صناعات قطر

INDUSTRIES QATAR

ANNUAL REPORT 2016

بِسْمِ اللَّهِ الرَّحْمَٰنِ الرَّحِيمِ

صنـــاعـــات قـطـر
Industries Qatar

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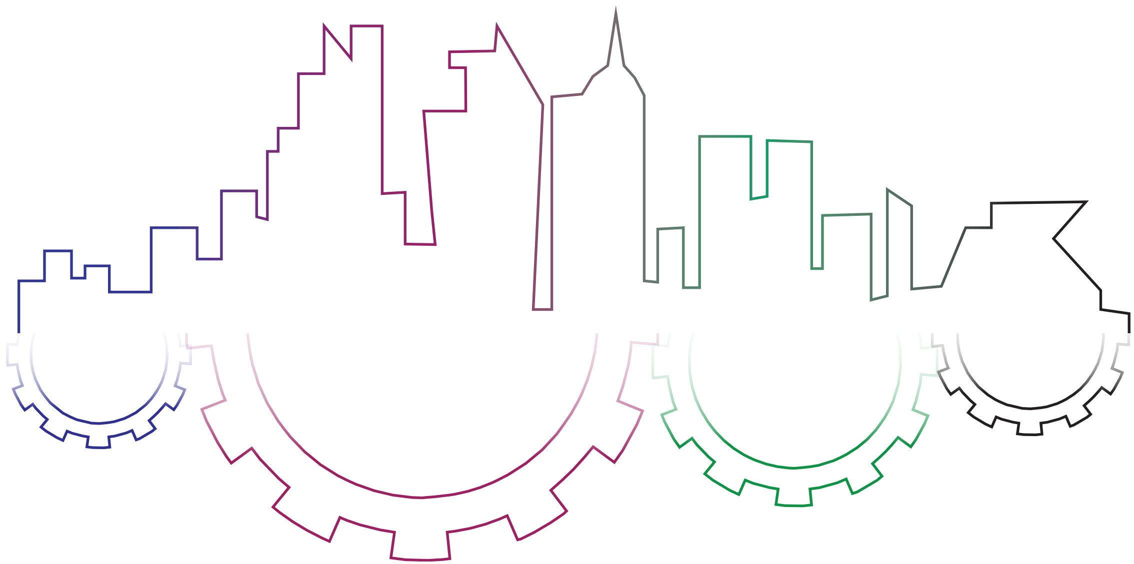

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His Highness
Sheikh Tamim bin Hamad Al-Thani
The Emir of the State of Qatar

His Highness
Sheikh Hamad bin Khalifa Al-Thani
The Father Emir

ABOUT INDUSTRIES QATAR

About Industries Qatar Q.S.C.

Industries Qatar Q.S.C. was incorporated as a Qatari joint stock company on April 19, 2003. The registered office is located at P.O. Box 3212, Doha, State of Qatar. Through the group companies, IQ operates in 3 distinct segments: petrochemicals, fertilisers and steel.

With effect from November 4, 2012 a wholly owned company of the government of the State of Qatar, Qatar Chemical and Petrochemical Marketing and Distribution Company Q.J.S.C. (trading as "Muntajat"), assumed the exclusive rights to purchase, market, distribute and sell the State of Qatar's production of chemical and petrochemical regulated products to the global market. Accordingly, Industries Qatar's activities related to the marketing, distribution and selling of all of the group's products, with the exception of the group's steel products, were migrated to Muntajat.

Head Office Functions & Management Structure

Qatar Petroleum, the largest shareholder, provides all of the head office functions for IQ through a comprehensive services agreement. The operations of the subsidiary and joint ventures remain independently managed by their respective Boards of Directors and senior management teams.

PETROCHEMICALS

Qatar Petrochemical Company Limited Q.S.P.C. ("QAPCO")

Incorporated in 1974 as a joint venture, the company is currently owned by IQ (80%) and Total Petrochemicals (France) (20%). QAPCO has two joint ventures, Qatofin Company Limited Q.S.C., and Qatar Vinyl Company Limited Q.S.C., and an associate, Qatar Plastic Products Company W.L.L.

QAPCO together with its joint venture entities is engaged in the production of poly-olefins, poly-ethylene and chlor-alkali products.

The current group share of QAPCO's normalized production and saleable capacities[1] of's key products are:

Product	Production ('000)	Sales ('000)
Ethylene	995	112
LDPE	648	648
LLDPE	288	288

Key Products

Ethylene

Ethylene is used as a feedstock for a wide range of petrochemicals. A significant portion is used by QAPCO and Qatofin for the production of low density polyethylene (LDPE) and linear low density polyethylene (LLDPE), with the remainder sold to QVC for the production of a range of chlor-alkali products.

Low Density Polyethylene (LDPE), Linear Low Density Polyethylene (LLDPE)
LDPE and LLDPE are thermoplastics produced from the feed monomer ethylene through the process of polymerization. Various grades of LDPE and LLDPE are produced which are suitable for a wide range of thermoplastics processing techniques with applications such as films, pipes, cables and wires and other moulded products.

Sulphur
High quality sulphur is generated as a by-product from the ethylene production process which is sold domestically, and subsequently exported by the domestic buyer .

Pyrolysis Gasoline
The limited quantities of pyrolysis gasoline produced by QAPCO are used by a local company as a feedstock.

Mixed LPG, C3 / C4
The minimal quantities of mixed LPG generated are supplied to the local NGL plants to produce propane and butane.

Qatar Fuel Additives Company Limited Q.S.P.C. (“QAFAC”)
Incorporated in 1991 as a joint venture, the company is currently owned by IQ (50%), OPIC Middle East Corporation (20%), International Octane L.L.C (15%) and LCY Middle East Corporation (15%).

QAFAC is engaged in the production of methanol and Methyl-Tertiary-Butyl-Ether (MTBE).

The current group share of QAFAC’s normalized production and saleable capacities of key products are:

Product	Production (‘000)	Sales (‘000)
Methanol	500	390
MTBE	305	305

Key Products

Methanol
A significant portion of Methanol produced is used as a feedstock to produce methyl-tertiary-butyl-ether (MTBE), with the remainder sold. Within the petrochemical industry, methanol is used as a raw material for the manufacturing of solvents, formaldehyde, methyl-halide, acetic acid, ethyl-alcohol, acetic anhydride, DME and MTBE.

Methyl-Tertiary-Butyl-Ether (MTBE)
MTBE is used as a gasoline additive that provides clean burning fuel to reduce the tail gas pollution generated by motor vehicles, whilst eliminating the need for tetra-ethyl-lead blending.

FERTILISER

Qatar Fertiliser Company Q.S.C.C. (“Qafco”)

Incorporated in 1969 as a joint venture, the company is currently owned by IQ (75%), and Yara Netherland B.V. (25%). Qafco has two subsidiaries, namely Gulf Formaldehyde Company S.A.Q. and Qatar Melamine Company Q.S.C.C.

Qafco together with its subsidiaries is engaged in the production of ammonia, urea, melamine and formaldehyde condensates. IQ’s share of Qafco’s normalized production and saleable capacities (in MT’000) of key products are:

Product	Production MT’000 /PA	Sales MT’000 /PA
Ammonia	2,705	376
Urea	4,251	4,251
Melamine	27	27
UFC	32	4

Key Products

Ammonia

A significant portion of the ammonia produced by Qafco is used internally as a feedstock for urea production. The remainder which is sold is commonly used as a feedstock for urea and ammonium phosphate production.

Urea

The majority of the urea produced by Qafco is in either the prilled or granular form. More than 90% of world (for Qafco, it is around 96%) industrial production of urea is used as a nitrogen-release fertiliser to increase crop yield.

Urea Formaldehyde Condensate (UFC-85)

UFC-85 is an anti-caking agent which is added to urea products to improve their strength. The majority of UFC-85 produced is used in Qafco’s urea plants.

Melamine

The principal use of melamine is in the construction industry. Melamine is used in the production of high-pressure laminates which is used for a number of construction related activities. Melamine is also used in the production of kitchen utensils and plates.

STEEL

Qatar Steel Company Q.S.C.

Originally incorporated in 1974, Qatar Steel is fully-owned by IQ and has several investments in the steel industry including, three subsidiaries, Qatar Steel Company FZE, Qatar Steel Industrial Investment Company S.P.C., and Qatar Steel Rebar Fabrication Facility S.P.C., and three associates, Foulath Holding B.S.C., Qatar Metals Coating Company W.L.L and SOLB Steel Company.

Qatar Steel is engaged in the production of intermediary steel products such as DRI / HBI and Billets and final steel products such as Rebar and Coil

IQ's share of Qatar Steel's normalized production and saleable capacities (in MT'000) of key products are:

Product	Production	Sales
	MT'000 /PA	MT'000 /PA
DRI / HBI	2,350	Nil
Billets	2,568	Nil
Rebar	1,800	1,800
Coils	240	240

Key Products

Hot Briquetted Iron (HBI) and Direct Reduced Iron (DRI)

A significant portion of the HBI and DRI produced are used internally for the production of intermediate products, with the balance is sold. The main markets for HBI / DRI include the Middle East, India, and the Far East.

Steel Billets

Most of the steel billets produced are converted into steel re-bars by Qatar Steel, with the remainder exported to countries in the Gulf region.

Re-bars

Hot rolled deformed steel reinforced bars ("re-bars") are used extensively in the construction industry. The majority of the production is marketed in Qatar, with the remainder exported to neighbouring countries in the Gulf region.

Steel Coils

Re-bars in coils and wire rod in coils are used extensively in the construction industry as refabricated re-bars, binding wires, welded wire mesh and in the pre-cast industry. Wire rod in coil is also used in downstream industries for various applications such as nails, hangers, screws, wire nets, fencing, armour, cable, and barbed wire. The majority of production is marketed in Qatar and the UAE.

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[1]Production and saleable capacities are subject to change due to capacity improvements, and internal consumptions of intermediate products

Our Marketing Agency:
QATAR CHEMICAL AND PETROCHEMICAL
MARKETING AND DISTRIBUTION COMPANY (MUNTAJAT)
Qatar’s gateway to the exports of
chemicals, petrochemicals, fuel additive and fertiliser products

About Muntajat

Muntajat, (Qatar Chemical and Petrochemical Marketing and Distribution Company) Q.J.S.C. is a state-owned company established in 2012 to serve as the gateway to Qatar's exports of over 11 million metric tons per year of chemicals and petrochemicals products. With a global marketing network of 17 offices around the world, a diversified portfolio of high quality Polymers, Chemicals and Fertilisers products from renowned producers in the industry and a network of storage facilities that service customers in more than 120 countries, the Company is rapidly driving the growth of the State of Qatar's downstream industry, contributing to the diversification of the economy and expanding the reach of its "Made in Qatar" trusted brand globally.

Building on more than 40 years of excellence and experience by Qatar's producing entities, Muntajat's marketing and sales strategy brings together the learnings and winning techniques acquired over these years to guarantee world class customer service and maximize value for its stakeholders by capturing new opportunities, capitalising on Qatar's unique competitive advantages, and economies of scale.

The company is expanding its international reach through our global network, Muntajat B.V., established in 2013 and headquartered in The Hague, Netherlands. Our multinational team, acknowledge experts in the markets in which they operate, are committed to continuously monitoring local conditions and trends to better serve customers' requirements and future needs.

Muntajat's operational strength emanates from its ability to cut lead-times, decentralize distribution and leverage economies of scale. Intensely committed to Health, Safety, Security, and the Environment, the Company was granted the Responsible Care RC 14001 and ISO 14001 certification and is actively adopting initiatives to further minimise its environmental footprint, and ensure business continuity.

Within four years of operation, Muntajat has rapidly accumulated a number of key milestones on its extraordinary journey towards recognition today as a global leader within the chemical and petrochemical industry. The Company's business development and key partnering strategy combined with a strong commitment to excellence in customer service will continue to deliver successful expansion of its global market share.

To know more about Muntajat, please visit www.muntajat.qa.

BOARD OF DIRECTORS

BOARD OF DIRECTORS

Through their extensive knowledge of the international petrochemical, fertiliser and steel industries and experience gained through cross directorships and senior operational positions, the Board of Directors has the expertise necessary to build on the successes of the past and maintain IQ as one of the pre-eminent blue chip companies in the GCC region.

Eng. Saad Sherida Al-Kaabi
Chairman and Managing Director

Mr. Mohammed Nasser Al-Hajri
Vice Chairman

Mr. Abdulaziz Mohammed Al-Mannai
Member

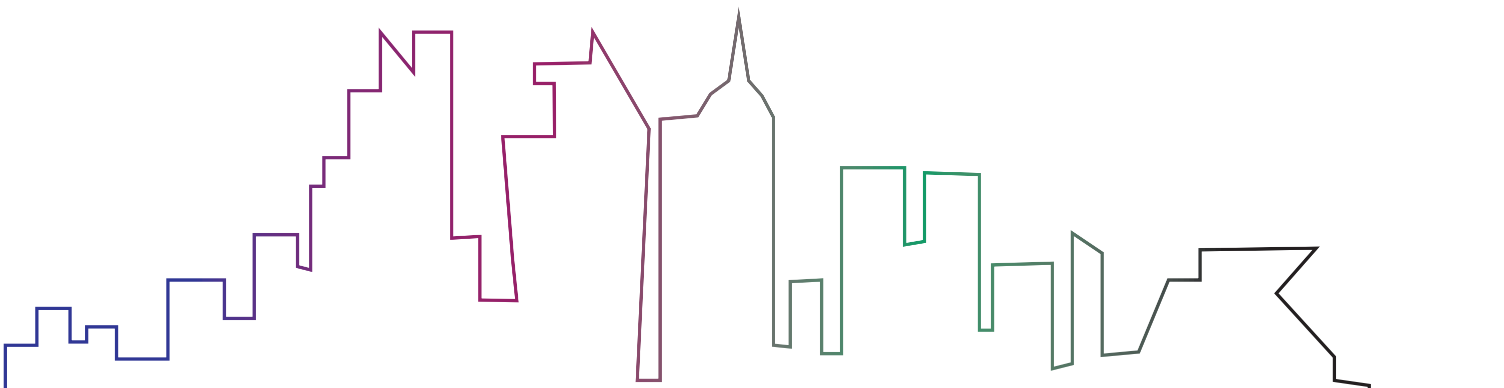
Dr. Mohammed Yousef Al-Mulla
Member

Mr. Ali Hassan Al-Muraikhi
Member

Mr. Nasser Jeham Al-Kuwari
Member

Mr. Abdulrahman Al-Suwaidi
Member

CHAIRMAN'S MESSAGE



Eng. Saad Sherida Al-Kaabi

Chairman and Managing Director

Introduction

I am honoured to welcome all of you to the 14th Annual General Assembly Meeting of Industries Qatar, one of the region's industrial giants and one of the largest and most successful listed entities in the State of Qatar. 2016 started on a cautionary note with oil prices reaching below $ 30 per barrel and created a number of uncertainties for energy companies across the globe. While this was extremely challenging, the group was nevertheless able to record solid operational and financial performance by broadly maintaining our production, facility utilization, and sales volumes at 2015 levels while reducing our operating expenses reasonably and using our operating and liquid assets more efficiently.

I congratulate my fellow Board members and the senior management of all of the group companies on the commendable financial and operational performance of the group in a period during which group segments faced unprecedented challenges. Nevertheless, group companies have excelled in all areas of the value chain and maintained a strong financial position.

Operational and Financial Results

The group was able to maintain stable production and sales volumes in line with 2015 levels, which was considered to be one of the best years in terms of our operations. The production facilities were also operated efficiently. On the other hand, product prices were materially impacted due to reasons beyond our control which had a notable impact on the group's financial performance in 2016.The petrochemical segment was impacted notably due to severe drop in the crude oil prices while the fertilizer segment was affected largely due to increased supply and general economic downturn in many countries. The steel segment was also somewhat affected due to muted demand in the region following a general cut on infra-structure development spending together with falling raw material costs which has resulted in an increase in the overall steel supply.

Despite all of these challenges, we were able to post a plausible net profit of QR 3.0 billion, equivalent to an EPS of QR 4.9, thereby significantly exceeding the group's 2016 budget by ~58%. This notable performance was driven by the more efficient use of group's operating assets base, continuous focus on optimization, implementation of sound operating strategies by the group's management, and the marketing support of Muntajat who has the exclusive marketing and distribution rights for group's petrochemicals and fertiliser products. The group's financial position continues to improve with cash and bank balances across all group companies reaching a record QR 11.3 billion[1], re-emphasizing the group's robust financial position, and reaffirming the group's ability to generate positive cash flows even during tougher economic times. The group's was also able to reduce its total debt to QR 2.9 billion[2] across all companies demonstrating our strong liquidity position which is essential to withstand the effects of a challenging macro-economic environment. This strong financial position has lead the group to have positive debt metrics including low financial gearing, negative net debt and positive net cash flows, and a very strong liquidity position.

Competitive Advantages

IQ is well positioned as a large diversified conglomerate holding in the global markets due to a number of competitive advantages it possess strategically, operationally and financially. These competitive advantages are driven by a strong liquidity position, a younger, efficient and well maintained asset base, a qualified and highly trained workforce, assured supply of feedstock and competitively priced energy contracts, a dedicated state owned marketing firm "Muntajat" to market the group's petrochemicals and fertilizer products, and most importantly a well experienced senior management team. These competitive advantages are not only helping us to mitigate the threats enforced by the depressed economic conditions, but also keep us well ahead of the competition, and boost the confidence of external bodies such as credit rating agencies, lending institutions and investors.

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[1] Refers to group's share of cash and short-term deposits in all joint ventures, subsidiary and the parent.

[2] Refers to group's share of long-term and short-term debts in all joint ventures, subsidiary and the parent.

Update on Cost and Operational Optimization

The group was also able to improve its operating costs by more than 5% in 2016 following the successful implementation of the cost optimization initiatives. These improvements were achieved via a number of different efforts including access to raw materials and other services with competitive prices, rationalization of operations, and increasing efficiency and effectiveness in many facets of the business. Since the implementation of the cost and operational optimization program in late 2014, the group was able to realize an improvement of ~QR 0.6 billion through actual cost savings and efficiency improvements. The group will continue to benefit from the ongoing cost optimization program to achieve further savings.

Capital Expenditure and Business Development

The group will continue to focus on essential investments which will enhance reliability, efficiency, competitiveness and quality of the operating asset base. We will also selectively invest in other capital investment projects, which we believe will increase our competitive position, and add value to our shareholders. We will keep our shareholders informed of any such material capital investments in a timely manner.

Proposed Dividend Distribution

Realizing the State's vision of sharing part of the wealth generated in the oil and gas segment with the citizens, the Board of Directors has supported, and continues to support, a rational and prudent dividend payout practice that balances the needs and aspirations of shareholders while maintaining adequate liquidity within the group for actual and potential investment requirements, debt obligations and unexpected adverse trading conditions.

From the group's incorporation in 2003 to-date, the group has distributed a total dividend of QR 41.9 billion or QR 75.5 per share, with an average payout ratio of approximately 61%. Moreover, 10% bonus shares were issued on two previous occasions. The historical payout ratio of above 60% is a clear evidence of the Board's intention of paying an adequate dividend to the shareholders.

In line with the above objectives, and taking the current and expected short to medium term economic environment into consideration, together with the requirements for any potential future investments, the Board of Directors proposes a total annual dividend distribution for the year ended December 31, 2016 of QR 2.4 billion, equivalent to a payout of QR 4.0 per share.

Conclusion

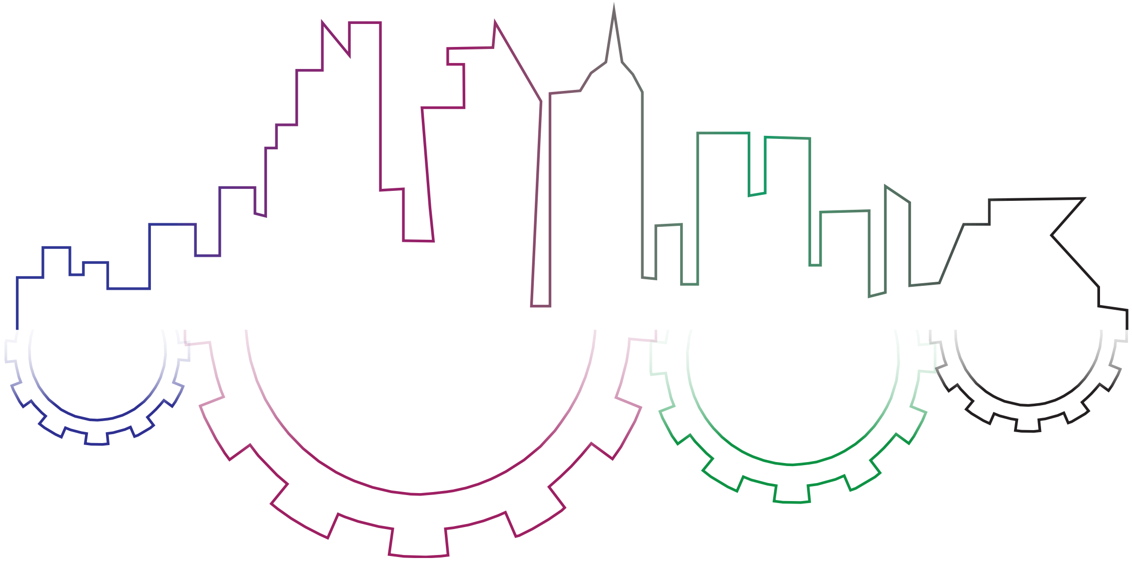
The current uncertain business and economic environment will provided greater opportunities than challenges to the group, and I am confident that my fellow Board members will look at these challenges positively, work towards the realization of the strategic targets, and support me in ensuring Industries Qatar remains as one of leading conglomerates in the region. I hope that the recent rebound in the crude oil prices will benefit the group companies to perform well in current year.

In conclusion, I would like to express my gratitude to His Highness the Emir, Sheikh Tamim bin Hamad Al-Thani, for his vision and wise leadership, and the members of the Board of Directors, senior management and dedicated staff of our group companies for the valuable guidance and support.

Saad Sherida Al-Kaabi

Chairman of the Board of Directors

BOARD OF DIRECTORS' REPORT



The Board of Directors is pleased to present this 14th annual report on the financial and operational performance of Industries Qatar, the State of Qatar's premier blue chip group and one of the Middle East's largest and profitable listed companies.

Financial Results

The reported results are considered highly commendable considering the tough macro-economic and competitive environment in which the group was operating under during 2016. The year started on a cautionary note with oil prices falling below U$ 30 per barrel and presented many challenges to the group in 2016.

The low oil price environment had a direct and a significant impact on the group's petrochemical segment[1] as prices remained very low in the early part of 2016. The lower oil prices presented greater opportunities for the non-natural gas based petrochemicals producers (e.g. naphtha based producers) to be more competitive and posed even significant challenges for the gas based petrochemical producers like us.

Whilst the low oil price environment presented a lot of challenges for the petrochemical segment, the fertilizer segment faced with other significant issues. The prices of the group's fertilizer products came under severe pressure due to the current and expected level of elevated supply, weaker global demand, currency issues, and reached to a record low during the early second half of the year. These prices have somewhat recovered in the latter part of the year due to gradual rising of costs for some producers, and slight improvement in the overall demand in some economies.

The steel segment on the other hand had a set of different challenges. Spend cuts, delays, and cancellation of major government and infrastructure projects in the region have resulted in lower steel demand. In addition, steel supply in 2016 has expanded due to lower production costs arising from the decline in material costs exerted further pressure on the steel prices. However, the segment was able to improve its operating costs significantly, and thereby neutralizing the adverse impacts arose from lower demand.

Nevertheless, the group's financial and operating results significantly exceeded the budgeted expectations with stable production and sales volumes and improved operating costs. .

Revenue

Reported revenue for the year ended December 31, 2016 was QR 4.7 billion, a moderate decrease of QR 0.6 billion, or ~11%, over the previous year; on a like-for-like basis, management reporting revenue[2] was QR 13.8 billion, a year-on-year decrease of QR 2.2 billion, or ~14%.

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[1] Petrochemical segment includes a polyethylene entity (QAPCO) and a fuel additive entity Qafac

[2] Refers to the share of revenue in group's direct and indirect joint ventures and subsidiary.

Petrochemical Segment[3]

The petrochemical segment closed the year with revenue of QR 5.6 billion, a year-on-year decrease of QR 0.3 billion, or ~6%. The prices of key petrochemical products, particularly LDPE, LLDPE and MTBE were moderately down year-on-year, due to their close correlation to crude oil prices. Sales volumes, however, remained relatively flat on last year. The benefits gained from higher polyethylene sales were almost offset by the reduction in the sales volumes of the fuel additives products.

Fertilizer Segment

The fertilizer segment closed the financial year with revenue of QR 3.6 billion, a year-on-year reduction of QR 1.3 billion, or ~27%. The reduction was entirely driven by a considerable decrease in the fertilizer product prices. Fertilizer prices were down by ~26% in 2016 due to a number of reasons, which were outside the group's control. Production and sales volumes, on the other hand, remained relatively unchanged compared to the previous year with facilities operating close to their capacity.

Steel Segment

The steel segment reported a revenue of QR 4.7 billion for the year ended December 31, 2016, a moderate year-on-year decrease of QR 0.6 billion, or ~11%. This reduction was primarily driven by a reduction the selling prices and a marginal reduction in the sales volumes. Steel selling prices were under substantial pressure due to weak demand on account of muted capital expenditure programs in its key markets and lower raw material prices. Sales volumes were marginally down due to the reduction in the sale of some intermediate products.

Profits and Margins

EBITDA[4] reported for the year ended December 31, 2016 was QR 3.2 billion, a year-on-year decrease of QR 1.5 billion, or ~32%. The adverse year-on-year variance was a result of a fall in the group's revenue due to a price deflation across all segments, most notably in the fertilizer and fuel additives segments, and a number of other non-recurring one-off expenses primarily relating the impairment of ~QR 0.4 billion at the fertiliser joint venture. The impact was partially offset by a moderate decrease in key operating costs following the rigorous on-going cost optimization initiatives.

Net profit for the current year was QR 3.0 billion, a decrease of QR 1.5 billion, or ~34%, against 2015, with the adverse year-on-year changes attributable to the same reasons as the EBITDA variance.

Financial Position and Cash Flows

Total assets reported as at 31 December 2016 was QR 35.2 billion, a modest decrease of QR 0.6 billion or 1.6% on last year. This decrease was primarily driven by the decrease in the non-current assets in particular the Investment in Joint Ventures / Associates and reduction in the current assets due to the lower inventory and receivables. Cash and bank balances have however increased to QR 8.1 billion a year-on-year improvement of QR 1.1 billion. This increase was primarily driven by a solid investment cash inflows on account of dividends received from the group companies, improved working capital and reduced capital expenditure, despite the payment of 2015

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[3] Petrochemical segment's revenue is computed by taking the group share of revenue in Qapco and Qafac. Qapco's revenue is computed by taking the share of revenue in its joint ventures namely Qatofin, QVC and QPPC. This revenue may defer from the revenues reported under the note 28\1 (Segmental Reporting) of financial statements. Group share of revenue reported for the petrochemical segment under note 28\1 of the financial statement is QR 4.0 billion.

[4] EBITDA = Net Profit + Depreciation + Finance Charges

Strategy and Future Plans

Given the current uncertain economic environment, the group will continue to focus on essential investments that will enhance reliability, efficiency, competitiveness and quality of the operating asset base. We will also selectively invest in other capital investment projects, which we believe will increase our competitive position, and add value to our esteemed shareholders. In addition, our efforts on optimization will continue until the group achieves its full potential.

Update on Cost and Operational Optimization

The group continued its focus on improving its operating costs while maintaining the quality and HSE to the highest possible standards through the realization of synergies within all functions of the business. During the year, the group reassessed the overall business operations including CAPEX, OPEX, and human capital requirements and steps were taken to realize further optimization. The ultimate objective of this initiative is to reduce the cost of overall operations so that the group continues to be more efficient and competitive in the global market space. This will also aid the group to be in line with the broader objectives of the parent company, and the State of Qatar. These efforts have resulted in the improvement of many operating areas and an overall cost savings in excess of 5% in 2016.These efforts will be continued in the coming years as well in order to achieve the full potential of the group and to become a lean world class organization.

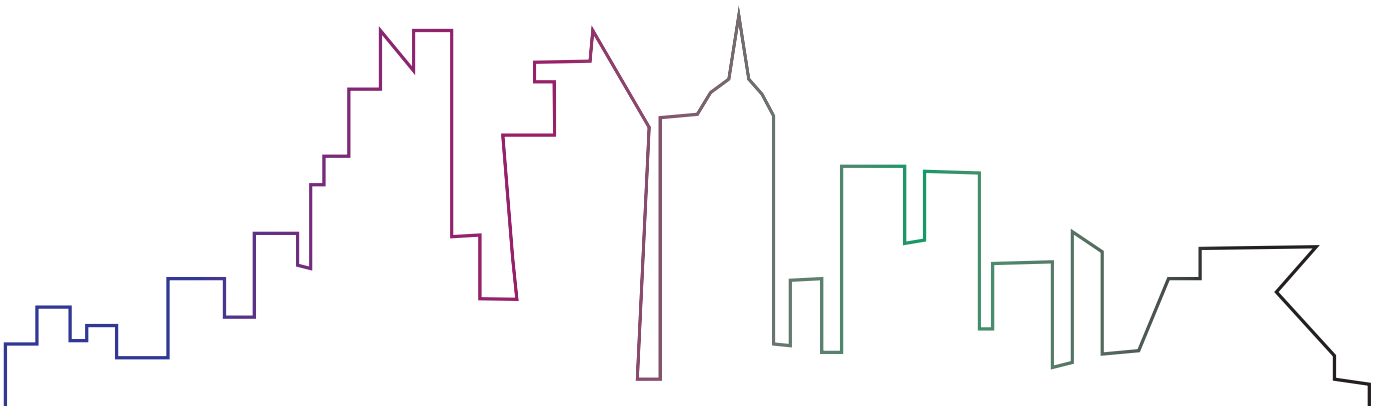
Proposed Dividend Distribution

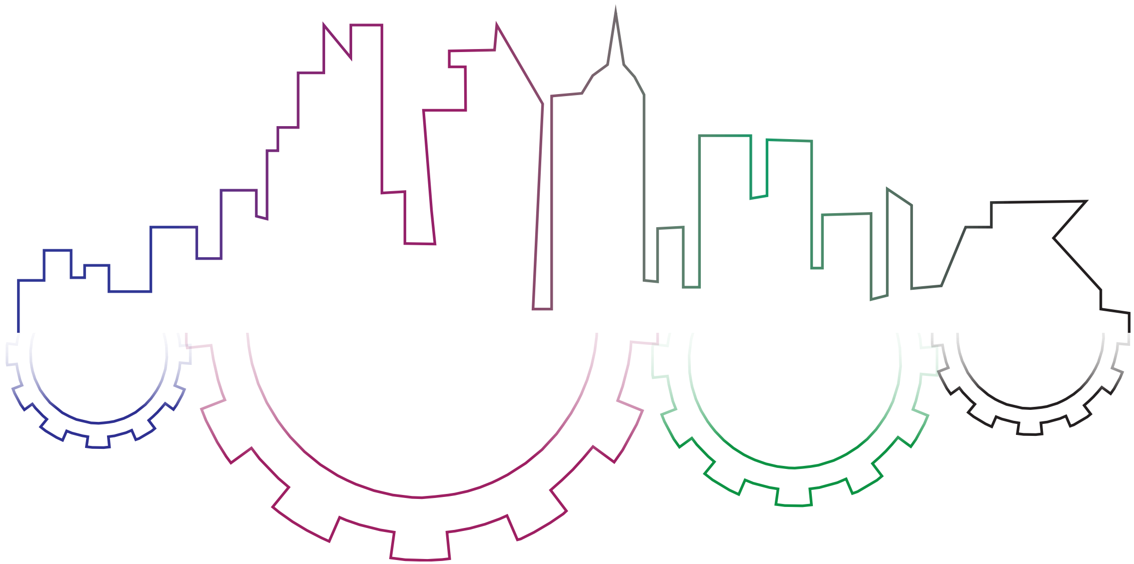
The Board of Directors propose a total annual dividend distribution for the year ended December 31, 2016 of QR 2.4 billion, equivalent to a payout of QR 4.0 per share and representing a payout ratio of 82%.

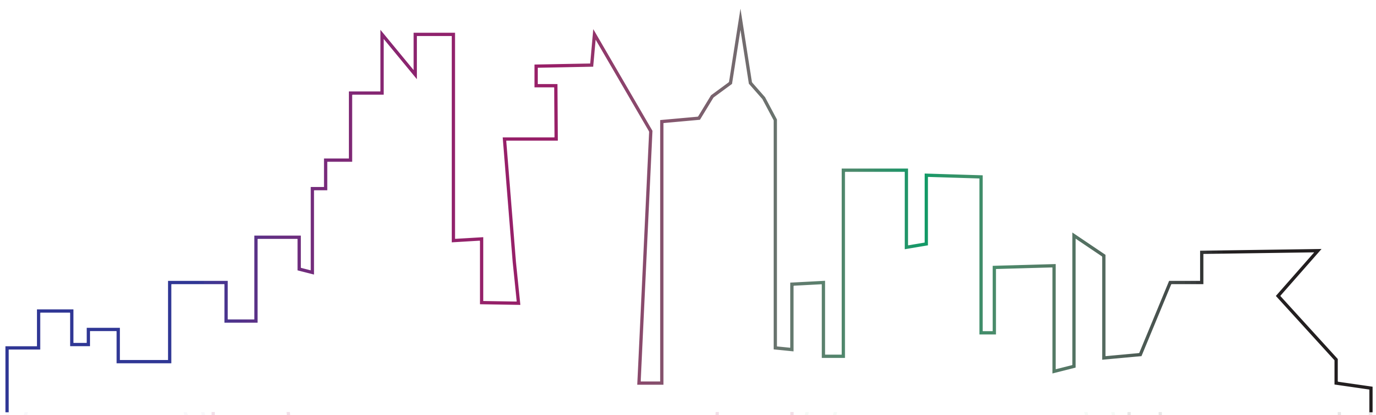
Conclusion

The Board of Directors expresses its gratitude to His Highness, Sheikh Tamim bin Hamad Al-Thani, the Emir of the State of Qatar, for his wise guidance and strategic vision. Our gratitude is also extended to the Chairman of the Board of Directors, Engineer Saad Sherida Al-Kaabi, for his vision and leadership, and to the senior management of the group companies for their hard work, commitment and dedication.

INDEPENDENT AUDITOR'S REPORT







INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF INDUSTRIES QATAR Q.S.C.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Industries Qatar Q.S.C. and its subsidiaries (together 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 (IFRSs).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Qatar. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key audit matters	The areas of focus for our audit, which involved the greatest allocation of our resources and effort, were: • Employee benefits obligations • Impairment of investment in associates and joint ventures

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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 period. 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.

Key audit matter	How our audit addressed the Key audit matter
Employee benefits obligations	
As disclosed in note 31, the Group has restated its financial statements to recognise pension obligations in relation to certain employees retired before 2003. The obligation relates to two joint ventures that are accounted for using the equity method, where the Group share in the overall adjustment is QR 247m at the beginning of 2016. Note 31 to the consolidated financial statements discuss further the background to the restatement.	To evaluate the accounting treatments applied by the Group and to test the accuracy of management's restatement of the prior year's comparative information, we undertook the following procedures: • We obtained an understanding of the different benefit schemes available to employees of the Group and assessed whether the Group's accounting policies had been applied consistently to each of them, and whether techniques applied to calculate obligations at the

Key audit matter	How our audit addressed the Key audit matter
The Group operates different employee benefit plans, some of which are contribution benefit plans where the Group obligations are limited to payments made to an independent entity. Other plans constitute defined benefit plans including pension payments to retired employees and their heirs and end of service indemnity. Late in 2016, Qatar Petroleum (QP), the parent, introduced a new defined benefit plan where Qatari employees receive, in addition to social insurance payments, an additional end of service indemnity when they complete 20 years of service within the wider group of QP. Further details of employee benefit plans are given in note 2.15, 3.2 and 17. Under IAS 19 'Employee Benefits', the measurement of post-employment benefits and pension obligations requires estimates relating to expected future payments and the application of actuarial assumptions in connection of salary growth rates, staff turnover, and use of an appropriate discount rate. The assumptions used, and the sensitivities to their changes, are disclosed in note 17.1. The Group appointed an independent actuary to develop an estimate of the end of service and pension obligations. We were appointed as auditors of the Group for the year ended 31 December 2016 in February 2016. While planning our audit, we identified certain areas of increased risk with respect to the determination of employee benefit obligations by the different entities of the Group and the consistency of application of the Group's accounting policies in relation to the recognition and measurement of pension obligations by Group companies. We focused on this area given the materiality of the accounting error, which led to restatement of previous year amounts. We assessed that the use of significant judgments, notably concerning the discount and inflation rates, in addition to the introduction of new benefit plan towards end of year, would increase the risk that inappropriate measurement of employee benefits may occur at year-end.	year-end were appropriate. This covered key subsidiaries, associates and joint ventures. • We discussed the critical assumptions used by the Group with management and the Board Audit Committee (BAC) and compared them with historical information when they are based on experience or market information where relevant. • Where significant, we obtained reports of independent actuary used by management to develop more reliable estimate of pension obligations in relation to employees retired before 2003 and end of service liabilities for one major subsidiary of the Group. We assessed the independence and professional qualifications of the actuaries used. • We used our internal actuarial specialists to assess the reasonableness of the key actuarial assumptions (discount rate, inflation rates, and mortality assumptions) adopted by the independent actuary for the valuation of pension and end of service benefit obligations. They compared the assumptions used to their experience in equivalent industries. • We utilised simple internal models to assess the reasonableness of end of service obligations where no actuary was appointed by the Group. • Reviewed the disclosures made in the financial statements to assess adequacy of disclosures. • We also assessed whether the accounting treatment of the restatement and its related disclosures were in accordance with the

Key audit matter	How our audit addressed the Key audit matter
	requirements of IAS 8 ‘Accounting policies, accounting estimates and errors’.
Impairment of investments in associates and joint ventures	
The Group’s investment in associates and joint ventures amounted to QR 1.5 billion and QR 18.3 billion, respectively, totalling QR 19.8 billion at 31 December 2016, representing 56% of total Group assets at that date. These investments are accounted for using the equity method, because of the Group’s significant influence over, or joint control of, these entities that comes from its shareholdings (note 2.2.4). The Group assesses at each reporting date whether there is any objective evidence that an investment accounted for using the equity method is impaired. The decrease in sale prices in the market, reduced profitability and increasing cost pressures were considered to be possible indicators that an impairment may exist. Therefore, according to IFRS and the Group’s accounting policies, an impairment review of certain investments in associates and joint ventures was performed by management using a value in use model to estimate the investments’ values assuming the investments continue to be held rather than sold. When deemed necessary, management performed a further impairment review at the level of subsidiaries, associates, and joint venture entities indirectly held by the Group through its associates and joint ventures.	We obtained management’s impairment model and discussed the critical assumptions used by them with the Board Audit Committee (BAC). The discussion focussed on the growth rates used to estimate future cash flows and the discount rates used. Additional level of discussion was made when estimated cash flows were not based on Board approved business plans or the plans are not very recent. These are difficult to substantiate and require management to form a view on future growth in the steel, petrochemicals, and fertilisers segments of activities, and the Qatar, Bahrain and the Kingdom of Saudi Arabia markets where the Group mainly operates. • Our internal valuation experts reviewed the appropriateness of the model and the inputs selected to calculate the value in use. They independently recalculated the discount rates applied to the cash flows in the model based on their assessment of the Group’s specific financing and capital costs.

Based on the impairment review, the Group recognised a loss of QR 389 million, being its share in impairment losses recognised for assets of one joint venture at 31 December 2016.

The many assumptions used in the model to estimate future profits attributable to the Group are derived from a combination of analysts' forecasts and management's best estimates and are highly judgemental. Refer to Note 3 for more details about critical accounting estimates and assumptions used.

We focused on this area because of the materiality of investments in associates and joint ventures, and an impairment, if it exists, could have a material impact on the financial statements. We also focused on this area due to the significant judgments involved in performing the impairment test as set out above.

- We tested the inputs used in the determination of the assumptions for the calculation of the value in use to third-party sources, where available, including external data from analysts' reports.
- The mathematical accuracy of the model was tested.
- Disclosures in the financial statements made in relation to impairment testing were reviewed.

Other matter - prior period financial statements audited by predecessor auditor

The Group's financial statements for the year ended 31 December 2015 were audited by another firm of auditors whose report dated 4 February 2016 expressed an unqualified opinion on those financial statements.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report. The other information also comprises the Group's complete Annual Report, which we expect to be 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 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.

When we read the complete Annual of the Group's report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial reporting Standards and with the requirements of Qatar Commercial Companies law number 11 of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 those charged with governance, 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Qatar Commercial Companies law number 11 of 2015, we report that:

- We have obtained all the information we considered necessary for the purposes of our audit;

- The Group has maintained proper books of account and the consolidated financial statements are in agreement therewith;

- The Group has carried out physical count of inventory in accordance with observed principles;

- The financial information included in the Board of Directors' report is in agreement with the books and records of the Group; and

- Nothing has come to our attention, which causes us to believe that the Group has breached any of the applicable provisions of the Qatar Commercial Companies law number 11 of 2015, or of its Articles of Association, which would materially affect the reported results of its operations or its financial position as of 31 December 2016.

For and on behalf of PricewaterhouseCoopers- Qatar branch

Mohamed Elmoataz

Auditor's registration number 281

Doha, Qatar

2 February 2017

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2016

All amounts are expressed in thousands of Qatari Riyals unless otherwise stated

	Year ended 31 December 2016	2015 Restated
Revenues	**4,674,300**	5,227,558
Cost of sales	**(3,529,365)**	(4,120,372)
Gross profit	**1,144,935**	1,107,186
General and administrative expenses	**(230,625)**	(174,948)
Selling expenses	**(38,658)**	(56,602)
Impairment of available-for-sale financial assets	**-**	(50,793)
Impairment of investment properties	**-**	(194,811)
Other income	**101,119**	87,082
Income from investments	**226,355**	130,986
Finance cost	**(13,135)**	(21,871)
Share of results of joint ventures	**1,716,339**	3,720,718
Share of results of associates	**48,660**	(78,293)
Total profit for the year	**2,954,990**	4,468,654
Earnings per share		
Basic and diluted earnings per share (QR per share)	**4.88**	7.39

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2016

All amounts are expressed in thousands of Qatari Riyals unless otherwise stated

	Year ended 31 December	
	2016	**2015 Restated**
Profit for the year	**2,954,990**	4,468,654
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Available for sale financial assets		
Net movement in cumulative changes in fair value	**2,539**	(180,654)
Net amount of impairment transferred to profit or loss	**-**	50,793
	2,539	(129,861)
Cash flow hedges		
Share of other comprehensive income of joint venture accounted for using the equity method	**66,164**	71,280
Share of other comprehensive income of associates	**11,488**	-
	77,652	71,280
Other comprehensive income/ (loss) for the year	**80,191**	(58,581)
Total comprehensive income for the year	**3,035,181**	4,410,073

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended December 31, 2016

All amounts are expressed in thousands of Qatari Riyals unless otherwise stated

	31 December 2016	31 December 2015 Restated	31 December 2014 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	**3,670,978**	3,828,156	3,893,565
Investment properties	**-**	3,553	198,364
Investment in associates	**1,451,409**	1,396,261	1,478,554
Investment in joint ventures	**18,342,580**	19,557,130	20,489,115
Available-for-sale investments	**674,295**	682,694	863,348
	24,139,262	25,467,794	26,922,946
Current assets			
Inventories	**1,243,570**	1,435,720	2,143,430
Trade and other receivables	**1,727,900**	1,831,442	1,220,490
Fixed deposits	**6,973,371**	5,925,814	4,711,200
Financial asset carried at fair value	**3,585**	3,585	3,585
Cash and cash equivalents	**1,098,144**	1,095,279	1,481,127
	11,046,570	10,291,840	9,559,832
Total assets	**35,185,832**	35,759,634	36,482,778
EQUITY AND LIABILITIES			
EQUITY			
Share capital	**6,050,000**	6,050,000	6,050,000
Legal reserve	**74,999**	74,999	74,999
Fair value reserve	**373,346**	370,807	500,668
Hedging reserve	**(54,142)**	(131,794)	(203,074)
Retained earnings	**27,069,762**	27,211,529	27,089,287
Total equity	**33,513,965**	33,575,541	33,511,880

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

For the year ended December 31, 2016

All amounts are expressed in thousands of Qatari Riyals unless otherwise stated

	31 December 2016	31 December 2015 Restated	31 December 2014 Restated
LIABILITIES			
Non-current liabilities			
Borrowings	**225,758**	676,328	451,802
Employee benefit obligations	**214,983**	207,470	143,402
	440,741	883,798	595,204
Current liabilities			
Borrowings	**450,571**	450,571	1,210,664
Trade and other payables	**780,555**	849,724	1,110,407
Other financial liabilities	**-**	-	54,623
	1,231,126	1,300,295	2,375,694
Total liabilities	**1,671,867**	2,184,093	2,970,898
Total equity and liabilities	**35,185,832**	35,759,634	36,482,778

These consolidated financial statements were approved by the Board of Directors and signed on their behalf on 2 February 2017 by:

Saad Sherida Al Kaabi
Chairman and Managing Director

Mohammed Nasser Al Hajri
Vice Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2016

All amounts are expressed in thousands of Qatari Riyals unless otherwise stated

	Year ended 31 December	
	2016	**2015**
Cash flows from operating activities		
Profit for the year	**2,954,990**	4,468,654
Adjustments for:		
Depreciation and amortisation	**225,353**	211,955
Employees' end of service benefits – net	**7,513**	13,825
Share of results from joint ventures	**(1,716,339)**	(3,720,718)
Share of results from associates	**(48,660)**	78,293
Loss on disposal of property, plant and equipment	**15,832**	6,052
Dividend received on available-for-sale investments	**(25,521)**	(29,255)
Finance costs	**13,135**	21,871
Interest income	**(200,834)**	(101,731)
Impairment of investment properties	**-**	194,811
Impairment of property, plant and equipment	**64,594**	-
Gain on disposal of investment in joint venture	**-**	(1,455)
Loss on disposal of available-for-sale financial assets	**8,207**	50,793
	1,298,270	1,193,095
Changes in working capital		
Inventories	**192,150**	707,710
Trade and other receivable	**26,851**	10,971
Trade and other payable	**(19,121)**	(220,146)
Cash generated from operations	**1,498,150**	1,691,630
Finance charges paid	**(13,135)**	(21,871)
Social fund contribution	**(111,412)**	(151,949)
Net cash flows generated from operating activities	**1,373,603**	1,517,810

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31, 2016

All amounts are expressed in thousands of Qatari Riyals unless otherwise stated

	Year ended 31 December	
	2016	**2015**
Cash flows from investing activities		
Proceeds from disposals of property, plant and equipment	**2,380**	1,674
Additions to property, plant and equipment and catalysts	**(150,981)**	(154,272)
Dividend received from associates	**5,000**	4,000
Proceeds from disposal of available-for-sale investments	**2,729**	-
Dividend received on available-for-sale investments	**25,521**	29,255
Disposal of interest in joint venture	**-**	5,000
Dividends received from joint ventures	**3,086,811**	4,148,758
Movement in fixed deposits	**(1,047,557)**	(1,214,614)
Interest income received	**191,317**	101,731
Net cash flows generated from investing activities	**2,115,220**	2,921,532
Cash flows from financing activities		
Repayment of borrowings	**(450,570)**	(1,941,901)
Proceeds from borrowings	**-**	1,351,711
Dividends paid to equity holders	**(3,030,194)**	(4,238,348)
Net cash flows used in financing activities	**(3,480,764)**	(4,828,538)
Net increase/ (decrease) in cash and cash equivalents	**8,059**	(389,196)
Cash and cash equivalents at beginning of year	**956,264**	1,345,460
Cash and cash equivalents at end of year	**964,323**	956,264

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

All amounts are expressed in thousands of Qatari Riyals unless otherwise stated

	Share capital	Legal reserve	Fair value reserve	Hedging reserve	Retained earnings (Restated)	Total
Balance at 1 January 2015 (as previously stated)	6,050,000	74,999	500,668	(203,074)	27,162,033	33,584,626
Prior year adjustment					(72,746)	(72,746)
Restated balance at 1 January 2015	6,050,000	74,999	500,668	(203,074)	27,089,287	33,511,880
Profit for the year	-	-	-	-	4,468,654	4,468,654
Other comprehensive loss for the year	-	-	(129,861)	71,280	-	(58,581)
Total comprehensive income for the year	-	-	(129,861)	71,280	4,468,654	4,410,073
Dividends declared for 2014	-	-	-	-	(4,235,000)	(4,235,000)
Social fund contribution	-	-	-	-	(111,412)	(111,412)
Balance at 31 December 2015	6,050,000	74,999	370,807	(131,794)	27,211,529	33,575,541

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended December 31, 2016

All amounts are expressed in thousands of Qatari Riyals unless otherwise stated

	Share capital	Legal reserve	Fair value reserve	Hedging reserve	Retained earnings (Restated)	Total
Balance at 1 January 2016 (as previously reported)	**6,050,000**	**74,999**	**370,807**	**(131,794)**	**27,260,592**	**33,624,604**
Prior year adjustments	-	-	-	-	(49,063)	(49,063)
Restated balance at 1 January 2016	**6,050,000**	**74,999**	**370,807**	**(131,794)**	**27,211,529**	**33,575,541**
Profit for the year	-	-	-	-	2,954,990	2,954,990
Other comprehensive income for the year	-	-	2,539	77,652	-	80,191
Total comprehensive income for the year	**-**	**-**	**2,539**	**77,652**	**2,954,990**	**3,035,181**
Dividends declared for 2015	-	-	-	-	(3,025,000)	(3,025,000)
Social fund contribution	-	-	-	-	(71,757)	(71,757)
Balance at 31 December 2016	**6,050,000**	**74,999**	**373,346**	**(54,142)**	**27,069,762**	**33,513,965**

The notes to the consolidated financial statements are integral part of the consolidated financial statements. For more information, please visit IQ's website : www.iq.com.qa