of QR 2,819,165 thousands (2015: QR 3,363,099 thousands). This represent 11.3% of the Group's total liabilities, hence a material portion of the consolidated financial position.
- the hedging instruments are required to be fair valued at each reporting date. The valuation of the hedging instruments and testing of hedge effectiveness involve a significant degree of complexity and judgement.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- evaluating the Group's controls around the hedge instruments and hedge accounting process;
- assessing whether the hedge instruments are correctly classified as cash flow hedges by reference to the requirements of the relevant accounting standards;
- using our own specialists to assess the appropriateness of the methodology used by the Group for hedge effectiveness testing on a sample basis;
- assessing the appropriateness of hedge effectiveness documentation prepared by the Group on a sample basis;
- obtaining confirmation of fair values and notional values of hedging instruments from counter parties;
- re-confirming the counter parties' valuation from an independent source on a sample basis; and
- assessing the adequacy of the Group's disclosures in relation to derivatives and hedge accounting by reference to the requirements of the relevant accounting standards.

Investments in joint ventures - refer to note 5 to the consolidated financial statements

We focused on this area because:

- the Company has investments in joint ventures whose operations are spread across Qatar and outside Qatar.

How the matter was addressed in our audit

Our audit procedures in this area included among others:

- assessing the financial information submitted by the joint ventures for consistency with the accounting policies of the Group;



INDEPENDENT AUDITOR'S REPORT (Continued)

- the carrying value of investments in joint ventures and the Company's share of results in the joint ventures represent 13.3% and 57.9% of the Group's total assets and the net profit respectively, hence a material portion of the consolidated financial position and consolidated profit or loss.
- obtaining the Group's joint venture accounting schedule to confirm whether the Group's interests in the profits, other comprehensive income and net assets were accounted in accordance with the Group's participatory interests in the joint ventures; and
- assessing the adequacy of the Group's disclosures in relation to the investments in joint ventures by reference to the requirements of the relevant accounting standards.

Carrying value of property and equipment - refer to note 4 to the consolidated financial statements

We focused on this area because:

- the carrying value of the Group's property and equipment as at 31 December 2016 was QR 23,161,476 thousands (2015: QR 23,882,255 thousands) and the related depreciation charge for the year was QR 767,659 thousands (2015: QR 688,330 thousands) respectively. This represent 76.4% and 80.3% of the Group's total assets and the net profit respectively, hence a material portion of the consolidated financial position and consolidated profit or loss.
- the life of the vessels including estimation of residual values for the purpose of depreciation charge are reviewed annually by the management with reference to the regular dry-docking of the vessels, current and forecast market values and other technical factors. This involves a significant degree of management judgement and estimates.

How the matter was addressed in our audit

Our audit procedures in this area included among others:

- evaluating the key controls around the property and equipment processes, including controls over recording of assets in the assets register, its classification and useful life;
- evaluating the recognition criteria applied to the costs incurred and capitalised during the financial year against the requirements of the relevant accounting standards;
- assessing the reasonableness of Group management's assertions and estimates regarding estimated useful lives and residual values;
- recalculating the depreciation charge, on a test basis, for significant asset classes and comparing it with the depreciation charge reported in the consolidated financial statements;
- challenging the Group's assessment of possible internal and external indicators of impairment in relation to the vessels, such as obsolescence, decline in market value, operating losses etc., based on our knowledge and experience of the industry and understanding of the Charter Hire Agreements; and
- assessing the adequacy of the Group's disclosures in relation to vessels by reference to the requirements of the relevant accounting standards.



INDEPENDENT AUDITOR'S REPORT (Continued)

Other information

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

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



INDEPENDENT AUDITOR'S REPORT (Continued)

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



INDEPENDENT AUDITOR'S REPORT (Continued)

Report on other legal and regulatory requirements

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

20 February 2017
Doha
State of Qatar


Gopal Balasubramaniam
KPMG
Qatar Auditors' Registry Number 251



QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
(Amount Expressed in Thousands of Qatari Riyals)

	<u>Note</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>ASSETS</u>			
Non-Current Assets:			
Property and equipment	4	23,161,476	23,882,255
Investment in joint venture companies	5	4,017,934	3,422,374
Loans to joint venture companies	6	135,458	266,313
Available-for-sale-investments	7	133,596	126,520
Total Non-Current Assets		<u>27,448,464</u>	<u>27,697,462</u>
Current Assets:			
Inventories		22,742	23,157
Trade and other receivables	8	326,677	265,081
Due from joint venture companies	17(b)	30,537	18,900
Cash and bank balances	9	2,492,560	2,735,838
Total Current Assets		<u>2,872,516</u>	<u>3,042,976</u>
Total Assets		<u>30,320,980</u>	<u>30,740,438</u>

The accompanying notes 1-27 form an integral part of these consolidated financial statements.

QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2016
(Amount Expressed in Thousands of Qatari Riyals)

	<u>Note</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
<u>EQUITY AND LIABILITIES</u>			
EQUITY:			
Share capital	10	5,538,717	5,538,490
Legal reserve	11	687,463	592,045
Fair value reserve		87,128	80,052
Proposed cash dividend	10.1	554,026	692,533
Retained earnings		1,637,605	1,356,725
Equity before hedging reserve and non-controlling interests		8,504,939	8,259,845
Hedging reserve	12	(3,245,278)	(3,816,518)
Equity after hedging reserve and before non-controlling interests		5,259,661	4,443,327
Non-Controlling Interests		4,146	4,427
Non-Current Liabilities:			
Borrowings	13	20,616,455	21,414,953
Fair value of interest rate swaps	14	2,819,165	3,363,099
Provision for employees' end of service benefits		23,064	22,044
Other liabilities	15.1	165,216	197,574
Total Non-Current Liabilities		23,623,900	24,997,670
Current Liabilities:			
Borrowings	13	803,631	778,119
Accounts payable and accruals	15	628,345	513,999
Due to joint venture companies	17(b)	1,297	2,896
Total Current Liabilities		1,433,273	1,295,014
Total Equity and Liabilities		30,320,980	30,740,438



These consolidated financial statements were approved by the Board of Directors and were signed on its behalf by the following on **February 20, 2017**.

Ahmad Saif Al-Sulaiti
Vice Chairman

Ali Ahmed Al-Kuwari
Board Member

Abdullah Fadhilah Al-Sulaiti
Managing Director

The accompanying notes 1-27 form an integral part of these consolidated financial statements.

QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amount Expressed in Thousands of Qatari Riyals)

	<u>Note</u>	<u>For the Year Ended December 31, 2016</u>	<u>For the Year Ended December 31, 2015</u>
Income:			
Revenue from wholly owned vessels		3,068,583	3,045,939
Share of results from joint ventures	5	553,367	497,954
Income from marine and agency services		55,201	60,624
Interest income on loans to joint ventures	17(a)	9,687	10,334
Interest, dividend and profit from Islamic banks		44,477	33,559
Other income		33,293	33,013
Total Income		<u>3,764,608</u>	<u>3,681,423</u>
Expenses:			
Operating costs	25	(717,948)	(698,196)
General and administrative	26	(135,908)	(112,570)
Depreciation of property and equipment	4	(767,659)	(688,330)
Finance charges		(1,187,695)	(1,198,602)
Total Expenses		<u>(2,809,210)</u>	<u>(2,697,698)</u>
Profit for the year		<u>955,398</u>	<u>983,725</u>
Attributable to:			
Owners of the Company		954,179	982,302
Non-controlling interests		1,219	1,423
Total		<u>955,398</u>	<u>983,725</u>
 Basic and diluted earnings per share (expressed in QR per share)	 19	 <u>1.72</u>	 <u>1.77</u>

The accompanying notes 1-27 form an integral part of these consolidated financial statements.

QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amount Expressed in Thousands of Qatari Riyals)

	<u>Note</u>	<u>For the Year Ended December 31, 2016</u>	<u>For the Year Ended December 31, 2015</u>
Profit for the year		955,398	983,725
Other comprehensive income			
<i>Items that may be reclassified subsequently to statement of income</i>			
Changes in fair value of available-for-sale investments	7	7,076	(50,773)
Changes in fair value of cash flow hedging derivatives		543,934	264,649
Group's share of joint ventures' changes in fair value of cash flow hedging derivatives		27,306	144,331
Total comprehensive income for the year		<u>1,533,714</u>	<u>1,341,932</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		1,532,495	1,340,509
Non-controlling interests		1,219	1,423
Total		<u>1,533,714</u>	<u>1,341,932</u>

The accompanying notes 1-27 form an integral part of these consolidated financial statements.

QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amount Expressed in Thousands of Qatari Riyals)

	Share Capital	Legal Reserve	Fair Value Reserve	Proposed Cash Dividend	Retained Earnings	Equity Before Hedging Reserve and Non- Controlling Interests	Hedging Reserve	Non- Controlling Interests
Balance as of January 01, 2015	5,538,483	493,815	130,825	664,832	1,189,744	8,017,699	(4,225,498)	8,254
Profit for the year 2015	-	-	-	-	982,302	982,302	-	1,423
Other comprehensive income for the year 2015	-	-	-	-	-	-	-	-
-Changes in fair value of available- for- sale investments	-	-	(50,773)	-	-	(50,773)	-	-
-Changes in fair value of cash flow hedging derivatives	-	-	-	-	-	-	264,649	-
-Group's share of joint ventures' changes in fair value of cash flow hedging derivatives	-	-	-	-	-	-	144,331	-
Total comprehensive income for the year 2015	-	-	(50,773)	-	982,302	931,529	408,980	1,423
Transfer to legal reserve	-	98,230	-	-	(98,230)	-	-	-
Social and sports fund contribution 2015 (note 16)	-	-	-	-	(24,558)	(24,558)	-	-
Dividend declared for 2014	-	-	-	(664,832)	-	(664,832)	-	(5,250)
Proposed cash dividend for 2015	-	-	-	692,533	(692,533)	-	-	-
Capital contribution	7	-	-	-	-	7	-	-
Balance as of December 31, 2015	5,538,490	592,045	80,052	692,533	1,356,725	8,259,845	(3,816,518)	4,427
Profit for the year 2016	-	-	-	-	954,179	954,179	-	1,219
Other comprehensive income for the year 2016	-	-	-	-	-	-	-	-
-Changes in fair value of available- for- sale investments	-	-	7,076	-	-	7,076	-	-
-Changes in fair value of cash flow hedging derivatives	-	-	-	-	-	-	543,934	-
-Group's share of joint ventures' changes in fair value of cash flow hedging derivatives	-	-	-	-	-	-	27,306	-
Total comprehensive income for the year 2016	-	-	7,076	-	954,179	961,255	571,240	1,219
Transfer to legal reserve	-	95,418	-	-	(95,418)	-	-	-
Social and sports fund contribution 2016 (note 16)	-	-	-	-	(23,855)	(23,855)	-	-
Dividend declared for 2015	-	-	-	(692,533)	-	(692,533)	-	(1,500)
Proposed cash dividend for 2016	-	-	-	554,026	(554,026)	-	-	-
Capital contribution	227	-	-	-	-	227	-	-
Balance as of December 31, 2016	5,538,717	687,463	87,128	554,026	1,637,605	8,504,939	(3,245,278)	4,146

The accompanying notes 1-27 form an integral part of these consolidated financial statements.

QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amount Expressed in Thousands of Qatari Riyals)

	<u>Note</u>	For the year ended December 31, 2016	For the year ended December 31, 2015
Cash Flows from Operating Activities:			
Profit for the year		955,398	983,725
Adjustments for:			
Depreciation of property and equipment	4	767,659	688,330
Finance charges		1,187,695	1,198,602
Share of results from joint ventures	5	(553,367)	(497,954)
Interest income on loans to joint ventures	17(a)	(9,687)	(10,334)
Interest, dividend and profit from Islamic banks		(44,477)	(33,559)
Other income		(33,293)	(33,013)
Loss on disposal of property and equipment		149	-
Provision for employees' end of service benefits		5,992	5,832
		<u>2,276,069</u>	<u>2,301,629</u>
Working Capital Changes:			
Inventories		415	2,871
Trade and other receivables		(70,683)	20,605
Accounts payable and accruals		48,788	31,029
Other liabilities		(32,358)	18,611
Due from joint venture companies		(10,210)	(8,936)
Due to joint venture companies		(1,599)	636
Cash generated from operations		<u>2,210,422</u>	<u>2,366,445</u>
Finance charges paid		(1,178,569)	(1,192,742)
Employees' end of service benefits paid		(4,972)	(5,892)
Net Cash From Operating Activities		<u>1,026,881</u>	<u>1,167,811</u>
Cash Flows from Investing Activities:			
Loans to joint venture companies-net		63,012	54,870
Dividend income received from joint ventures	5	96,604	79,551
Acquisition of property and equipment	4	(47,564)	(115,581)
Sale proceeds from disposal of property and equipment		535	-
Investment income received		95,117	74,323
Time deposits maturing after 90 days		378,827	(430,188)
Net Cash From / (Used in) Investing Activities		<u>586,531</u>	<u>(337,025)</u>
Cash Flows from Financing Activities:			
Proceeds from issue of share capital		227	7
Dividend paid to shareholders		(681,887)	(653,316)
Unpaid dividend transferred to separate bank account		(26,678)	(26,529)
Dividend paid against non-controlling interests		(1,500)	(5,250)
Repayments of borrowings		(778,119)	(752,522)
Net Cash Used in Financing Activities		<u>(1,487,957)</u>	<u>(1,437,610)</u>
Net Increase / (Decrease) in Cash and Cash Equivalents		<u>125,455</u>	<u>(606,824)</u>
Cash and Cash Equivalents at Beginning of the Year		<u>1,488,752</u>	<u>2,095,576</u>
Cash and Cash Equivalents at End of the Year	9.1	<u>1,614,207</u>	<u>1,488,752</u>

The accompanying notes 1-27 form an integral part of these consolidated financial statements.

QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amount Expressed in Thousands of Qatari Riyals)

1. Reporting Entity:

Qatar Gas Transport Company Limited (Nakilat) (QSC) (“QGTC” or “the Company”) is a Public Shareholding Company, incorporated in the State of Qatar on June 9, 2004, under Commercial Registration Number 28566 in accordance with Qatar Commercial Companies Law No. 5 of year 2002. The approval for the formation of the Company was made under decision No. 70 of the Ministry of Business and Trade. The Company is governed by its Articles of Association and the provisions of Qatar Commercial Companies Law. The shares of the Company started trading in the Qatar Exchange on April 7, 2005.

The main purpose of the Company is to work in the industry of gas transport either through direct acquisition of ocean going vessels or by investing in joint ventures with other parties.

The Company operates either directly or through its subsidiaries and joint venture companies (collectively referred to as the “Group”). The operations of the Group are conducted within the economic environment in the State of Qatar.

Although most of the joint venture entities are located abroad, their trading activities are mainly derived from contracts with local companies in Qatar. The Group can be therefore viewed to provide services within the same economic environment and subject to the same economic risk.

2. Application of new and revised International Financial Reporting Standards (IFRSs):

2.1 New and revised IFRSs affecting amounts reported in the consolidated financial statements

The following are the new and revised IFRSs that were effective in the current year and have been applied in the preparation of these consolidated financial statements:

- IAS 1 (Revised) *Amendments resulting from the disclosure initiative.*
- IAS 16 (Revised) *Amendments regarding the clarification of acceptable methods of depreciation and amortization and amendments bringing bearer plants into the scope of IAS 16.*
- IAS 27 (Revised) *Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.*
- IAS 38 (Revised) *Amendments regarding the clarification of acceptable methods of depreciation and amortization.*
- IAS 41 (Revised) *Amendments regarding bearer plants*
- IFRS 11 (Revised) *Amendments regarding the accounting for acquisitions of an interest in a joint operation.*
- IFRS 14 *Relating to accounting for rate regulated activities*
- IFRS 12 (Revised), IFRS 10 (Revised), and IAS 28 (Revised) *Amendments regarding the application of the consolidation exception.*
- Annual Improvements to IFRSs 2012–2014 Cycle – various standards

The adoption of these new and revised standards had no significant effect on the consolidated financial statements of the Group for the year ended December 31, 2016, other than certain presentation and disclosure changes.

QATAR GAS TRANSPORT COMPANY LIMITED (NAKILAT) (QSC)
DOHA – QATAR
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016
(Amount Expressed in Thousands of Qatari Riyals)

2. Application of new and revised International Financial Reporting Standards (IFRSs) (Continued):

2.2 New and revised IFRSs in issue but not yet effective (Early adoption allowed)

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

(i) New Standards

Effective for annual periods beginning on or after January 1, 2018

- IFRS 15 *Revenue from Contracts with Customers.*
- IFRS 9 *Financial Instruments.*

Effective for annual periods beginning on or after January 1, 2019

- IFRS 16 *Leases.*

(ii) Revised Standards

Effective for annual periods beginning on or after January 1, 2017

- IAS 12 *Amended to clarify the treatment of recognition of deferred tax assets for unrealized losses*
- Disclosure Initiatives - Amendments to IAS 7

Effective for annual periods beginning on or after January 1, 2018

- IFRS 2 *Amendments relating to classification and measurement of share-based payment transactions.*

Effective for annual periods beginning on or after a date to be communicated by IASB

- IFRS 10 (Revised) & IAS 28 (Revised) *Amendments to clarify accounting for sale and contribution of assets between an Investor and its Associate or Joint Venture*

Management anticipates that these new and revised Standards will be adopted by the Group on the required effective dates and, except as described in the next paragraph, these will have no material financial impact on the consolidated financial statements of the Group in the period of initial application, other than certain presentation and disclosure changes.

Management, however, anticipates that IFRSs 9, 15 and 16 will be adopted in the Group's consolidated financial statements on the required effective dates. The application of these standards may have significant impact on amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements. The management is currently assessing the impact of the application of these new IFRSs on the consolidated financial statements.

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3. Basis of Preparation and Significant Accounting Policies:

3.1 Basis of Preparation

a) Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and Qatar Commercial Companies' Law. A new Commercial Law issued on July 7, 2015 is extended to be adopted by August 06, 2017. The Group is in the process of assessing its compliance with the new Qatar Commercial Companies' Law.

b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost basis, except for available-for-sale investments and cash flow hedging derivatives which are carried at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

c) Functional and presentation currency

The consolidated financial statements are presented in Qatari Riyals, which is also the Company's functional currency. All financial information presented in Qatari Riyals has been rounded to the nearest thousands, except when otherwise indicated.

d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in **note 23** to these consolidated financial statements.

3.2 Significant Accounting Policies

The following significant accounting policies have been applied in the preparation of these consolidated financial statements.

a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) and its share of movements in equity of joint venture entities collectively referred to as the "Group". Refer to **notes no. 5 and 18** for details.

3 **Basis of Preparation and Significant Accounting Policies (continued)**

3.2 **Significant Accounting Policies (continued)**

a) **Basis of Consolidation (continued)**

i) **Investment in Subsidiary Companies**

Subsidiaries are entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights to variable returns from its involvement with the investee; and
- has the ability to use its power to effect its returns.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the Group are eliminated in full on consolidation.

ii) **Investment in Joint Ventures**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. When necessary, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36, Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

b) **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, including the capitalized borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in consolidated statement of income as the expense is incurred. An item of property and equipment is derecognized 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 is included in consolidated statement of income in the year the asset is derecognized. The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If any such indication exists and where the carrying value of an asset exceeds the estimated recoverable amount, the asset is written down to its recoverable amount.

Dry-docking costs incurred on the vessels are capitalized and amortised over a period of five years.

Residual value of vessels is calculated based on the tonnage value of vessels.

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3 Basis of Preparation and Significant Accounting Policies (continued)

3.2 Significant Accounting Policies (continued)

b) Property and Equipment (continued)

Depreciation is charged following the straight-line method over the estimated useful lives of the related assets as follows:

Vessels	2.5%
Computer equipment	33.33%
Plant equipment	20%
Office equipment	15%
Telecom equipment	20%
Furniture and fixtures	15%
Vehicles	20%
Other assets	Up to 20%
Dry docking costs	20%

c) Borrowing costs

Borrowing costs are finance and other costs that the Group incurs in connection with the borrowing of funds. Borrowing costs directly attributable to the acquisition and construction of qualifying assets, which are assets that take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Interest income earned on the temporary investment of the borrowings pending their expenditure on the qualifying assets is deducted from the borrowing costs eligible for capitalization. All the other borrowing costs are charged to consolidated statement of income.

d) Financial Instruments

Financial instruments represent the Group's financial assets and liabilities. Financial assets and financial liabilities are recognized on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial instruments also include commitments not recognized but adequately disclosed in the respective notes to the consolidated financial statements.

Non-derivative financial assets and liabilities

Non-derivative financial assets include available-for-sale investments, loans to joint ventures, trade and other receivables, due from joint venture companies and cash and bank balances. Non derivative financial liabilities comprise accounts payable and accruals, borrowings, due to related parties and other liabilities.

i) Available-for-Sale Investments

Available-for-sale investments are non-derivative financial assets that are designated as available for sale and are not classified as an investment at fair value through profit or loss or held to maturity or loans or receivables. Available-for-sale investments are equity securities and are initially recognised at cost, being the fair value of the consideration given plus any directly attributable transaction costs. After initial recognition, they are remeasured at fair value. Unrealised gains and losses are recognized in other comprehensive income and presented as a separate component of equity until the investment is disposed of or the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income.

For investments traded in active markets, fair value is determined by reference to quoted market bid prices at the close of business on the date of the statement of financial position.

ii) Trade and Other Receivables

Trade receivables are stated at original invoice amount less provisions for amounts estimated to be doubtful receivables. An estimate of doubtful receivables is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

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3. **Basis of Preparation and Significant Accounting Policies (continued)**

3.2 **Significant Accounting Policies (continued)**

d) **Financial Instruments (continued)**

iii) **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, current and call accounts with banks and bank deposits having maturities of less than 90 days.

iv) **Accounts Payable and Accruals**

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

v) **Interest bearing Loans and Borrowings**

Interest bearing loans and borrowings are recognized initially at fair value of the amounts borrowed, less directly attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Installments due within one year at amortized cost are shown as a current liability.

De-recognition of financial assets

A financial asset is de-recognized where:

- the right 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 has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.
- the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

De-recognition of financial liabilities

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expires. Where 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognized in the consolidated statement of income.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has an enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

e) **Inventories**

Inventories include spares and consumables and are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method. Net realisable value is based on estimated replacement cost.

f) **Provisions**

Provisions are recognized when the Group has an obligation either legal or constructive arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

g) **Employees' End of Service Benefits and Pension Contributions**

Employees' end of service benefits represents terminal gratuity and are provided for services rendered based on entitlements stipulated in the employees' contracts of employment and their length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The Group has no expectation of settling its end of service benefits obligations in near term and hence classified this as a non-current liability.

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3. Basis of Preparation and Significant Accounting Policies (continued)

3.2 Significant Accounting Policies (continued)

g) Employees' End of Service Benefits and Pension Contributions (continued)

Under Law No. 24 of 2002 on Retirement and Pension, contributions by the Company to a Government Fund Scheme for Qatari employees are calculated as a percentage of the Qatari employees' salaries. The Company's obligations are limited to its contributions which are expensed when due and remitted to the General Retirement and Pension Authority on a monthly basis.

h) Revenue and other income

Revenue for time charter is recognized on the accrual method in line with agreements entered into with charter parties under the operating lease as risks and rewards relating to the ownership of the vessels have not been transferred.

Revenue from marine and agency services is recognized as and when the services are rendered.

Revenue from vessel sub-chartering is recognized on the accrual basis.

Interest income is recognized on an accrual basis, taking into account the interest rate applicable and principal outstanding.

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

i) Impairment

Impairment of Financial Assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognized in consolidated statement of income. Any cumulative loss in respect of available-for-sale investments recognized previously in other comprehensive income is transferred to consolidated statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in statement of income. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized in consolidated statement of income, whenever the carrying amount of an asset exceeds its recoverable amount.

The impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

j) Foreign Currencies

Foreign currency transactions are recorded in Qatari Riyals at the rate of exchange prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Qatari Riyals at the rate of exchange prevailing at the year end. The resultant exchange difference is included in the consolidated statement of income.

The individual financial statements of subsidiaries and joint ventures in the Group are presented in the currency of the primary economic environment in which they operate (functional currency). For the purpose of these consolidated financial statements, the results and financial position of each entity are expressed in the presentation currency of the parent company.

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3. Basis of Preparation and Significant Accounting Policies (continued):

3.2 Significant Accounting Policies (continued)

k) Derivative Financial Instruments and Hedging Activities

The Group entered into a variety of derivative financial instruments to manage its exposure against adverse movement in interest rate.

Derivatives are initially recognized at fair value on the date the derivative contracts are entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has designated its interest rate swaps as hedges of the exposure to variability in cash flows (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

In circumstances where derivative financial instruments do not qualify as effective hedges, they are marked to market at each period end and changes in fair value are recorded in consolidated statement of income.

l) Capital work in progress

Capital work in progress includes direct cost incurred in building assets, interest capitalized and other costs necessary to bring the assets in the location and condition to be capable of operating in the manner intended by the management. The cost is transferred to property and equipment when the assets are ready for their intended use.

m) Deferred income

Amounts received to compensate the Group for the cost of dry docking and construction of an item of property and equipment is presented as "Other liabilities" in the consolidated statement of financial position.

The Group follows an income approach which requires the amounts to be recognized in the consolidated statement of income on a systematic basis over the periods in which the related cost is depreciated over its estimated useful life.

n) Leases

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

A reassessment is made after inception of the lease only if one of the following applies:

- a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c) there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting commences or ceases from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

The Group as lessor

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

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3. Basis of Preparation and Significant Accounting Policies (continued):

3.2 Significant Accounting Policies (continued)

n) Leases (continued)

The Group as lessee

Leases where the Company as a lessee does not obtain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

o) Operating Segments

Wholly owned gas transportation vessels is the group's primary operating segment based on the nature of the services provided. Other segments including agency and marine services are immaterial and not reportable. These financial statements are therefore prepared on a single reportable segment basis.

4. Property and Equipment:

	<u>Vessels</u>	<u>Equipment</u>	<u>Furniture and Fixtures</u>	<u>Others *</u>	<u>Total</u>
Cost:					
At January 1, 2015	27,380,991	7,371	983	403,063	27,792,408
Additions during the year 2015	60,918	310	255	54,098	115,581
Transfer from capital work in progress during the year 2015	-	3,674	-	(3,674)	-
Disposals during the year 2015	-	(12)	(26)	-	(38)
At December 31, 2015	27,441,909	11,343	1,212	453,487	27,907,951
Additions/(Adjustments) during the year 2016	(6,971)	691	29	53,815	47,564
Transfer from capital work in progress during the year 2016	92,650	3,473	40,170	(136,293)	-
Disposals during the year 2016	-	(1,719)	(481)	-	(2,200)
At December 31, 2016	27,527,588	13,788	40,930	371,009	27,953,315
Accumulated Depreciation:					
At January 1, 2015	3,233,701	6,230	832	96,641	3,337,404
Charge for the year 2015	678,019	1,617	72	8,622	688,330
Disposals during the year 2015	-	(12)	(26)	-	(38)
At December 31, 2015	3,911,720	7,835	878	105,263	4,025,696
Charge for the year 2016	751,672	2,080	5,108	8,799	767,659
Disposals during the year 2016	-	(1,035)	(481)	-	(1,516)
At December 31, 2016	4,663,392	8,880	5,505	114,062	4,791,839
Net Carrying amount:					
At December 31, 2016	22,864,196	4,908	35,425	256,947	23,161,476
At December 31, 2015	23,530,189	3,508	334	348,224	23,882,255

*This includes capital work in progress amounting to QR 2.1 million (2015: QR 97.8 million).

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5. Investment in Joint Venture Companies:

	QR
Balance – January 1, 2015	2,872,025
Share of results for the year	497,954
Adjustment against additional distribution by a joint venture	(34,178)
Loss adjusted against loan to joint ventures	21,310
Share of hedging reserve for the year *	144,814
Dividend received	(79,551)
Balance – December 31, 2015	3,422,374
Share of results for the year **	553,367
Adjustment against additional distribution by a joint venture	(26,944)
Loss adjusted against loan to joint ventures	70,090
Additional liability for losses from a joint venture	70,591
Share of hedging reserve for the year *	25,060
Dividend received	(96,604)
Balance – December 31, 2016	4,017,934

* This excludes the share of gain on the hedging reserve from joint ventures amounting to a total of **QR 2.2 million** (2015: QR 0.5 million loss) adjusted against the loan to the respective joint venture.

** This includes **QR 108.9 million** realized gain for effective hedge accounting of derivative instruments of one of the joint venture matured during the year.

Details of the Group's joint venture companies at **December 31, 2016** are as follows:

<i>Name of Joint Ventures</i>	<i>Place of Incorporation</i>	<i>Proportion of Ownership Interest</i>	<i>Principal Activity</i>
Maran Nakilat Company Ltd.	Cayman Islands	40%	Chartering of vessels
J5 Nakilat No. 1 Ltd.	Marshall Islands	40%	Chartering of vessels
J5 Nakilat No. 2 Ltd.	Marshall Islands	40%	Chartering of vessels
J5 Nakilat No. 3 Ltd.	Marshall Islands	40%	Chartering of vessels
J5 Nakilat No. 4 Ltd.	Marshall Islands	40%	Chartering of vessels
J5 Nakilat No. 5 Ltd.	Marshall Islands	40%	Chartering of vessels
J5 Nakilat No. 6 Ltd.	Marshall Islands	40%	Chartering of vessels
J5 Nakilat No. 7 Ltd.	Marshall Islands	40%	Chartering of vessels
J5 Nakilat No. 8 Ltd.	Marshall Islands	40%	Chartering of vessels
Peninsula LNG Transport No. 4 Ltd.	Marshall Islands	30%	Chartering of vessels
Teekay Nakilat Corporation	Marshall Islands	30%	Chartering of vessels
Pronav:			
- Neptana Schiffsbetriebsgesellschaft mbH & Co. TS "Alexandra" KG	Germany	45%	Chartering of vessels
- Nausola Schiffsbetriebsgesellschaft mbH & Co. TS "Britta" KG	Germany	45%	Chartering of vessels
-Nauranto Schiffsbetriebsgesellschaft mbH & Co. TS "Gabriela" KG	Germany	45%	Chartering of vessels
-Neptora Schiffsbetriebsgesellschaft mbH & Co. TS "Julia" KG	Germany	45%	Chartering of vessels
Teekay Nakilat (III) Corporation **	Marshall Islands	60%	Chartering of vessels
OSG Nakilat Corporation **	Marshall Islands	50.1%	Chartering of vessels
India LNG Transport Company No.3 Limited	Malta	20%	Chartering of vessels
Nakilat Svitzerwijmuller WLL **	Qatar	70%	Chartering of vessels
Gulf LPG Transport Company WLL	Qatar	50%	Chartering of vessels

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5. Investment in Joint Ventures Companies (continued):

<i>Name of Joint Ventures</i>	<i>Place of Incorporation</i>	<i>Proportion of Ownership Interest</i>	<i>Principal Activity</i>
Nakilat-Keppel Offshore & Marine Limited**	Qatar	80%	Operate and maintain the Ship Repair Yard.
Nakilat Damen Shipyards Qatar Limited**	Qatar	70%	Design, construct & operate the Ship Building Yard.

** Although the Group holds more than half of the equity shares in these entities, it does not exercise control over the entities. Decisions need unanimous consent of both parties. The Group does not have any contractual rights to the assets and obligations for the liabilities relating to these joint ventures. Consequently, the above joint ventures are accounted for using equity method in these consolidated financial statements.

5.1 Summarized financial information in respect of the Group's joint venture companies represents amounts shown in the financial statements of respective joint ventures prepared in accordance with IFRS (adjusted by the Group for equity accounting purposes wherever the financial reporting framework is not IFRS).

As of December 31, 2016:	J5 Joint Ventures	Maran Nakilat Company	Teekay Joint Ventures	OSG Nakilat	Gulf LPG	Other Joint Ventures	Total
Current assets	883,483	200,284	902,670	154,503	133,499	1,079,838	3,354,277
Non-current assets	5,915,743	9,047,185	4,805,771	2,948,179	1,044,705	4,421,756	28,183,339
Current liabilities	(348,002)	(424,293)	(195,477)	(256,170)	(51,839)	(1,319,018)	(2,594,799)
Non-current liabilities	(4,329,308)	(6,785,478)	(3,981,241)	(2,362,980)	(547,076)	(3,104,691)	(21,110,774)
Net assets	2,121,916	2,037,698	1,531,723	483,532	579,289	1,077,885	7,832,043
Group's share of net assets	848,767	896,125	914,067	242,250	297,673	819,052	4,017,934
Revenues	588,176	1,187,801	615,661	424,410	215,098	1,288,143	4,319,289
Interest & other Income	-	1,067	4,191	2,582	-	8,276	16,116
Depreciation & Amortization	(23,293)	(254,823)	(67,554)	(109,496)	(48,457)	(217,424)	(721,047)
Finance Costs	(248,908)	(203,718)	(122,647)	(137,138)	(15,631)	(209,755)	(937,797)
Other expenses	(186,285)	(223,011)	(138,014)	(95,141)	(64,621)	(829,138)	(1,536,210)
Net profit	129,690	507,316	291,637	85,217	86,389	40,102	1,140,351
Other Comprehensive Income	169,444	20,414	3,661	83,179	-	71,591	348,289
Total Comprehensive Income	299,134	527,730	295,298	168,396	86,389	111,693	1,488,640
Group's share of net profit / (loss)	51,876	202,918	250,127	42,694	43,195	(37,443)	553,367
Group's share of other comprehensive income / (loss)	67,777	8,166	(104,856)	41,673	-	14,546	27,306
Other disclosures:							
Cash and cash equivalents	597,099	137,453	752,140	94,111	115,115	452,842	2,148,760
Interest bearing loans and borrowings	4,172,907	7,100,339	4,081,146	2,303,938	584,425	3,638,993	21,881,748
Group's share of dividend received	-	21,849	33,647	-	-	41,108	96,604

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5. Investment in Joint Ventures Companies (continued):

As of December 31, 2015:	J5 Joint Ventures	Maran Nakilat Company	Teekay Joint Ventures	OSG Nakilat	Gulf LPG	Other Joint Ventures	Total
Current assets	780,204	496,428	396,004	110,728	26,034	894,935	2,704,333
Non-current assets	6,146,145	8,225,426	4,883,759	3,077,679	1,091,943	5,023,368	28,448,320
Current liabilities	(331,159)	(591,115)	(282,532)	(266,727)	(41,293)	(488,495)	(2,001,321)
Non-current liabilities	(4,772,409)	(6,566,148)	(3,704,721)	(2,606,544)	(583,784)	(4,338,824)	(22,572,430)
Net assets	1,822,781	1,564,591	1,292,510	315,136	492,900	1,090,984	6,578,902
Group's share of net assets	729,113	706,891	829,387	157,883	254,477	744,623	3,422,374
Revenues	597,133	1,007,662	617,862	418,116	209,522	1,571,348	4,421,643
Interest & other income	-	2,218	5,812	8,415	-	3,906	20,351
Depreciation & Amortization	(23,018)	(190,936)	(66,007)	(109,233)	(43,016)	(213,091)	(645,301)
Finance Costs	(261,669)	(143,545)	(167,368)	(144,384)	(15,191)	(200,954)	(933,111)
Other expenses	(203,909)	(172,853)	(144,068)	(88,266)	(65,853)	(1,000,466)	(1,675,415)
Net profit	108,537	502,546	246,231	84,648	85,462	160,743	1,188,167
Other Comprehensive Income / (loss)	115,271	(462)	66,920	49,475	-	73,031	304,235
Total Comprehensive Income / (loss)	223,808	502,084	313,151	134,123	85,462	233,774	1,492,402
Group's share of net profit	43,415	203,368	113,457	42,409	42,731	52,574	497,954
Group's share of other comprehensive income / (loss)	46,108	(185)	40,152	24,787	-	33,468	144,330
Other disclosures:							
Cash and cash equivalents	524,679	420,142	305,886	51,093	13,037	247,179	1,562,016
Interest bearing loans and borrowings	4,431,184	6,857,045	3,872,198	2,469,439	621,133	1,382,366	19,633,365
Tax payable	-	-	5,280	-	-	-	5,280
Group's share of dividend received	3,059	-	10,925	21,893	-	43,674	79,551

6. Loans to Joint Venture Companies:

	December 31, 2016	December 31, 2015
India LNG Transport Company No. 3 Limited	41,444	38,739
Nakilat Svitzerwijismuller WLL	63,061	113,448
Nakilat-Keppel Offshore & Marine Limited	-	83,173
Nakilat Damen Shipyards Qatar Limited	30,953	30,953
Total	135,458	266,313

These interest bearing loans have been given to the joint ventures and repayment is subject to liquidity of the joint venture companies. The weighted average interest rate at **December 31, 2016** is **2.77%** (2015: **2.52%**).

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7. Available-for-Sale Investments:

	December 31, 2016	December 31, 2015
Balance at January 1	126,520	177,293
Changes in fair value	7,076	(50,773)
Balance at December 31	133,596	126,520

Available for sale investments represent investment in listed securities in the Qatar Exchange.

8. Trade and Other Receivables:

	December 31, 2016	December 31, 2015
Trade receivables	18,484	25,004
Less: Provision for doubtful receivables	(2,410)	(2,410)
	16,074	22,594
Accrued income	7,733	13,516
Other receivables*	302,870	228,971
Total	326,677	265,081

The Group has provided fully for all receivables where collection of the amount is no longer probable.

The average credit period is approximately 60 days.

* Other receivables include an amount of **QR 59.5 million** (2015: QR 59.5 million) relating to the excess of dry-dock costs over the originally estimated budgeted costs for dry-docking. The Group will recover this amount, as an agreement is finalized with the Charterer during February 2017.

As at **December 31, 2016** the ageing of trade receivables and movement in the provision for doubtful receivables are as follows:

	December 31, 2016	December 31, 2015
(i) Ageing of neither past due nor impaired		
Less than 60 days	2,879	18,159
(ii) Ageing of past due but not impaired		
61-90 days	1,356	635
91-120 days	2,236	1,176
Over 120 days	9,603	2,624
Total	13,195	4,435
(iii) Ageing of impaired trade receivables		
Over 120 days	2,410	2,410
(iv) Movement in the provision for doubtful receivables:		
Balance at the beginning of the year	2,410	1,495
Additional provision during the year	-	1,042
Written off during the year	-	(127)
Balance at end of the year	2,410	2,410

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9. Cash and Bank Balances:

	December 31, 2016	December 31, 2015
Cash on hand	323	331
Cash at bank-Call and current accounts	707,395	1,318,312
Cash at bank-Time deposits*	1,665,020	1,307,467
Other bank balances (a)	20,781	21,333
Other bank balances (b)	99,041	88,395
Total	2,492,560	2,735,838

* The effective interest and profit rates on the time deposits varies between 0.4% to 3.13% (2015: 0.17% to 3.15%).

9.1 Cash and Cash Equivalents:

	December 31, 2016	December 31, 2015
Cash and bank balances	2,492,560	2,735,838
Less:		
Other bank balances (a)	(20,781)	(21,333)
Other bank balances (b)	(99,041)	(88,395)
Time deposits maturing after 90 days	(758,531)	(1,137,358)
	1,614,207	1,488,752

(a) Cash payable to shareholders for unclaimed proceeds of their shares auctioned related to the second IPO call.

(b) Cash payable to shareholders for unclaimed dividend.

10. Share Capital:

	December 31, 2016	December 31, 2015
	Number of Shares	Number of Shares
Authorized share capital	560,000,000	560,000,000
Issued share capital	554,026,360	554,026,360
	Amount	Amount
Issued and Paid up share capital with a par value of QR 10 each	5,538,717	5,538,490

At December 31, 2016, a total of 309,224 issued shares are 50% paid (2015: 354,695 issued shares were 50% paid).

10.1 Proposed Cash Dividend:

The Board of Directors has proposed a cash dividend of **QR 554 million** for the current year (2015: QR 693 million) which is subject to the approval of shareholders in the Annual General Meeting. The cash dividend for 2015 was approved by the shareholders at the Annual General Meeting held on March 14, 2016.

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11. Legal Reserve:

The Articles of Association of the Company require the Company to provide for a legal reserve at 10% of net profit for each year until it reaches 50% of paid up share capital. This reserve is not available for distribution except for circumstances specified in the Articles of Association.

12. Hedging Reserve:

This represents the Group's share of the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedge that was recognized by one of its subsidiaries and its share from the joint venture companies.

The negative hedging reserve represents an accounting entry from the revaluation to fair value the interest rate swaps. The hedging reserve is expected to decrease over time as loans are repaid and the notional amount of the swaps decreases. The reserve on designated hedges is not expected to impact either consolidated statement of income or retained earnings. The negative hedge reserve arises on interest rate swaps that relate to variable interest bearing loans taken to build vessels. The Group also enters into long-term time charter agreements to lock-in the future cash inflows from vessels. This strategy is expected to result in a more stable stream of cash flows in the future and minimize uncertainties associated with shipping spot rate movements or interest rate movements.

13. Borrowings:

These consist of the following:

	December 31, 2016	December 31, 2015
Loan - note (a)	1,820,765	1,820,765
Senior bank facilities - note (b)	12,570,776	12,909,973
Subordinated bank facilities - note (c)	1,430,457	1,467,355
Senior bonds – Series “A” - note (d)	3,095,299	3,095,299
Subordinated bonds Series “A” - note (e)	927,017	956,972
KEXIM Facility - note (f)	633,310	791,637
KSURE Covered Facility - note (g)	997,463	1,211,205
Less: Issuance costs of bonds	(23,818)	(25,220)
Less: Costs incurred for financing	(10,178)	(11,575)
Less: Transaction costs of refinancing	(21,005)	(23,339)
Total	21,420,086	22,193,072
Classified as:		
Payable within one year	803,631	778,119
Payable after one year	20,616,455	21,414,953

Note (a):

Represents USD 500 million drawdown against the financing facility. The repayment will begin from June 2019 and will end in June 2024.

Note (b):

Represents USD 1,917.7 million against the senior bank facility Tranche I, USD 817 million against the senior bank facility Tranche II and USD 717.4 million against senior bank facility Tranche IV. The repayment of Tranche I began from December 2010 and will end in December 2025. The repayment of Tranche II began from June 2011 and will end in December 2025. The repayment of Tranche IV began from December 2013 and will end in December 2025.

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13. Borrowings (continued):

Note (c):

Represents USD 150.6 million against the subordinated bank facility Tranche I, USD 109.8 million against the subordinated bank facility Tranche II and USD 132.4 million against subordinated bank facility Tranche IV. The repayment of Tranche I began from December 2010 and will end in December 2025. The repayment of Tranche II began from June 2011 and will end in December 2025. The repayment of Tranche IV began from December 2013 and will end in December 2025.

Note (d):

Represents the senior bonds issued under the Tranche I financing program. The repayment will begin from June 2021 and will end in December 2033.

Note (e):

Represents the subordinated bonds issued under the Tranche I financing program. The repayment began from December 2010 and will end in December 2033.

Note (f):

Represents the drawdown against the KEXIM facility Tranche I. The repayment began from December 2009 and will end in December 2020.

Note (g):

Represents USD 78.3 million against the KSURE facility Tranche I and USD 195.7 million against the KSURE facility Tranche II. The repayment of Tranche I began from December 2009 and will end in December 2020. The repayment of Tranche II began from December 2010 and will end in December 2021.

The weighted average interest rate on short / long term facilities (excluding hedge), loans and bonds as above at **December 31, 2016** is **2.64894%** (2015: 2.2225%).

The bank facilities and bonds have been used to finance the acquisition of the vessels.

The Group's obligation under the facilities is secured by a charge over the vessels and guarantees issued by each of the Group's subsidiaries who have irrevocably and unconditionally guaranteed the punctual payments of the debts.

The bank facilities and bonds are further secured against accounts and all permitted investments made from the funds received against the initial draw down, shares in each of the subsidiary, all the insurance policies entered by the Company or any of the subsidiary and insurance proceeds. These are also secured by Company's right, title and interest in any contract, intercompany loans and floating charges over the Company's other assets and any other contract in which each of the subsidiary is a party.

All these securities are subject to first priority to senior debts and bonds and second priority to subordinated debts and bonds.

14. Fair Value of Interest Rate Swaps:

The Group has entered into interest rate swap agreements with several financial institutions. As at **December 31, 2016** the outstanding notional amount of swap agreements is **QR 11,793 million** (2015: QR 12,430 million) and net fair value is negative **QR 2,819 million** (2015: negative QR 3,363 million).

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15. Accounts Payable and Accruals:

	December 31, 2016	December 31, 2015
Accounts payable	123,526	137,845
Advances from customers	135,652	100,083
Payable to shareholders (1)	20,781	21,333
Other accruals	106,179	65,694
Other liabilities-current portion (note 15.1)	48,720	49,147
Social and sports fund contribution (note 16)	23,855	24,558
Dividend payable	99,041	88,395
Deferred liabilities (2)	70,591	26,944
Total	628,345	513,999

(1) Cash payable to shareholders for unclaimed proceeds of their shares auctioned related to the second IPO call.

(2) This represents excess losses from a joint venture and will be adjusted with the future profits of the same joint venture.

15.1 Other Liabilities:

This includes deferred income relating to excess dry docking costs and proceeds from MEGI project. The excess dry dock costs will be amortized over the life of the dry docking costs. The proceeds from MEGI project will be amortized over the useful life of related assets. The balance of non-current portion is **QR 165,216** thousands (2015: QR 197,574 thousands).

16. Social and Sports Fund Contribution:

Qatar Law no. 13 of 2008 requires Qatari listed shareholding companies with IPO to pay 2.5% of net profit to a social and sports fund. In pursuant to this Law and further clarifications for the Law issued in 2010, the Group has made an appropriation of **QR 23,855** thousands representing 2.5% of the net consolidated profit of the Group for the year ended **December 31, 2016** (December 31, 2015: QR 24,558 thousand). This appropriation has been presented in the consolidated statement of changes in equity.

17. Related Party Transactions:

	For the year ended December 31, 2016	For the year ended December 31, 2015
(a) Transactions with related parties during the year are as follows:		
Repayment of joint ventures' loans	63,012	54,870
Interest income on loans to joint ventures	9,687	10,334
(b) Balances with related parties are as follows:		
Due from joint venture companies	30,537	18,900
Due to joint venture companies	1,297	2,896
(c) Key management compensation:		
Compensation of key management personnel	6,123	5,440
Board of Directors' remuneration accrued	5,900	3,850

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18. Subsidiaries:

Details of the Company's subsidiaries at **December 31, 2016** are as follows:

<u>Name of Subsidiaries</u>	<u>Place of Incorporation (or registration)</u>	<u>Proportion of Ownership & Voting Interest</u>	<u>Principal Activity</u>
Nakilat Agency Company Limited (Q.S.C.)	Qatar	95%	Agency services
Nakilat Inc.	Marshall Islands	100%	Holding Company
-Nakilat Haloul Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat Umm Slal Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat Bu Samra Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1694 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1695 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1696 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1697 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat H.H.I. 1908 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat H.H.I. 1909 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat H.H.I. 1910 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat Al Ghuwairiya Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat Lijmiliya Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat Al Samriya Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat DSME 2264 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat DSME 2265 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat DSME 2266 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1726 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1751 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1752 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1753 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat S.H.I. 1754 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat DSME 2283 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat DSME 2284 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat DSME 2285 Inc.	Marshall Islands	100%	Chartering of vessels
-Nakilat DSME 2286 Inc.	Marshall Islands	100%	Chartering of vessels
QGTC Nakilat (1643-6) Holding Corporation *	Marshall Islands	100%	Holding Company
QGTC Nakilat (2245-8) Investment Limited *	Marshall Islands	100%	Holding Company
Nakilat Marine Services Limited *	Marshall Islands	100%	Holding Company
Nakilat Shipping (Qatar) Limited	Qatar	100%	Ship Management Company
QGTC Shipping (M.I.) Inc.	Marshall Islands	100%	Shipping Company
-QGTC Cyprus Limited	Cyprus	100%	Shipping Company

* Share capital in these subsidiaries was issued at no par value.

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19. Earnings Per Share:

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year.

	For the year ended December 31, 2016	For the year ended December 31, 2015
Profit for the year attributable to the owners of the Company	<u>954,179</u>	<u>982,302</u>
Weighted average number of shares outstanding during the year	<u>553,871,748</u>	<u>553,849,013</u>
<i>Basic and diluted earnings per share (expressed in QR per share)</i>	<u>1.72</u>	<u>1.77</u>

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

20. Financial Risk Management:

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

- I** Market risk
- II** Liquidity risk
- III** Credit risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

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

I Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments.

(a) Interest Rate Risk

The Group is exposed to interest rate risk as the Group borrows funds at both fixed and floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts. The Group's policy is to use interest rate swap instruments on certain of its borrowings. The difference between the fixed-rate interest cost (payment) and the variable-rate interest cost (receipt) is settled periodically.

The Group seeks to minimize the effects of these risks by using derivative financial instruments to hedge interest rate fluctuation risk exposure. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on interest rate risk, credit risk and the use of financial derivatives. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Treasury function reports periodically to the Group's management that monitors risks and policies implemented to mitigate risk exposures.

(i) Interest Rate Sensitivity Analysis

The Group is exposed to interest rate risk on its bank balances, loans to joint ventures and borrowings. The table below demonstrates the sensitivity of the Group's profit to reasonably possible changes on the Group's profit for one year, based on the floating interest rate of financial assets and liabilities held at **December 31, 2016**.

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20. Financial Risk Management (continued):
I Market Risk (continued)
(a) Interest Rate Risk (continued)
(i) Interest Rate Sensitivity Analysis (continued)

The Group's sensitivity analysis has been determined based on exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. For floating liabilities, the amount of the liability outstanding at the end of the reporting period was assumed outstanding for the whole year. All interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest on borrowings. The Group's exposure to interest rate risk and the effective interest rates on its financial assets and liabilities are summarized below:

	December 31, 2016				December 31, 2015			
	Fixed interest rate	Floating interest rate	Non-interest bearing	Total	Fixed interest rate	Floating interest rate	Non-interest bearing	Total
Financial assets								
Bank balances and cash	-	1,973,013	519,547	2,492,560	-	1,621,372	1,114,466	2,735,838
Loans to joint ventures	-	135,458	-	135,458	-	266,313	-	266,313
	-	2,108,471	519,547	2,628,018	-	1,887,685	1,114,466	3,002,151
Financial liabilities								
Interest bearing loans and borrowings	(3,998,498)	(5,628,583)	-	(9,627,081)	(4,027,051)	(5,735,793)	-	(9,762,844)
Interest rate swap	(11,793,005)	-	-	(11,793,005)	(12,430,228)	-	-	(12,430,228)
	(15,791,503)	(5,628,583)	-	(21,420,086)	(16,457,279)	(5,735,793)	-	(22,193,072)
Net financial assets/(liabilities)	(15,791,503)	(3,520,112)	519,547	(18,792,068)	(16,457,279)	(3,848,108)	1,114,466	(19,190,921)

If interest rates had been 50 basis points lower / higher and all other variables were held constant, the net effect on the profit for the year ended **December 31, 2016** would be an increase / decrease by **QR 17.6 million** (December 31, 2015: QR 19.2 million).

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20. Financial Risk Management (continued):

I Market Risk (continued)

(a) Interest Rate Risk (continued)

(ii) Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the cash flow exposures on the issued variable rate debt. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows quoted by the respective swap counter parties.

The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding as at reporting date:

Cash flow hedges

	<u>Average contracted fixed interest rate</u>		<u>Notional principal amount outstanding</u>		<u>Fair value</u>	
<i>Outstanding receive floating</i>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<i>Pay fixed contracts</i>						
	%	%	QR (million)	QR (million)	QR (million)	QR (million)
Less than 1 year	--	--	--	--	--	--
1 to 2 years	--	--	--	--	--	--
2 to 5 years	--	--	--	--	--	--
5 years and above	5.58	5.58	11,793	12,430	(2,819)	(3,363)

In addition to the above, the Group has also accounted for its share of the negative fair value of interest rate swaps relating to Joint Ventures amounting to **QR 426 million** as of **December 31, 2016** (2015: negative fair value of QR 453 million).

The interest rate swap settles semi annually. The floating rate on interest rate swaps is LIBOR. The Group will settle the difference between the fixed and floating rate on a net basis.

The majority of interest rate swap contracts exchanging floating rate interest amounts for fixed rate interest amounts are designated as cash flow hedges in order to reduce the Group's cash flow exposure resulting from variable interest rates on borrowings. The interest rate swaps and the interest payments on the loan occur simultaneously.

(b) Equity price risk

The Group is subject to equity price risk in relation to available-for-sale investments. The Group evaluates the current market value and other factors including normal volatility in share price for quoted equities and other relevant factors in order to manage its market risk.

A 10% increase or decrease in market value of the Group's portfolio of available-for-sale investments at the reporting date is expected to result in an increase or decrease of **QR 13.3 million** (2015: QR 12.6 million) in the assets and equity of the Group.

(c) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The significant foreign currency transactions are denominated in United States Dollar ("USD") which is pegged with the functional currency of the Company. Therefore, the Management is of the opinion that the Group's exposure to currency risk is minimal.

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20. Financial Risk Management (continued):

II Liquidity Risk

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

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

The following are the contractual maturities of non-derivative financial liabilities including finance cost payments and excluding the impact of netting agreements, if any:

Non-Derivative Financial Liabilities

31 December 2016

	Carrying Amounts	Less than 1 year	1-5 years	Over 5 Years
Borrowings	21,420,086	803,631	3,703,063	16,913,392
Accounts payable	522,166	522,166	-	-
	21,942,252	1,325,797	3,703,063	16,913,392

31 December 2015

	Carrying Amounts	Less than 1 year	1-5 years	Over 5 Years
Borrowings	22,193,072	778,119	3,550,506	17,864,447
Accounts payable	448,305	448,305	-	-
	22,641,377	1,226,424	3,550,506	17,864,447

III Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers, loans and receivable from joint venture companies and bank balances.

The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. Credit evaluations are performed on all customers requiring credit and are approved by the Group's management.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Bank balances are held with reputed banks in and outside Qatar. Given this reputation management do not expect these banks to fail on their obligations.

The Group maintains a provision for doubtful receivable; the estimation of such provision is reviewed periodically and established on a case by case basis. Please refer to **note 8** for trade receivables ageing.

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20. Financial Risk Management (continued):

Exposure to credit risk

The Group's maximum exposure to credit risk for the components of the consolidated statement of financial position as at December 31, 2016 and 2015 is the carrying amounts as illustrated below.

	<u>Note</u>	<u>Carrying amount</u>	
		December 31, 2016	December 31, 2015
Loans to joint venture companies	6	135,458	266,313
Available-for-sale investments	7	133,596	126,520
Due from joint venture companies	17(b)	30,537	18,900
Trade and other receivables	8	326,677	265,081
Bank balances	9	2,492,237	2,735,507
Total		3,118,505	3,412,321

Fair Value of Financial Instruments

The fair value of available-for-sale investments are derived from quoted market prices in an active market. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows quoted by the respective swap counter parties. The fair value of other financial instruments approximates their carrying value.

Fair Value Hierarchy

As at December 31, the Group held the following financial instruments measured at fair value.

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

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

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

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

	Level 1	Level 2	Level 3	Total
31 December 2016				
Financial assets measured at fair value:				
Available-for-sale investments	133,596	-	-	133,596
Financial liabilities measured at fair value:				
Interest rate swaps used for hedging	-	2,819,165	-	2,819,165
31 December 2015				
Financial assets measured at fair value:				
Available-for-sale investments	126,520	-	-	126,520
Financial liabilities measured at fair value:				
Interest rate swaps used for hedging	-	3,363,099	-	3,363,099

21. Capital Management:

The Group manages its capital to ensure that it will continue as a going concern while maximizing the return to stakeholders through the optimization of invested capital. The capital structure of the Group consists of debt and equity comprising issued share capital, legal reserve, fair value reserve, non-controlling interests, hedging reserve and retained earnings.

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21. Capital Management (continued):

Gearing ratio

The Group's management reviews the capital structure on a regular basis. The gearing ratio at the year-end was as follows:

	Note	December 31, 2016	December 31, 2015
Total debt (Borrowings)	13	21,420,086	22,193,072
Cash and cash equivalents	9.1	(1,614,207)	(1,488,752)
<i>Net debt</i>		<u>19,805,879</u>	<u>20,704,320</u>
Equity before hedging reserve and non-controlling interests		8,504,939	8,259,845
Add: Non-controlling interests		4,146	4,427
<i>Adjusted Equity (i)</i>		<u>8,509,085</u>	<u>8,264,272</u>
<i>Net debt to adjusted equity ratio</i>		233%	251%

(i) Adjusted equity includes all equity except negative cash flow hedge reserve of the Group.

22. Commitments and Contingencies:

(A) Swap Commitments:

The Group has entered into several interest rate swap contracts in respect of interest payable on the variable interest rate bearing loans.

(B) Guarantees and Letter of Credit:

(i) Cross Guarantees

The Company has issued cross guarantees to the various banks with regard to loans and interest rate swaps.

(ii) Bank Guarantees at **December 31, 2016** amounted to **QR 1.75 million** (2015: QR 0.85 million).

(iii) Letters of Credits and Guarantees including the share from joint ventures at **December 31, 2016** amounted to **QR 78.3 million** (2015: QR 211.2 million).

(C) Time Charter:

The Group entered into various time charter agreements with two-time charterer parties for the time charter of its vessels for an initial term of approximately 25 years from delivery date of each vessel with an option to renew.

(D) Tax Contingency:

One of the joint ventures of the Company was the lessee under finance lease arrangements for its LNG carriers. Lease payments under the lease arrangements were based on certain tax and financial assumptions at the commencement of the leases and subsequently adjusted to maintain its agreed after-tax margin. The Company terminated the Leases on December 22, 2014. However, the Company still has an obligation to the lessor to maintain the lessor's agreed after-tax margin from the commencement of the lease to the lease termination date.

The UK taxing authority (or HMRC) has been challenging the use of similar lease structures. One of those challenges was eventually decided in favour of HMRC (Lloyds Bank Equipment Leasing No. 1 or LEL1), with the lessor and lessee choosing not to appeal further. Initial indications are that HMRC will attempt to progress matters on other leases including the lease of the joint venture with the intent of asking the lessees to accept the LEL1 tax case verdict that Capital Allowances were not due, and if the joint venture was to be challenged by HMRC, it is not certain at this time whether the joint venture would eventually prevail in court. If the former lessor of the LNG Carriers were to lose on a similar claim from HMRC, the Company's estimate of share of potential exposure is estimated to be approximately QR 92.85 million. Such estimate is primarily based on information received from the lessor.

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23. Critical Accounting Estimates and Judgments:

In application of the Group's accounting policies, which are described in **note 3** management is required to make certain judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The associated assumptions are based on factors that are considered to be relevant. Actual results may differ from these estimates. The underlying assumptions are reviewed on an ongoing basis.

The following critical judgments were made by management in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements.

(i) Useful life of property and equipment:

As described in **note 3.2(b)**, the Group's management reviews the estimated useful life and residual value of the property and equipment at the end of each annual reporting period.

Management estimates the useful lives and residual value for the Group's vessels based on historical experience and other factors, including the tonnage value and the expectation of the future events that are believed to be reasonable under the circumstances.

(ii) Impairment of receivables:

An estimate of the collectible amount of trade accounts receivable and due from related parties is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis.

At the reporting date, there was no allowance for impairment of due from related parties or other receivables as the Group does not have collection concern with regards to its receivables from its related parties.

(iii) Hedge effectiveness:

Management reviews its hedging relationship between the interest rate swaps and the underlying loans on a regular basis. The hedge was found to be highly effective. As a result, the fair value of the derivative (negative QR 2,819 million) is recorded in equity under hedging reserve.

(iv) Impairment of available-for-sale equity investments:

The Group treats available -for-sale equity investments as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. The Group evaluates the investments on a case by case basis taking into account normal volatility in share price for quoted equities.

(v) Classification of lease:

Lease classification is determined by Management at the inception of the lease. Changes to the particulars of a lease after inception, other than by renewing the lease, which would have resulted in a different classification of the lease had the revised terms been in effect at the inception of the lease, should be considered at the inception of a revised agreement over the remaining term.

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23. Critical Accounting Estimates and Judgments (continued):

(v) Classification of lease (continued):

Management has applied judgments for the classification of its lease arrangements based on the following primary indicators;

- transfer of ownership of the asset at the end of the lease term;
- option to purchase the leased asset at a price that is sufficiently lower than the fair value at the date of the purchase;
- term of the lease is for the major part of the economic life of the asset;
- present value of the minimum lease payments which is calculated based on rate of return implicit in the lease and fair value of the leased asset;
- nature of the asset including its specialization, purpose of creation for the lessee and requirements for major modification to be used by other lessee;

Key estimates used by Management include calculation of IRR, useful life and salvage value.

24. Operating Lease Revenue:

The Group has various lease agreements for wholly owned LNG vessels. The charter revenue of these vessels are accounted for as operating leases. The future minimum rentals receivables under non-cancellable operating leases are as follows:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Not later than 1 year	3,063,835	3,091,325
Later than 1 year but not later than 5 years	12,263,734	12,339,962
Later than 5 years	38,459,903	41,793,144
Total	<u>53,787,472</u>	<u>57,224,431</u>

25. Operating Costs:

Operating cost mainly includes running and maintenance costs for vessels.

26. General and administrative expenses:

This includes expenses relating to payroll, rent and utilities, professional services etc.

27. Events after the reporting date:

There are no material events subsequent to the reporting date, which have a bearing on the understanding of these consolidated financial statements.