

INDUSTRIES QATAR QSC
DOHA - QATAR

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2005
TOGETHER WITH ACCOUNTANTS' REVIEW REPORT

INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED
30 JUNE 2005

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ACCOUNTANTS' REVIEW REPORT

**TO THE SHAREHOLDERS
INDUSTRIES QATAR, Q.S.C.
DOHA – QATAR**

We have reviewed the accompanying interim consolidated balance sheet of Industries Qatar, Q.S.C. (the "Company") as of 30 June 2005 and the related interim consolidated statements of income, changes in equity and cash flows for the six month period then ended. These condensed interim consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our review. The subsidiary and joint venture companies, which when consolidated represent 98.4% of the assets, 99.4% of the liabilities and 100% of the results of operations of the Company have been reviewed by other auditors. These review reports were furnished to us and our report, in so far as it relates to the amounts included for the subsidiary and joint venture companies, is based on the reports of the other auditors.

We conducted our review in accordance with **International Standard on Auditing** applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the condensed interim consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of Company's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review and the review of the other auditors, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not presented fairly, in all material respects, in accordance with **International Financial Reporting Standards No 34**.

For **Deloitte & Touche**

**Doha - Qatar
20 July 2005**

**Muhammad Bahemia
License No. 103**

INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

INTERIM CONSOLIDATED BALANCE SHEET
AS OF 30 JUNE 2005
(Amounts expressed in thousands of Qatari Riyals)

| | Note | <u>30 JUNE</u> <u>2005</u> <u>(REVIEWED)</u> | <u>30 JUNE</u> <u>2004</u> <u>(REVIEWED)</u> | <u>31 DECEMBER</u> <u>2004</u> <u>(AUDITED)</u> |
|---|-------------|---|---|--|
| Assets | | | | |
| Current Assets | | | | |
| Bank balances and cash | 3 | 2,513,518 | 2,409,946 | 3,217,781 |
| Accounts receivable and prepayments | | 867,179 | 536,718 | 619,557 |
| Inventories | | 919,711 | 645,055 | 704,819 |
| Due from related parties | 6 | <u>371,584</u> | <u>297,551</u> | <u>554,072</u> |
| Total Current Assets | | <u>4,671,992</u> | <u>3,889,270</u> | <u>5,096,229</u> |
| Non-Current Assets | | | | |
| Property, plant and equipment | 4 | 4,580,799 | 4,372,832 | 4,583,416 |
| Investments | | 642,323 | 461,947 | 477,254 |
| Other assets | | <u>145,768</u> | <u>180,036</u> | <u>88,901</u> |
| Total Non-Current Assets | | <u>5,368,890</u> | <u>5,014,815</u> | <u>5,149,571</u> |
| Total Assets | | <u>10,040,882</u> | <u>8,904,085</u> | <u>10,245,800</u> |
| Liabilities and Equity | | | | |
| Current Liabilities | | | | |
| Accounts payable and accruals | | 549,451 | 388,301 | 444,287 |
| Term Loans | 5 | 988,888 | 124,381 | 398,333 |
| Due to related parties | 6 | <u>195,388</u> | <u>80,219</u> | <u>250,328</u> |
| Total Current Liabilities | | <u>1,733,727</u> | <u>592,901</u> | <u>1,092,948</u> |
| Non-Current Liabilities | | | | |
| Term Loans | 5 | 597,480 | 1,797,721 | 1,204,213 |
| Provision for employees' end of Service benefits | | <u>57,877</u> | <u>108,555</u> | <u>120,235</u> |
| Total Non-Current Liabilities | | <u>655,357</u> | <u>1,906,276</u> | <u>1,324,448</u> |
| Capital and reserves | | | | |
| Share Capital | | 5,000,000 | 5,000,000 | 5,000,000 |
| Fair value reserves | | 233,578 | 218,031 | 192,418 |
| Legal reserve | 7 | 103,219 | 92,906 | 103,219 |
| Retained earnings | | 2,304,405 | 1,084,224 | 771,846 |
| Proposed dividends | | - | - | <u>1,750,000</u> |
| Equity attributable to Equity Holders of the Company | | <u>7,641,202</u> | <u>6,395,161</u> | <u>7,817,483</u> |
| Minority Interest | | <u>10,596</u> | <u>9,747</u> | <u>10,921</u> |
| Total Equity | | <u>7,651,798</u> | <u>6,404,908</u> | <u>7,828,404</u> |
| Total Liabilities and Equity | | <u>10,040,882</u> | <u>8,904,085</u> | <u>10,245,800</u> |

H.E. ABDULLAH BIN HAMAD AL-ATTIYAH
Second Deputy Prime Minister
and Minister of Energy & Industry
Chairman and Managing Director

H.E. YOUSEF HUSSAIN KAMAL
Minister of Finance
Vice Chairman

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

INTERIM CONSOLIDATED STATEMENT OF INCOME
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005
(Amounts expressed in thousands of Qatari Riyals)

| | Note | Six months period ended | |
|-------------------------------------|-------------|--------------------------------|--------------------------|
| | | June 30, 2005 | June 30, 2004 |
| | | <u>(REVIEWED)</u> | <u>(REVIEWED)</u> |
| Sales | 8 | 3,069,006 | 2,163,161 |
| Cost of sales | | <u>(1,380,148)</u> | <u>(999,462)</u> |
| Gross Profit | | 1,688,858 | 1,163,699 |
| Selling expenses | | (49,715) | (39,554) |
| General and administrative expenses | | (134,620) | (138,376) |
| Income from associates | | 24,381 | 16,664 |
| Other income | | 31,334 | 55,351 |
| Finance Charges | | <u>(26,543)</u> | <u>(8,619)</u> |
| Net Profit for the Period | | <u>1,533,695</u> | <u>1,049,165</u> |
| Attributable to: | | | |
| Equity holders of the Company | | <u>1,532,557</u> | <u>1,048,581</u> |
| Minority Interest | | <u>1,138</u> | <u>584</u> |
| Earnings per share | | <u>QR3.07</u> | <u>QR2.10</u> |
| Number of shares | | <u>500,000,000</u> | <u>500,000,000</u> |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

INDUSTRIES QATAR, Q.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005

(Amounts expressed in thousands of Qatari Riyals)

| | <u>Share Capital</u> | <u>Legal Reserve</u> | <u>Fair value Reserve</u> | <u>Retained Earnings</u> | <u>Proposed Dividends</u> | <u>Equity Attributable to Equity Holders of the Company</u> | <u>Minority Interest</u> | <u>Total Equity</u> |
|-------------------------------------|--------------------------|--------------------------|-------------------------------|------------------------------|-------------------------------|--|------------------------------|--------------------------------|
| Balance at 1 January 2004 | 5,000,000 | 60,591 | 70,586 | 67,958 | 1,000,000 | 6,199,135 | 9,163 | 6,208,298 |
| Change in fair value of investments | - | - | 147,445 | - | - | 147,445 | - | 147,445 |
| Net profit for the period | - | - | - | 1,048,581 | - | 1,048,581 | 584 | 1,049,165 |
| Transfer to legal reserve | - | 32,315 | - | (32,315) | - | - | - | - |
| Dividend paid | - | - | - | - | (1,000,000) | (1,000,000) | - | (1,000,000) |
| Balance at 30 June 2004 | <u>5,000,000</u> | <u>92,906</u> | <u>218,031</u> | <u>1,084,224</u> | <u>-</u> | <u>6,395,161</u> | <u>9,747</u> | <u>6,404,908</u> |
| Balance at 1 January 2005 | 5,000,000 | 103,219 | 192,418 | 771,846 | 1,750,000 | 7,817,483 | 10,921 | 7,828,404 |
| Change in fair value of investments | - | - | 41,160 | - | - | 41,160 | - | 41,160 |
| Net profit for the period | - | - | - | 1,532,557 | - | 1,532,557 | 1,138 | 1,533,695 |
| Dividend paid | - | - | - | - | (1,750,000) | (1,750,000) | (1,463) | (1,751,463) |
| Balance at 30 June 2005 | <u>5,000,000</u> | <u>103,219</u> | <u>233,578</u> | <u>2,304,403</u> | <u>-</u> | <u>7,641,200</u> | <u>10,596</u> | <u>7,651,796</u> |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

INTERIM CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005
(Amounts expressed in thousands of Qatari Riyals)

| | <u>Note</u> | <u>30 JUNE 2005</u> <u>(6 months)</u> <u>(REVIEWED)</u> | <u>30 JUNE 2004</u> <u>(6 months)</u> <u>(REVIEWED)</u> |
|--|-------------|---|---|
| Cash Flow from Operating Activities | | | |
| Net Profit for the period before minority interest | | 1,533,695 | 1,049,165 |
| Adjustments for: | | | |
| Depreciation and amortization | | 266,994 | 223,634 |
| Income from associates | | (24,381) | (16,664) |
| Income from investments | | (1,700) | (2,698) |
| Finance charges | | 26,543 | 8,619 |
| Provision for employees' end of service benefits | | 10,398 | 11,702 |
| (Gain) Loss on disposal of fixed assets | | <u>(344)</u> | <u>1,099</u> |
| | | 1,811,205 | 1,274,857 |
| Increase in debtors and prepayments and due from related parties | | (65,134) | (123,849) |
| Increase in inventories | | (214,892) | (87,732) |
| Increase in creditors and accruals and due to related parties | | <u>50,224</u> | <u>54,937</u> |
| Cash generated by operations | | 1,581,403 | 1,118,213 |
| Interest paid | | (26,543) | (8,619) |
| Payments towards employees' end of service benefits | | <u>(72,756)</u> | <u>(6,525)</u> |
| Net Cash from Operating Activities | | <u>1,482,104</u> | <u>1,103,069</u> |
| Cash Flow from Investing Activities | | | |
| Acquisition of property, plant and equipment | | (258,988) | (214,760) |
| Investments in projects under development | | (51,535) | (2,642) |
| Deposits maturing after 90 days | | (606,750) | - |
| Acquisition of available-for-sale investments | | (71,360) | - |
| Acquisition of other assets | | (10,931) | - |
| Advances to associates | | - | 2,787 |
| Dividends received from associates and investments | | 10,989 | 6,080 |
| Net movement on investment in associate | | (37,457) | - |
| Disposal of investments | | - | 700 |
| Proceeds from disposals of fixed assets | | <u>554</u> | <u>2,942</u> |
| Net cash used in investing activities | | <u>(1,025,478)</u> | <u>(204,893)</u> |
| Cash Flow from Financing Activities | | | |
| Dividends paid | | (1,751,463) | (994,141) |
| Proceeds from borrowings | | 236,698 | 32,760 |
| Repayment of loans | | <u>(252,876)</u> | <u>(73,614)</u> |
| Net cash used in financing activities | | <u>(1,767,641)</u> | <u>(1,034,995)</u> |
| Net Decrease in Cash and Cash Equivalents | | (1,311,015) | (136,819) |
| Bank Balances and Cash at beginning of period | | <u>2,892,463</u> | <u>2,546,765</u> |
| Bank Balances and Cash at End of the Period | 5 | <u>1,581,448</u> | <u>2,409,946</u> |

The accompanying notes form an integral part of these condensed interim consolidated financial statements.

INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005
(Amounts in table expressed in thousands of Qatari Riyals)

1. **Legal Status and Activities**

Industries Qatar is a Shareholding Company, incorporated in the State of Qatar on 19 April 2003, in accordance with Article No. 68 of the Qatar Commercial Companies Law No. 5 of year 2002, for a 50-year term by resolution No. 33 of 2003 from the Ministry of Economy and Commerce of the State of Qatar. The Company is governed by its Memorandum and Articles of Association and Law No. 5 of 2002 concerning commercial companies.

The Company, its subsidiary and joint venture companies (“IQ” or “the Company”) operate in the State of Qatar and in the Jebel Ali Freezone in the United Arab Emirates.

The main activity of IQ is to act as a holding company. The following are the details of the subsidiary and joint venture companies:

- **Qatar Steel Company Limited Q.S.C (QASCO)**, a Qatari Shareholding Company incorporated in the State of Qatar is wholly owned by IQ. The company is engaged in the manufacture of steel billets and reinforcing bars for sale in the domestic and export markets.
- **Qatar Petrochemical Company Limited Q.S.C, (“QAPCO”)**, a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ owning 80% and Total Petrochemicals (France) owning 20%. QAPCO is engaged in the production and sale of ethylene, polyethylene, hexane and other petrochemical products.
- **Qatar Fertiliser Company (SAQ), (“QAFCO”)**, a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ owning 75%, Fertiliser Holdings AS owning 20% and Yara Nederland BV owning 5%. QAFCO is engaged in the production and sale of ammonia and urea.
- **Qatar Fuel Additives Company Limited (“QAFAC”)**, a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ owning 50%, OPIC Netherlands Antilles N.V. owning 20%, International Octane Limited owning 15% and LCY Investments Corporation owning 15%. QAFAC is engaged in the production and export of methyl-tertiary-butyl-ether (MTBE) and methanol.

INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005

(Amounts in table expressed in thousands of Qatari Riyals)

2. Adoption of New and Revised International Financial Reporting Standards

In the current period, the Company has adopted all of the new and revised standards issued by the International Accounting Standards Board that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised standards has not resulted in changes to the Company's accounting policies reported in the prior periods.

These condensed interim consolidated financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" and the historical cost convention except for certain investments which are marked to market. The accounting policies used in the preparation of these condensed interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2004 and should be read in conjunction with the 2004 financial statements and the notes attached thereto.

Costs that are incurred unevenly during the financial year are anticipated or deferred in the interim report only if it would be also appropriate to do so.

3. Bank Balances and Cash:

Bank balances include balances amounting to QR.247.29 million (US\$67.94 million) [31 December 2004: QR.240 million (US\$66.09 million)] held in Onshore and Offshore accounts in accordance with the terms of the senior facility agreement. A balance of QR61.38 million (US\$16.86 million.) [31 December 2004: QR.57.06 million (US\$15.68 million)] held in Offshore accounts are subject to fixed and floating charges relating to a project refinance loan taken by the Company. The Company has assigned all its rights, titles and interest in the Offshore account to the security agents of the lenders.

Bank balances include the Company's share of a target cash balance of QR.81.9 million (US\$22.5 million) [31 December 2004: QR.81.9 million (US\$ 22.5 million)] to be maintained after the completion of the design and construction of a project until the maturity date of the loan, in accordance with Article 10 of the loan facility agreement.

4. Property, plant and equipment:

| | <u>30 June 2005</u> <u>(REVIEWED)</u> | <u>30 June 2004</u> <u>(REVIEWED)</u> | <u>31 December 2004</u> <u>(AUDITED)</u> |
|------------------------|--|--|---|
| Opening net book value | 4,583,415 | 4,367,645 | 4,363,015 |
| Additions | 258,988 | 214,760 | 702,986 |
| Disposal | (208) | (4,041) | (9,667) |
| Depreciation | <u>(261,395)</u> | <u>(205,532)</u> | <u>(472,919)</u> |
| Closing net book value | <u>4,580,800</u> | <u>4,372,832</u> | <u>4,583,415</u> |

INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005
(Amounts in table expressed in thousands of Qatari Riyals)

5. **Term loans**

The table below summarises the Company's consolidated loans profile:

| | <i>Interest</i> | <i>Due date</i> | <u>30 June,</u> <u>2005</u> <u>(REVIEWED)</u> | <u>30 June,</u> <u>2004</u> <u>(REVIEWED)</u> | <u>31 December,</u> <u>2004</u> <u>(AUDITED)</u> |
|-----------------|-----------------------------|------------------------|--|--|---|
| Term loan 1 | Libor plus 0.40% - 0.55% | 2005 | 247,418 | 247,418 | 247,418 |
| Term loan 2 | Libor plus 0.75% | 2005 | 54,623 | - | - |
| Term loan 3 | Libor plus 0.40% - 0.55% | 2005 | 72,830 | - | - |
| Term loan 4 | Libor plus 0.9% | 2005 – 2009 | 32,584 | 58,446 | 39,049 |
| Term loan 5 | Libor plus 0.75% | 2005 – 2011 | 414,468 | 469,615 | 442,479 |
| Term loan 6 | Libor plus 0.40% | 2005 | 109,245 | - | - |
| Term loan 7 | Libor plus 0.75% | 2004 | - | 54,623 | - |
| Syndicated loan | Libor plus 0.75% | 2005 – 2010 | <u>655,200</u> | <u>1,092,000</u> | <u>873,600</u> |
| Total | | | <u>1,586,368</u> | <u>1,922,102</u> | <u>1,602,546</u> |

The loans are repayable as follows:

| | | | |
|-----------------|------------------|------------------|------------------|
| Within one year | 988,888 | 124,381 | 398,333 |
| Years 2 to 5 | 517,054 | 247,418 | 1,085,458 |
| Over 5 years | <u>80,426</u> | <u>1,550,303</u> | <u>118,755</u> |
| Total | <u>1,586,368</u> | <u>1,922,102</u> | <u>1,602,546</u> |

INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005
(Amounts in table expressed in thousands of Qatari Riyals)

6. **Related Party transactions:**

These represent transactions with related parties, i.e. shareholders, directors and senior management of the group companies, and the companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the company's management.

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

| | <u>30 June</u> <u>2005</u> <u>(REVIEWED)</u> | <u>30 June</u> <u>2004</u> <u>(REVIEWED)</u> | <u>31 December</u> <u>2004</u> <u>(AUDITED)</u> |
|--------------|---|---|--|
| Sales | 1,382,258 | 719,986 | 2,234,430 |
| Other income | 31,045 | 11,967 | 80,785 |
| Purchases | 395,234 | 277,094 | 639,337 |
| Expenses | 42,145 | 39,588 | 157,479 |

Due from related parties:

| | <u>30 June</u> <u>2005</u> <u>(REVIEWED)</u> | <u>30 June</u> <u>2004</u> <u>(REVIEWED)</u> | <u>31 December</u> <u>2004</u> <u>(AUDITED)</u> |
|----------------------------------|---|---|--|
| International Octane Limited | 2,490 | 8,554 | 163 |
| Yara International ASA | 148,653 | - | 244,589 |
| LCY Investment Corporation | 12,005 | 4,786 | 9,632 |
| Chinese Petroleum Corporation | - | 12,786 | - |
| Qatar Petroleum | 40,260 | 88,494 | 70,782 |
| Qatar Vinyl Company | 30,204 | 25,191 | 70,644 |
| Qatar Chemical Company Ltd | 522 | 394 | 178 |
| Norsk Hydro ASA and subsidiaries | - | 93,115 | - |
| Total Petrochemicals | 137,450 | - | 139,422 |
| Qatar Metal Coating Company | - | - | 18,662 |
| Atofina | - | 64,231 | - |
| | <u>371,584</u> | <u>297,551</u> | <u>554,072</u> |

INDUSTRIES QATAR Q.S.C.
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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005
(Amounts in table expressed in thousands of Qatari Riyals)

6 **Related Party transactions: continued**

Due to related parties:

| | <u>30 June</u> <u>2005</u> <u>(REVIEWED)</u> | <u>30 June</u> <u>2004</u> <u>(REVIEWED)</u> | <u>31 December</u> <u>2004</u> <u>(AUDITED)</u> |
|----------------------------------|---|---|--|
| Chinese Petroleum Corporation | - | 24 | - |
| Qatar Petroleum | 127,964 | 49,514 | 180,368 |
| Qatex | - | 7,652 | - |
| Oryx GTL Ltd | - | 5,868 | - |
| Norsk Hydro ASA and subsidiaries | - | 11,270 | - |
| Atofina | - | 5,891 | - |
| Yara International ASA | 22,078 | - | 14,240 |
| Qatar Vinyl Company | 247 | - | 20,574 |
| Total Petrochemicals | 7,768 | - | 7,088 |
| Qatar Plastic Products Company | - | - | 771 |
| QAFAC II | 18,157 | - | 5,961 |
| Qatar Chemical Company | 19,174 | - | 21,310 |
| International Octane Ltd. | - | - | 16 |
| | <u>195,388</u> | <u>80,219</u> | <u>250,328</u> |

7. **Legal Reserve:**

IQ was formed in accordance with Article 68 of Qatar Companies Commercial Law No. 5 of 2002, which stipulates that the company is exempted from the provisions of the said law.

Since the Articles of Association of the company does not provide for legal reserve, the legal reserve detailed on the face of the balance sheet represents the total of the subsidiary and share of one of the joint venture companies, included for consolidation purposes.

8. **Segmental Reporting:**

Products

| | <u>Petrochemical</u> <u>(REVIEWED)</u> | <u>Fertilisers</u> <u>(REVIEWED)</u> | <u>Steel</u> <u>(REVIEWED)</u> | <u>Total</u> <u>(REVIEWED)</u> |
|-------------|---|---|---|---|
| Sales | 1,221,165 | 991,605 | 828,663 | 3,041,433 |
| Expenses | 539,960 | 426,610 | 499,399 | 1,465,969 |
| Assets | 3,902,852 | 3,207,355 | 2,814,112 | 9,924,319 |
| Liabilities | 660,005 | 903,063 | 811,155 | 2,374,223 |

10. **Comparative Figures:**

Certain of the prior period's amounts have been reclassified in order to conform with the current period's presentation.