

**Industries Qatar Q.S.C.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2012**

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

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Industries Qatar Q.S.C. (the "Company") and its subsidiaries and jointly controlled entities (together referred as the "Group") which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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


### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS  
OF INDUSTRIES QATAR Q.S.C. (CONTINUED)**

**Report on legal and other requirements**

Furthermore, in our opinion, proper books of account have been kept by the Company, an inventory count has been conducted in accordance with established principles, and the financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association. We have obtained all the information and explanations we required for the purpose of our audit, and are not aware of any violations of the above mentioned law or the Articles of Association having occurred during the year which might have had a material effect on the business of the Company or its financial position. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Company.

  
Ziad Nader  
of Ernst & Young \* محاسبون قانونيون \*  
Auditor's Registration No. 258  
المهنة

Date: 21 February 2013  
Doha



# Industries Qatar Q.S.C.

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2012

	<i>Notes</i>	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Revenues	3	18,698,305	16,549,447
Direct costs		<u>(8,813,722)</u>	<u>(7,654,194)</u>
<b>GROSS PROFIT</b>		<b>9,884,583</b>	8,895,253
Other income, net	4	239,837	228,345
Income from investments	5	121,718	102,255
General and administrative expenses	6	(895,999)	(668,756)
Selling expenses		(276,402)	(218,214)
Finance costs		(271,229)	(156,428)
Impairment loss on investment in an associate	15	(150,000)	-
Share of results of associates	15	(139,633)	5,998
Other expenses	7	(100,364)	(246,580)
Impairment of available-for-sale investments		(2,180)	(9,010)
Loss on liquidation of investment in joint venture	29	<u>-</u>	<u>(8,793)</u>
<b>PROFIT FOR THE YEAR</b>	9	<b><u>8,410,331</u></b>	<b><u>7,924,070</u></b>
<b>Attributable to:</b>			
Equity holders of the parent		8,440,908	7,930,831
Non-controlling interest		<u>(30,577)</u>	<u>(6,761)</u>
		<b><u>8,410,331</u></b>	<b><u>7,924,070</u></b>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	10	<b><u>15.35</u></b>	<b><u>14.42</u></b>
(Expressed as QR per share)			

The attached notes 1 to 38 form part of these consolidated financial statements.

Industries Qatar Q.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	<i>Notes</i>	<i>2012 QR'000</i>	<i>2011 QR'000</i>
<b>Profit for the year</b>		<b><u>8,410,331</u></b>	<b><u>7,924,070</u></b>
<b>Other comprehensive income</b>			
Net movement in fair value of cash flow hedges	37	<b>29,826</b>	(123,891)
Net movement in fair value of available-for-sale investments	37	<b><u>(34,819)</u></b>	<b><u>(1,561)</u></b>
<b>Other comprehensive loss for the year</b>		<b><u>(4,993)</u></b>	<b><u>(125,452)</u></b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b><u>8,405,338</u></b>	<b><u>7,798,618</u></b>
<b>Attributable to:</b>			
Equity holders of the parent		<b>8,435,915</b>	7,805,379
Non-controlling interest		<b><u>(30,577)</u></b>	<b><u>(6,761)</u></b>
		<b><u>8,405,338</u></b>	<b><u>7,798,618</u></b>

The attached notes 1 to 38 form part of these consolidated financial statements.

Industries Qatar Q.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	<i>Notes</i>	<i>2012 QR'000</i>	<i>2011 QR'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	22,317,930	9,589,230
Projects under development	12	-	11,905,716
Investment properties	13	148,032	133,229
Intangible assets	14	162,973	169,250
Investment in associates	15	1,465,515	1,742,821
Available-for-sale investments	16	641,441	674,924
Catalysts		89,444	106,886
Other non-current assets		<u>2,818</u>	<u>2,509</u>
		<u>24,828,153</u>	<u>24,324,565</u>
<b>Current assets</b>			
Inventories	17	2,295,002	2,230,641
Accounts receivable and prepayments	18	3,016,135	2,665,175
Due from related parties	27	984,046	593,734
Held-for-trading investments	19	7,154	4,141
Bank balances and cash	20	<u>9,080,209</u>	<u>6,960,094</u>
		<u>15,382,546</u>	<u>12,453,785</u>
<b>TOTAL ASSETS</b>		<u><b>40,210,699</b></u>	<u><b>36,778,350</b></u>

The attached notes 1 to 38 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2012

	Notes	2012 QR'000	2011 QR'000
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital	21	5,500,000	5,500,000
Legal reserve	22	292,117	276,791
Cumulative changes in fair value		279,892	314,711
Hedging reserve		(559,576)	(589,402)
Retained earnings		24,821,978	20,734,623
<b>Equity attributable to the parent</b>		<b>30,334,411</b>	<b>26,236,723</b>
Non-controlling interest		361,783	394,610
<b>Total equity</b>		<b>30,696,194</b>	<b>26,631,333</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	24	3,952,534	5,535,140
Employees' end of service benefits	25	240,733	219,877
Other financial liabilities	28	421,935	455,962
		4,615,202	6,210,979
<b>Current liabilities</b>			
Accounts payable and accruals	26	1,885,135	1,384,261
Due to related parties	27	979,900	1,109,232
Other financial liabilities	28	111,384	115,215
Interest bearing loans and borrowings	24	1,922,884	1,327,330
		4,899,303	3,936,038
<b>Total liabilities</b>		<b>9,514,505</b>	<b>10,147,017</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>40,210,699</b>	<b>36,778,350</b>



Dr. Mohammed Bin Saleh Al-Sada  
Minister of Energy and Industry  
Chairman and Managing Director



Hamad Rashid Al-Mohannadi  
Vice Chairman

# Industries Qatar Q.S.C.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 QR'000	2011 QR'000
<b>OPERATING ACTIVITIES</b>			
Profit for the year		8,410,331	7,924,070
Adjustments for:			
Depreciation and amortisation		1,091,206	673,511
Provision for employees' end of service benefits	25	62,125	62,871
Provision/write off for obsolete and slow moving inventories		5,379	2,766
Loss on disposal of joint venture		-	8,793
(Gain)/loss on revaluation of investment properties	4	(14,803)	2,961
Share of results from associates	15	139,633	(5,998)
Loss on disposal of property, plant and equipment		28,571	23,308
Write-off of assets		-	85,157
Finance costs		271,229	156,428
(Gain)/loss from change in fair value of held-for-trading securities	4	(1,523)	499
Interest income	5	(103,221)	(80,849)
Impairment of investment in an associate		150,000	-
Impairment of available-for-sale investments		2,180	9,010
Amortisation of intangible assets – license		6,277	1,585
		<b>10,047,384</b>	<b>8,864,112</b>
Working capital changes:			
Inventories		(69,740)	(397,360)
Accounts receivable and prepayments and due from related parties		(741,272)	(521,538)
Accounts payable and accruals and due to related parties		343,155	430,376
Cash from operations		<b>9,579,527</b>	<b>8,375,590</b>
Finance costs		(271,229)	(156,428)
Employees' end of service benefits paid	25	(41,269)	(44,153)
Contribution to social and sports fund		(196,490)	(133,877)
Net cash from operating activities		<b>9,070,539</b>	<b>8,041,132</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposals of property, plant and equipment		327	4,178
Additions to property, plant and equipment and projects under development		(1,919,535)	(2,866,132)
Net movement in catalysts and other non-current assets		(6,243)	(4,001)
Increase in ownership/capital contribution in associates		(13,577)	(336,484)
Investment in held-for-trading securities		(1,490)	(9,718)
Net movement in available-for-sale investments		(3,516)	(39,494)
Proceeds from disposal of investments		-	154,842
Movement in intangible assets		-	(43,228)
Movement in other non-current assets		(309)	(389)
Dividends received from associates		5,000	5,000
Net movement in deposits maturing after 90 days		163,295	(204,000)
Interest income received		103,221	80,849
Net cash used in investing activities		<b>(1,672,827)</b>	<b>(3,258,577)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of interest bearing loans and borrowings		(1,385,782)	(679,623)
Proceeds from interest bearing loans and borrowings		398,730	-
Non-controlling interest additional contribution		-	390,000
Dividends paid		(4,125,000)	(3,025,000)
Dividends paid to non-controlling interests		(2,250)	(2,250)
Net cash used in financing activities		<b>(5,114,302)</b>	<b>(3,316,873)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>2,283,410</b>	<b>1,465,682</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>6,756,094</b>	<b>5,290,412</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	20	<b>9,039,504</b>	<b>6,756,094</b>

The attached notes 1 to 38 form part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	<i>Attributable to the equity holders of the parent</i>						<i>Non-controlling interest</i>	<i>Total</i>
	<i>Share capital</i>	<i>Legal reserve</i>	<i>Cumulative changes in fair value</i>	<i>Hedging reserve</i>	<i>Retained earnings</i>	<i>Total</i>		
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
Balance at 1 January 2012	5,500,000	276,791	314,711	(589,402)	20,734,623	26,236,723	394,610	26,631,333
Profit (loss) for the year	-	-	-	-	8,440,908	8,440,908	(30,577)	8,410,331
Other comprehensive (loss) income for the year	-	-	(34,819)	29,826	-	(4,993)	-	(4,993)
Total comprehensive income for the year	-	-	(34,819)	29,826	8,440,908	8,435,915	(30,577)	8,405,338
Transfer to legal reserve	-	15,326	-	-	(15,326)	-	-	-
Dividends paid	-	-	-	-	(4,125,000)	(4,125,000)	-	(4,125,000)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(2,250)	(2,250)
Appropriation for contribution to social and sports fund (Note 8 and Note 26)	-	-	-	-	(213,227)	(213,227)	-	(213,227)
<b>Balance at 31 December 2012</b>	<b>5,500,000</b>	<b>292,117</b>	<b>279,892</b>	<b>(559,576)</b>	<b>24,821,978</b>	<b>30,334,411</b>	<b>361,783</b>	<b>30,696,194</b>

The attached notes 1 to 38 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2012

	<i>Attributable to the equity holders of the parent</i>						<i>Non-controlling interest</i> QR'000	<i>Total</i> QR'000
	<i>Share capital</i> QR'000	<i>Legal reserve</i> QR'000	<i>Cumulative changes in fair value</i> QR'000	<i>Hedging reserve</i> QR'000	<i>Retained earnings</i> QR'000	<i>Total</i> QR'000		
Balance at 1 January 2011	5,500,000	202,392	315,152	(465,511)	16,098,799	21,650,832	13,621	21,664,453
Profit (loss) for the year	-	-	-	-	7,930,831	7,930,831	(6,761)	7,924,070
Other comprehensive loss for the year	-	-	(1,561)	(123,891)	-	(125,452)	-	(125,452)
Total comprehensive income for the year	-	-	(1,561)	(123,891)	7,930,831	7,805,379	(6,761)	7,798,618
Capital contribution	-	-	-	-	-	-	390,000	390,000
Transfer to legal reserve	-	74,492	-	-	(74,492)	-	-	-
Dividends paid	-	-	-	-	(3,025,000)	(3,025,000)	-	(3,025,000)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(2,250)	(2,250)
Appropriation for contribution to social and sports fund (Note 8 and Note 26)	-	-	-	-	(196,490)	(196,490)	-	(196,490)
Liquidation of investment in joint venture (Note 29)	-	(93)	1,120	-	975	2,002	-	2,002
Balance at 31 December 2011	5,500,000	276,791	314,711	(589,402)	20,734,623	26,236,723	394,610	26,631,333

The attached notes 1 to 38 form part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**1 CORPORATE INFORMATION**

Industries Qatar Q.S.C. (the “Company” or “IQ”) is a public 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’s shares are listed on the Qatar Exchange (QE). The Company’s registered office is situated in Doha, State of Qatar.

IQ, its subsidiaries and jointly controlled entities (together “the Group”) operates in the State of Qatar and in the Jebel Ali Free Zone in the United Arab Emirates.

The main activity of IQ is to act as a holding company. The structure of the Group, included in these consolidated financial statements are as follows:

<i>Entity Name</i>	<i>Country of incorporation</i>	<i>Relationship</i>	<i>Ownership interest</i>	
			<i>2012</i>	<i>2011</i>
Qatar Steel Company Q.S.C.	Qatar	Subsidiary	100%	100%
Qatar Petrochemical Company (QAPCO) Q.S.C.	Qatar	Joint venture	80%	80%
Qatar Fertiliser Company Q.S.C.C.	Qatar	Joint venture	75%	75%
Qatar Fuel Additives Company Limited Q.S.C.C.	Qatar	Joint venture	50%	50%
Fereej Real Estate Company Q.S.C. (Note 29)	Qatar	Joint venture	-	34%

- **Qatar Steel Company Q.S.C. (“QATAR STEEL”)**, is a Qatari Shareholding Company incorporated in the State of Qatar and 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 STEEL** incorporated Qatar Steel Company FZE, a fully owned subsidiary with limited liability on 22 July 2003, pursuant to Dubai Law No. 9 of 1992 and implementing the regulations of the Jebel Ali Free Zone Authority.

- **Qatar Petrochemical Company (QAPCO) Q.S.C. (“QAPCO”)**, a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ (80%) and Total Petrochemicals (France) (TPF) (20%). QAPCO is engaged in the production and sale of ethylene, polyethylene, hexane and other petrochemical products.

**Qatofin Company Limited (Q.S.C.) (“QATOFIN”)**, a Qatari Shareholding Company incorporated in the State of Qatar in August 2005, is a joint venture between QAPCO (63%), TPF 36% and Qatar Petroleum (QP)1%. Qatofin is engaged in the production of linear low-density polyethylene (LLDPE).

Qatofin also owns 45.69% interest in Ras Laffan Olefins Company (RLOC), a joint venture between Q-Chem II, Qatofin and QP. Ras Laffan Olefins Company is involved in the production of ethylene.

**Qatar Vinyl Company Limited (Q.S.C.) (“QVC”)** is registered in the State of Qatar as a Qatari Shareholding Company and is engaged in the production of caustics soda, ethylene dichloride and vinyl chloride monomer. QAPCO owns 31.9% of Qatar Vinyl Company Limited (Q.S.C.).

**Qatar Plastic Products Company W.L.L. (“QPPC”)** is registered as a limited liability company in the State of Qatar and is engaged in the manufacturing of plastic heavy-duty bags, sheet and industrial products. QAPCO owns 33.33% of the shareholding in Qatar Plastic Products Company W.L.L.

- **Qatar Fertiliser Company (Q.S.C.C.) (“QAFCO”)**, a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ (75%) and Yara Netherland BV (25%). QAFCO is engaged in the production and sale of ammonia and urea.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**1 CORPORATE INFORMATION (continued)**

- **QAFCO** has ownership interest in Gulf Formaldehyde Company (S.A.Q.) ("GFC"), a Qatari Shareholding Company incorporated in the State of Qatar on 3 March 2003. QAFCO holds 70% of the share capital of this subsidiary.

**QAFCO** has ownership interest in Qatar Melamine Company (Q.S.C.C.) ("Qatar Melamine"), a Qatari Shareholding Company incorporated in the State of Qatar on 6 March 2011. QAFCO holds 60% of the share capital of this subsidiary. Qatar Melamine is engaged in the production and sale of Melamine.

- **Qatar Fuel Additives Company Limited Q.S.C. ("QAFAC")**, a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ (50%), OPIC Middle East Corporation (20%), International Octane Limited (15%) and 15% by LCY Middle East Corporation, a body corporate formed under the laws of the British Virgins Islands. QAFAC is engaged in the production and export of methyl-tertiary-butyl-ether (MTBE) and methanol.
- **Fereej Real Estate Company Q.S.C. ("Fereej")**, a Qatari Shareholding Company incorporated in the State of Qatar in July 2008, is a joint venture between IQ (34%), Al Koot Insurance and Reinsurance Company Q.S.C. (33%), and by Qatar Real Estate Investment Company Q.S.C. (33%). The Company is engaged in real estate investment, properties management and property rental. On 17 August 2011, the Joint Venture's Board of Directors have resolved and approved the voluntary dissolution of the Company. Please refer to Note 29 for additional disclosures.

The consolidated financial statements of the Group for the year ended 31 December 2012 were authorised for issue by Chairman and the Vice Chairman on 21 February 2013.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES**

**2.1 Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments, available-for-sale and held-for-trading financial assets that have been measured at fair value. The consolidated financial statements are presented in Qatari Riyals and all values are rounded to the nearest thousand (QR'000) except when otherwise indicated.

**2.2 Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable requirements of Qatar Commercial Companies' Law No. 5 of 2002.

**2.3 Basis of consolidation**

The consolidated financial statements comprise the financial statements of Industries Qatar Q.S.C. and its subsidiaries and jointly controlled entities as at 31 December 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Jointly controlled entities are proportionately consolidated from the date of acquisition, being the date in which the Group obtains joint control, and continue to be proportionately consolidated until the date that such joint control ceases.

The financial statements of the subsidiaries and jointly controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.3 Basis of consolidation (continued)**

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

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

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

Non-controlling interests represent the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

**2.4 Changes in accounting policies and disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments effective for the annual period beginning on or after 1 January 2012 but were not relevant to the Group's operations:

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters
- IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

**Standards, amendments and interpretations issued but not yet effective**

The standards and interpretations that are not yet effective up to the date of issuance of the Group's consolidated financial statements which are relevant to the Group are listed below:

- IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1* (Effective 1 July 2012)
- IAS 19 *Employee Benefits* (Revised) (Effective 1 January 2013)
- IFRS 9 *Financial Instruments: Classification and Measurement* (Effective 1 January 2015)
- IFRS 13 *Fair Value Measurement* (Effective 1 January 2013)
- IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* (Effective 1 January 2013)
- IFRS 11 *Joint Arrangements* (Effective 1 January 2013)
- IFRS 12 *Disclosure of Interests in Other Entities* (Effective 1 January 2013)
- Annual improvements – May 2012 (Effective 1 January 2013)

The Group is currently considering the implications of these new standards, amendments and interpretations which are effective for future accounting periods and has not early adopted any new standards or amendments during the year.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.5 Significant accounting policies**

**Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

*Rental income*

Income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms.

*Interest income*

Income is recognised as interest accrues (using the effective interest method).

*Dividend income*

Dividend income is recognised, when the right to receive the dividend is established.

**Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognised as income of the period in which it becomes receivable.

**Property, plant and equipment**

Property, plant and equipment is stated at cost excluding the cost of day-to-day servicing, less accumulated depreciation and any impairment in value. Land is not depreciated.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Petrochemical plant and buildings	20 to 25 years
Fertiliser plant and buildings	3 to 20 years
Steel plant, buildings and structures	15 to 25 years
Other assets: motor vehicles, heavy mobile equipment, furniture and fixtures, and computer equipment	3 to 15 years

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written-off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated statement of income as the expense is incurred.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

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

The asset's residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.5 Significant accounting policies (continued)

#### **Capital work-in-progress**

The cost of capital work-in-progress consist of the contract value, and directly attributable costs of developing and bringing the project assets to the location and condition necessary for them to be capable of operating in the manner intended by management. The cost of capital work-in-progress will be transferred to tangible and intangible non-current asset classifications when these assets reached their working condition for their intended use. The carrying values of capital work in progress are reviewed for impairment when events or changes in circumstances indicate the carrying value may be not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable value.

#### **Projects under development**

Projects under development represent costs incurred by the Group on developing new projects. These costs will be converted to investments or property, plant and equipment, as appropriate, once the project materialises. Costs incurred on projects that do not materialise are written-off.

#### **Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

#### **Investment properties**

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of income in the year of derecognition.

Properties under development are transferred to investment properties when the property is in a condition necessary for it to be capable of operating in a manner intended by the management.

#### **Catalysts**

Catalysts acquired are measured on initial recognition at cost. Following initial recognition, catalysts are carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation period is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on catalysts is recognised in the consolidated statement of income.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.5 Significant accounting policies (continued)

#### **Investments in associates**

The Group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence.

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

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

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

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

#### **Interest in a joint venture**

The Group has interests in joint ventures which are jointly controlled entities, whereby the venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The arrangement requires unanimous agreement for financial and reporting decisions among the ventures. The Group recognises its interest in the joint venture using proportionate consolidation method. The Group combines its share of each of the assets, liabilities, income and expenses of the joint venture with similar items, line by line, in its consolidated financial statements. The financial statements of the joint venture are prepared for the same reporting period as the Group. Adjustments are made where necessary to bring the accounting policies in line with those of the Group.

Adjustments are made in the Group's consolidated financial statements to eliminate the Group's share of intragroup balances, income and expenses and unrealised gains and losses on transactions between the Group and its jointly controlled entities. Losses on transactions are recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets or an impairment loss. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the joint venture.

Upon loss of joint control the Group measures and recognises its remaining investment at its fair value. Any difference between the carrying amount of the former joint controlled entity upon loss of joint control and the fair value of the remaining investment and proceeds from disposal are recognised in profit or loss. When the remaining investment constitutes significant influence, it is accounted for as investment in an associate.



## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.5 Significant accounting policies (continued)

#### **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

#### **Financial assets**

##### *Initial recognition and measurement*

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

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

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, quoted and unquoted financial instruments, and derivative financial instruments.

##### *Subsequent measurement*

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

##### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss includes financial assets held-for-trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes held for trading investments and derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with gains or losses recognised in the consolidated statement of income.

##### *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of other categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealised gains or losses as other comprehensive income in cumulative changes in fair value reserve until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the consolidated statement of income, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the consolidated statement of income. Due to the nature of cash flows arising from Group's certain unquoted investments, the fair value of these investments cannot be reliably measured. Consequently, these investments are carried at cost less provision for any impairment losses.

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)**

**2.5 Significant accounting policies (continued)**

**Impairment of financial assets**

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

*Available-for-sale financial investments*

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

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

**Inventories**

Inventories, including work in progress, other than maintenance parts and supplies, are stated at the lower of cost and net realisable value; cost is determined on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Maintenance parts and supplies are stated at cost, less provisions for obsolescence.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

**Accounts receivable**

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred. Goods supplied but not invoiced are treated as accrued income at the price expected to be received.

**Cash and cash equivalents**

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash at bank and on hand, and short-term deposits with an original maturity of three months or less, net of funds restricted for use and outstanding bank overdrafts, if any.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.5 Significant accounting policies (continued)

#### **Derivative financial instruments and hedging**

Derivative financial instruments are contracts, the values of which are derived from one or more underlying financial instruments or indices.

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated statement of income. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is calculated by reference to the market valuation of the swap contracts.

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

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

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

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

#### *Fair value hedges*

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

#### *Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while any ineffective portion is recognised immediately in the consolidated statement of income.

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

#### **Employees' end of service benefits**

The Group provides end of service benefits to its employees in accordance with employment contracts and Qatari Labour Law. The entitlement to these benefits is based upon the employees' final salary and 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.

## 2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

### 2.5 Significant accounting policies (continued)

#### **Employees' end of service benefits (continued)**

Under Law No. 24 of 2002 on Retirement and Pensions, the Group makes a contribution to a government fund for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Company's obligations are limited to these contributions, which are expensed as due.

#### **Interest bearing loans and borrowings**

Interest bearing loan is recognised initially at fair value of the amounts borrowed, less directly attributable transaction costs. Subsequent to initial recognition, the loan is measured at amortised cost using the effective interest method. Instalments due within one year at amortised cost are shown as a current liability. The costs of raising finance applicable to amounts already drawn-down are amortised over the period of the loan using the effective yield method.

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

#### **Borrowing costs**

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

#### **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.

#### **Operating leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

#### **Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### **Derecognition of financial assets and liabilities**

##### *Financial assets*

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the Group's continuing involvement in the asset.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)****2.5 Significant accounting policies (continued)****Derecognition of financial assets and liabilities (continued)***Financial liabilities*

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

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

**Foreign currencies**

The Group's consolidated financial statements are presented in Qatari Riyals, which is the Group's functional currency. That is the currency of the primary economic environment in which the Company operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations and certain joint ventures are translated into Qatari Riyals at the rate of exchange prevailing at the reporting date and their statements of income are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. As the functional currencies of these entities are either US Dollars (US\$) or UAE Dirhams, the exchange rate differences are not considered material.

As the US Dollars and the Qatari Riyals are pegged, the assets, liabilities and results of operations have been converted at a fixed rate of QR 3.64.

**Fair values**

The fair value is the estimated amount for which asset could reasonably be exchanged for on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the buyer and seller has each acted knowledgeably, prudently and without compulsion. The fair value of the interest rate swap contracts is determined by referring to market value of similar instruments. The fair value of forward currency contract is calculated by reference to the current forward exchange rates for contracts with similar maturity profiles. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date.

**3 REVENUES**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Steel	<b>6,154,187</b>	5,760,020
Petrochemicals	<b>4,856,841</b>	4,826,651
Fertilisers	<b>5,998,738</b>	4,286,111
Fuel additives	<b>1,688,539</b>	1,676,665
	<b><u>18,698,305</u></b>	<u>16,549,447</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**4 OTHER INCOME, NET**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Gain/(loss) from change in fair value of held-for-trading securities (Note 19)	1,523	(499)
Gain on foreign exchange	9,706	10,447
Net movement in fair value of investment properties (Note 13)	14,803	(2,961)
Other income	<u>213,805</u>	<u>221,358</u>
	<u><u>239,837</u></u>	<u><u>228,345</u></u>

**5 INCOME FROM INVESTMENTS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Dividend income	18,497	21,406
Interest on bank deposits	<u>103,221</u>	<u>80,849</u>
	<u><u>121,718</u></u>	<u><u>102,255</u></u>

**6 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Staff costs	431,123	344,326
External services	88,283	65,586
Insurance, rents and fees	63,505	44,913
Public relations and gifts	44,084	27,840
Loss on breach of contract	32,729	-
Spares and equipment	28,073	30,102
Loss on disposal of property, plant and equipment	27,707	18,415
Depreciation (Note 11)	22,226	17,811
Travel and conveyance	13,668	10,484
Board of Directors' fees and expenses	12,239	6,366
Provision for obsolete and slow moving spare parts	9,286	6,406
QP annual charges	7,679	6,604
Communication expenses	6,052	4,731
Repairs and maintenance	2,432	3,487
Miscellaneous expenses	<u>106,913</u>	<u>81,685</u>
	<u><u>895,999</u></u>	<u><u>668,756</u></u>

**7 OTHER EXPENSES**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Cost of take or pay obligation	100,364	161,423
Write-off of IQ Tower design cost (Note 12)	<u>-</u>	<u>85,157</u>
	<u><u>100,364</u></u>	<u><u>246,580</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**8 CONTRIBUTION TO SOCIAL AND SPORTS FUND**

In accordance with Law No. 13 of 2008, the Group made an appropriation of profit of QR 213.2 million (2011: 196.5 million) equivalent to 2.5% of the adjusted consolidated net profit for the year for the support of sports, cultural, social and charitable activities.

**9 PROFIT FOR THE YEAR**

The profit for the year is stated after charging:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Staff costs	<u>1,323,207</u>	<u>1,055,297</u>
Depreciation on property, plant and equipment (Note 11)	<u>1,065,750</u>	<u>649,357</u>
Amortisation of catalysts and other non-current assets	<u>25,456</u>	<u>24,154</u>
Operating lease rentals	<u>88,508</u>	<u>79,725</u>
Increase/(decrease) in fair value of investment properties (Note 13)	<u>14,803</u>	<u>(2,961)</u>

**10 BASIC AND DILUTED EARNINGS PER SHARE**

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

The following reflects the income and share data used in basic and diluted earnings per share computation:

	<i>2012</i>	<i>2011</i>
Profit attributable to the equity holders of the parent for the year (QR'000)	<u>8,440,908</u>	<u>7,930,831</u>
Weighted average number of shares outstanding during the year ("in thousands")	<u>550,000</u>	<u>550,000</u>
Basis and diluted earnings per share (expressed in QR per share)	<u>15.35</u>	<u>14.42</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

## 11 PROPERTY, PLANT AND EQUIPMENT

	<i>Land and buildings QR'000</i>	<i>Plant, machinery and equipment QR'000</i>	<i>Heavy duty mobile equipment QR'000</i>	<i>Furniture, equipment and fixtures QR'000</i>	<i>Motor vehicles QR'000</i>	<i>Computer equipment QR'000</i>	<i>Capital work-in- progress QR'000</i>	<i>Total QR'000</i>
Cost:								
At 1 January 2012	2,549,919	16,309,847	142,030	59,623	19,172	97,565	792,479	19,970,635
Additions	142	109,477	522	366	540	1,256	1,218,816	1,331,119
Transfers	3,573,522	9,541,707	14,551	2,613	389	5,726	(644,376)	12,494,132
Retirement and disposals	(8)	(42,210)	(23,204)	(615)	(1,977)	(1,059)	-	(69,073)
Reclassifications	-	(1,903)	-	8	-	(8)	-	(1,903)
At 31 December 2012	<u>6,123,575</u>	<u>25,916,918</u>	<u>133,899</u>	<u>61,995</u>	<u>18,124</u>	<u>103,480</u>	<u>1,366,919</u>	<u>33,724,910</u>
Depreciation:								
At 1 January 2012	1,279,215	8,894,410	67,116	44,054	13,957	82,653	-	10,381,405
Charge for the year	182,407	857,852	11,662	3,964	1,948	7,917	-	1,065,750
Relating to disposals	(8)	(25,892)	(10,624)	(614)	-	(3,037)	-	(40,175)
Relating to reclassification	-	-	-	2	-	(2)	-	-
At 31 December 2012	<u>1,461,614</u>	<u>9,726,370</u>	<u>68,154</u>	<u>47,406</u>	<u>15,905</u>	<u>87,531</u>	<u>-</u>	<u>11,406,980</u>
Net carrying amounts:								
At 31 December 2012	<u><b>4,661,961</b></u>	<u><b>16,190,548</b></u>	<u><b>65,745</b></u>	<u><b>14,589</b></u>	<u><b>2,219</b></u>	<u><b>15,949</b></u>	<u><b>1,366,919</b></u>	<u><b>22,317,930</b></u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

## 11 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Land and buildings QR'000</i>	<i>Plant, machinery and equipment QR'000</i>	<i>Heavy duty mobile equipment QR'000</i>	<i>Furniture, equipment and fixtures QR'000</i>	<i>Motor vehicles QR'000</i>	<i>Computer equipment QR'000</i>	<i>Capital work-in- progress QR'000</i>	<i>Total QR'000</i>
Cost:								
At 1 January 2011	2,152,235	15,213,131	142,747	57,028	14,570	91,456	978,723	18,649,890
Additions	301,721	624,310	1,854	1,937	4,716	2,311	714,782	1,651,631
Transfers	96,839	531,950	5,367	658	300	4,200	(896,119)	(256,805)
Retirement and disposals	(876)	(55,123)	(7,938)	-	(414)	(402)	(4,907)	(69,660)
Reclassifications	-	(4,421)	-	-	-	-	-	(4,421)
At 31 December 2011	<u>2,549,919</u>	<u>16,309,847</u>	<u>142,030</u>	<u>59,623</u>	<u>19,172</u>	<u>97,565</u>	<u>792,479</u>	<u>19,970,635</u>
Depreciation:								
At 1 January 2011	1,205,817	8,383,668	62,109	40,500	12,584	71,130	-	9,775,808
Charge for the year	74,274	545,198	12,716	3,554	1,690	11,925	-	649,357
Relating to disposals	(876)	(32,871)	(7,709)	-	(317)	(402)	-	(42,175)
Relating to reclassification	-	(1,585)	-	-	-	-	-	(1,585)
At 31 December 2011	<u>1,279,215</u>	<u>8,894,410</u>	<u>67,116</u>	<u>44,054</u>	<u>13,957</u>	<u>82,653</u>	<u>-</u>	<u>10,381,405</u>
Net carrying amounts:								
At 31 December 2011	<u>1,270,704</u>	<u>7,415,437</u>	<u>74,914</u>	<u>15,569</u>	<u>5,215</u>	<u>14,912</u>	<u>792,479</u>	<u>9,589,230</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**11 PROPERTY, PLANT AND EQUIPMENT (continued)***Notes:*

- (i) Certain of the buildings and plants located at Messaied, are erected on land owned by Qatar Petroleum, except for the staff housing complex of a joint venture, which is constructed on land leased from the Industrial Development Technical Centre.
- (ii) Buildings of the subsidiary in Dubai, with a net book value of QR 36.7 million (2011: QR 37.4 million), are constructed on a leased land from Jebel Ali Free Zone Authority for an initial period of 15 years from August 2003.
- (iii) Depreciation charge has been allocated in the consolidated statement of income as follows:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Direct costs	1,042,864	630,886
General and administrative expenses	22,226	17,811
Selling expenses	<u>660</u>	<u>660</u>
	<u><b>1,065,750</b></u>	<u><b>649,357</b></u>

**12 PROJECTS UNDER DEVELOPMENT**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
QAFCO-5 Project	-	8,889,292
QAPCO LDPE-3 Project	-	1,556,003
QAFCO-6 Project	<u>-</u>	<u>1,460,421</u>
	<u><b>-</b></u>	<u><b>11,905,716</b></u>

*Notes:*

- (i) During the year, no borrowing costs were capitalised related to Projects under development (2011: QR 471.06 million).

**13 INVESTMENT PROPERTIES**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
<b>At fair value:</b>		
At 1 January	133,229	200,162
Disposals during the year	-	(62,412)
Other movements	-	(1,560)
Net gain / (loss) from fair value adjustments (Note 4)	<u>14,803</u>	<u>(2,961)</u>
At 31 December	<u><b>148,032</b></u>	<u><b>133,229</b></u>

The fair value of the Group's investment properties at 31 December 2012 has been arrived at on the basis of a valuation carried by an independent valuer not related to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The management believes that this approximates the fair value of investment properties as at 31 December 2012.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**14 INTANGIBLE ASSETS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Cost:		
At 1 January	<b>194,288</b>	146,890
Additions	<u>-</u>	<u>47,398</u>
At 31 December	<b>194,288</b>	194,288
Amortisation:		
At 1 January	<b>25,038</b>	18,734
Amortisation for the year	<u>6,277</u>	<u>6,304</u>
At 31 December	<b>31,315</b>	25,038
Net carrying amount at 31 December	<b>162,973</b>	169,250

Intangible assets include the following:

- The Group's share of the cost of Unipol Polyethylene License agreement for the Linear Low Density Polyethylene (LLDPE) and High Density Polyethylene (HDPE) entered into by Qatofin. These are stated at cost less amortisation and impairment losses and amortised over a period of 40 years.
- The Group's share of the project infrastructure costs incurred by QVC for the right to use jetty facilities and other infrastructure at Messaied. These are stated at cost less amortisation and impairment losses and amortised over the period of 25 years, which represents the term of the joint venture as per the shareholders' joint venture agreement.
- The Group's share of the license cost paid by Qatar Melamine for the non-exclusive license to use the technology for the production of melamine and to design, engineer, construct, operate, modify and maintain the plant facilities. Amortisation is calculated on a straight line basis over the period of 25 years.

**15 INVESTMENTS IN ASSOCIATES**

The Group has the following investments in associates:

	<i>Effective ownership</i>	<i>Country of incorporation</i>	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Qatar Metals Coating Company W.L.L. (i)	50.00%	Qatar	<b>25,950</b>	25,586
Gulf United Steel Holding Company (Foulath) BSC Closed (ii)	25.00%	Bahrain	<b>1,226,848</b>	1,510,105
SOLB Steel Company (formerly known as South Steel company W.L.L.) (iii)	31.04%	Saudi Arabia	<u>212,717</u>	<u>207,130</u>
			<b>1,465,515</b>	1,742,821

- (i) Qatar Metals Coating Company W.L.L. (Q-COAT) is involved in the production of epoxy resin coated bars. Q-COAT is managed by Qatar Steel in accordance with a management service agreement.
- (ii) Gulf United Steel Holding Company (Foulath) BSC Closed (Bahrain) is a Bahraini Closed Joint Stock Company incorporated on 26 June 2008 in the Kingdom of Bahrain.

Gulf United Steel Holding Company (Foulath) BSC Closed (Bahrain) is a holding company for a group of commercial/industrial companies, that is engaged in the manufacture and sale of iron pallets, stainless steel flat products, operate meltshop furnaces and heavy beams rolling mill and related infrastructure.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**15 INVESTMENTS IN ASSOCIATES (continued)**

During 2011, the Group made an additional investment of QR 248.9 million as a result of an increase in the capital of the associate. The additional contribution made by the Group did not have any impact on the ownership percentage.

During the current year, the Group recognized an impairment of QR 150 million relating to the investment in Gulf United Steel Company (Foulath) BSC closed.

- (iii) SOLB Steel Company is a company incorporated in the Kingdom of Saudi Arabia is currently in the development phase of a steel melt shop and bar mill.

During 2011, the Group increased its investment holding from 20.95% to 29.74% in the Company by a cash consideration of QR 87.6 million

During 2012, the Group increased its shareholding by 1.3% in SOLB Steel Company, increasing its investment holding of the Group from 29.74% to 31.04%. The cash consideration paid amounted to QR 13.6 million.

The movement in investment in associates during the year is as follows:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Balance at 1 January	1,742,821	1,406,115
Additional capital contribution in an associate	-	248,860
Share of net movement in effective portions of changes in fair value of cash flow hedges	3,750	(776)
Dividends received from associates	(5,000)	(5,000)
Share of results of associates	(139,633)	5,998
Impairment loss on investment in an associate	(150,000)	-
Increase in ownership in an associate	13,577	87,624
	<u>1,465,515</u>	<u>1,742,821</u>
Balance at 31 December	<u>1,465,515</u>	<u>1,742,821</u>

The summarised financial information in respect of the Group's share in the associates are as follows:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
<b>Share of associates' statement of financial position:</b>		
Current assets	745,088	772,221
Non-current assets	2,191,098	1,721,037
Current liabilities	(652,847)	(447,079)
Non-current liabilities	(1,423,053)	(1,051,377)
<b>Group's share of net assets of associates'</b>	<u>860,286</u>	<u>994,802</u>
<b>Share of associates' revenue and profit</b>		
Revenue	<u>1,120,540</u>	<u>1,460,787</u>
Share of result of associates'	<u>(139,633)</u>	<u>5,998</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**16 AVAILABLE- FOR- SALE INVESTMENTS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Quoted shares	<b>641,441</b>	672,744
Unquoted shares	-	2,180
	<u><b>641,441</b></u>	<u>674,924</u>

**17 INVENTORIES**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Fuel additives	<b>60,556</b>	70,771
Steel	<b>425,788</b>	387,692
Fertilisers	<b>157,852</b>	151,500
Petrochemicals	<b>40,562</b>	104,792
Work-in-progress	<b>137,187</b>	168,886
Raw materials	<b>725,488</b>	622,282
Goods in transit	<b>83,327</b>	93,008
Maintenance parts and supplies	<b>787,359</b>	748,937
	<u><b>2,418,119</b></u>	<u>2,347,868</u>
Less: Provision for obsolete and slow moving spare parts	<u><b>(123,117)</b></u>	<u>(117,227)</u>
	<u><b>2,295,002</b></u>	<u>2,230,641</u>

Movements in the provision for obsolete and slow moving spare parts were as follows:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Balance as at 1 January	<b>117,227</b>	109,454
Provided during the year	<b>14,665</b>	9,171
Write-off of inventories	<b>(8,775)</b>	(1,398)
	<u><b>123,117</b></u>	<u>117,227</u>

**18 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Trade accounts receivable	<b>2,200,084</b>	1,912,160
Other receivables and prepayments	<b>744,034</b>	692,599
Loans to employees	<b>80,139</b>	60,659
	<u><b>3,024,257</b></u>	<u>2,665,418</u>
Less: Allowance for impairment of receivables	<u><b>(8,122)</b></u>	<u>(243)</u>
	<u><b>3,016,135</b></u>	<u>2,665,175</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**18 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)**

As at 31 December 2012, trade accounts receivable at nominal value of QR 8.12 million (2011: QR 0.24 million) were impaired. Movements in the allowance for impairment of receivables were as follows:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
At 1 January	<b>243</b>	3,322
Charge for the year	<b>7,879</b>	-
Unused amounts reversed	<b>-</b>	(3,079)
At 31 December	<b><u>8,122</u></b>	<b><u>243</u></b>

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

	<i>Total</i> <i>QR'000</i>	<i>Neither past</i> <i>due nor</i> <i>impaired</i> <i>QR'000</i>	<i>Past due but not impaired</i>				
			<i>Until 30</i> <i>days</i> <i>QR'000</i>	<i>31 to 60</i> <i>days</i> <i>QR'000</i>	<i>61 to 90</i> <i>days</i> <i>QR'000</i>	<i>91 to 180</i> <i>days</i> <i>QR'000</i>	<i>More than</i> <i>180 days</i> <i>QR'000</i>
<b>2012</b>	<b>2,191,962</b>	<b>1,919,439</b>	<b>169,364</b>	<b>69,829</b>	<b>12,541</b>	<b>20,789</b>	<b>-</b>
2011	1,911,917	1,658,513	162,149	50,299	25,330	9,771	5,855

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables.

**19 HELD-FOR-TRADING INVESTMENTS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
At 1 January	<b>4,141</b>	178,532
Additions	<b>1,490</b>	15,201
Disposals	<b>-</b>	(189,093)
Movement in fair value (Note 4)	<b>1,523</b>	(499)
At 31 December	<b><u>7,154</u></b>	<b><u>4,141</u></b>

**20 CASH AND CASH EQUIVALENTS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Bank balances and cash	<b><u>9,080,209</u></b>	<b><u>6,960,094</u></b>

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Bank balances and cash	<b>9,080,209</b>	6,960,094
Less: Fixed deposits maturing after 90 days	<b><u>(40,705)</u></b>	<b><u>(204,000)</u></b>
	<b><u>9,039,504</u></b>	<b><u>6,756,094</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**20 CASH AND CASH EQUIVALENTS (continued)**

Bank balances and cash include current and call deposits of QR 2,675.6 million (2011: QR 2,007.58 million) and term deposits of QR 6,404.1 million (2011: QR 4,950.23 million), respectively, held with commercial banks in Qatar. Included in term deposits is an amount of QR 347.9 million (2011: QR 274.9 million) denominated in United States Dollars. The term deposits are denominated mainly in Qatari Riyals and are short term in nature, with average effective interest rates of 2.0% (2011: 2.2%).

**21 SHARE CAPITAL**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Authorised, issued and paid-up: 550,000,000 shares of QR 10 each	<u>5,500,000</u>	<u>5,500,000</u>

**22 LEGAL RESERVE**

IQ was formed in accordance with Article 68 of Qatar Commercial Companies' Law No. 5 of 2002. As per Article 68 of the Qatar Commercial Companies' Law No. 5 of 2002, the Companies covered by the Article shall not be subject to the provisions of this Law, except to the extent that the provisions of the Law are not in contradiction with the Articles of Association of the Company.

Since the Articles of Association of the Company does not provide for legal reserve, the legal reserve detailed on the face of the consolidated statement of financial position represents the sum of the subsidiaries and share of group companies' legal reserve, included for consolidation purposes.

**23 DIVIDEND PAID AND PROPOSED**

The Board of Directors has proposed a final cash dividend distribution of QR 8.5 per share and a 10% bonus share for the year ended 31 December 2012 (2011: QR 7.50 per share). The dividends for 2011 amounting to QR 4,125 billion were approved by the shareholders at the Annual General Meeting held on 19 March 2012 and was subsequently paid during 2012. The proposed final dividend for the year ended 31 December 2012 will be submitted for formal approval at the Annual General Meeting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**24 INTEREST BEARING LOANS AND BORROWINGS**

	<i>Interest rate</i>	<i>Entity</i>	<i>Currency</i>	<i>Maturity Date</i>	<b>2012 QR'000</b>	<b>2011 QR'000</b>
Loan 1	LIBOR plus applicable margin	QAFCO	USD	2017	<b>2,655,071</b>	3,686,235
Loan 2	LIBOR plus applicable margin	Qatar Steel	USD	2018	<b>1,288,807</b>	1,406,772
Loan 3	LIBOR plus 1.50%	Qatar Steel	USD	2018	<b>356,564</b>	-
Loan 4	LIBOR plus 1.70%	QAFAC	USD	2019	<b>34,580</b>	-
Loan 5	4.6% and 5.1%	QPPC	QR	2014	<b>2,464</b>	2,132
Syndicated loan (i)	LIBOR plus applicable margin	QATOFIN	USD	2020	<b>955,532</b>	1,100,986
Syndicated loan (ii)	LIBOR plus 1% to 1.3%	QVC	USD	2013	-	83,945
Murabaha facility	5.50%	QAPCO	USD	2013	<b>582,400</b>	582,400
					<b>5,875,418</b>	6,862,470
Less: repayments due within one year					<b>(1,922,884)</b>	(1,327,330)
Total non-current portion					<b>3,952,534</b>	5,535,140

*Notes:***Loan 1:**

QAFCO has entered into an agreement with a consortium of banks lead by HSBC as the facility agent on 2 December 2007, to obtain a term loan facility amounting to USD 1.6 billion to finance the construction of QAFCO-5 project, which was completed on 29 February 2012. The loan bears interest at LIBOR plus an applicable margin. The loan is repayable in semi-annual instalments commencing 4 years after the date of the first drawdown. QAFCO has assigned to the security trustee, all monies which at any time may be or become payable to the trustee, all its present and future rights, title and interest in, under various agreements pursuant thereto and the net proceeds of any claims, award and judgments which may at any time be receivable or received by QAFCO. Also, QAFCO has entered into two interest rate swaps to hedge its risk associated with interest rate fluctuation as detailed in Note 28.

**Loan 2:**

This is a US Dollar denominated facility consisting of a term loan facility of US\$ 483.5 million (Tranche A loan) and a stand-by facility of USD 75 million (Tranche B loan) intended to fund the EPC contracts entered into by Qatar Steel. The loan carries interest at LIBOR plus a margin ranging from 0.8% - 1.0% per annum (Tranche A loan) and 1.0% - 1.10% per annum (Tranche B loan) and mandatory costs, if any. Tranche A loan is repayable in 19 instalments at a predetermined rate on total Tranche A loan draw downs starting 6 months after the completion date of the related expansion projects. Tranche B, if any, is repayable in 8 equal instalments starting on the date of the twelfth Tranche A repayment date. Qatar Steel has entered into interest rate swap agreements to hedge the exposure to the fluctuations on the variable portion of the interest rate of this facility as detailed in Note 28.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**24 INTEREST BEARING LOANS AND BORROWINGS (continued)**

***Loan 3:***

On 1 December 2011, Qatar Steel entered into a subordinated facility agreement for US\$ 250 million with International Bank of Qatar and Union National Bank to finance its EF5 project.

As at 31 December 2012, Qatar Steel has drawn down US\$ 100 million equivalent to QR 364,150,000 and is payable in 10 semi-annual installments and carries interest at LIBOR plus a margin of 1.5%

***Loan 4:***

Term loan represents a clean corporate facility amounting to US\$ 80 million for which a facility agreement was signed by QAFAC with a local bank on 11 June 2012 to finance construction of Carbon Di-oxide Recovery Project.

Term loan carries interest at LIBOR plus margin of 1.7% per annum and is repayable in 10 semi-annual instalments commencing from June 2015. The average rate for the year was 1.9%.

***Loan 5:***

At reporting date, QPPC has bank loans amounting to QR 9.2 million with banks at an interest rate of 4.6% and 5.1% per annum.

***Syndicated loans:***

- (i) Qatofin entered into an agreement with a consortium of banks for an amount of US\$ 760 million to finance the construction of the Qatofin Plant. At the reporting date, outstanding loan amount is US\$ 523.1 million (2011: 603.5 million). The loan currently carries interest at LIBOR plus a margin of 0.80% (up to Lenders Completion Date, i.e. 5 December 2011, it was 0.5%). The loan is repayable in semi-annual instalments with the last instalment scheduled by 30 June 2020.

Qatofin has assigned to the security trustee, all its present and future rights, title and interest in, under various agreements all monies which at any time may be or become payable to it pursuant thereto and the net proceeds of any claims, awards and judgements which may at any time be receivable or received by Qatofin.

- (ii) QVC has bank loans amounting to US\$ 90.4 million at an interest rate of LIBOR plus a margin varies from 1% to 1.3%. These loans are secured against the sale proceeds. This loan was fully repaid during the year.

***Murabaha facility:***

QAPCO has drawn Murabaha facility for an amount of US\$ 200 million (2011: US\$ 200 million). The facility carries an interest rate of 5.5% per annum and is repayable by 30 March 2013. The equivalent Qatari riyal amount of QR 728 million (2011: QR 728 million presented as non-current portion) is presented as current portion.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**25 EMPLOYEES' END OF SERVICE BENEFITS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Balance as at 1 January	219,877	201,159
Provision during the year	62,125	62,871
Paid during the year	<u>(41,269)</u>	<u>(44,153)</u>
Balance as at 31 December	<u><u>240,733</u></u>	<u><u>219,877</u></u>

**26 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Trade payables	334,215	441,838
Provision for social and sports activities contribution (Note 8)	213,227	196,490
Accrued expenses and other payables	<u>1,337,693</u>	<u>745,933</u>
	<u><u>1,885,135</u></u>	<u><u>1,384,261</u></u>

Included in accrued expenses and other payables is an amount of QR 34.3 million (2011: QR 34.3 million) due to the State of Qatar. This represents a relief amount received from the State of Qatar and have been considered as interest-free and repayable on demand.

**27 RELATED PARTY DISCLOSURES****Related party transactions**

These represent transactions with related parties, i.e. shareholders, joint venture partners, directors and senior management of the group of the companies, and the companies in which they are principal owners. Pricing policies and terms of these transactions are approved by the respective management.

The Group's immediate and ultimate parent entity is Qatar Petroleum ("QP").

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

<i>Year ended 31 December 2012</i>	<i>Sales</i> <i>QR'000</i>	<i>Purchases</i> <i>QR'000</i>	<i>Selling and other expenses</i> <i>QR'000</i>	<i>Lease rental payments</i> <i>QR'000</i>	<i>Other income</i> <i>QR'000</i>
Major shareholders	264,828	2,183,859	17,802	13,582	1,930
Joint ventures	569,925	159,551	1,176	-	193,430
Associates	371,849	856,170	2	-	5,667
Other related parties	<u>3,426,580</u>	<u>35,134</u>	<u>135,714</u>	<u>31,098</u>	<u>17,549</u>
	<u><u>4,633,182</u></u>	<u><u>3,234,714</u></u>	<u><u>154,694</u></u>	<u><u>44,680</u></u>	<u><u>218,576</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**27 RELATED PARTY DISCLOSURES (continued)****Related party transactions (continued)**

<i>Year ended 31 December 2011</i>	<i>Sales QR'000</i>	<i>Purchases QR'000</i>	<i>Selling and other expenses QR'000</i>	<i>Lease rental payments QR'000</i>	<i>Other income QR'000</i>
Major shareholders	238,497	2,041,761	22,155	20,805	1,889
Joint ventures	600,867	48,205	26,436	-	178,842
Associates	134,969	871,180	-	-	3,944
Other related parties	<u>2,333,848</u>	<u>32,500</u>	<u>103,079</u>	<u>29,434</u>	<u>12,698</u>
	<u>3,308,181</u>	<u>2,993,646</u>	<u>151,670</u>	<u>50,239</u>	<u>197,373</u>

**Related party balances:***Due from related parties*

	<i>2012 QR'000</i>	<i>2011 QR'000</i>
Major shareholders	<b>80,881</b>	46,155
Joint ventures	<b>99,226</b>	55,636
Associates	<b>32,857</b>	27,931
Other related parties	<u><b>771,082</b></u>	<u>464,012</u>
	<u><b>984,046</b></u>	<u>593,734</u>

*Due to related parties*

	<i>2012 QR'000</i>	<i>2011 QR'000</i>
Major shareholders	<b>659,290</b>	825,926
Joint ventures	<b>205,065</b>	139,521
Associates	-	1,342
Other related parties	<u><b>115,545</b></u>	<u>142,443</u>
	<u><b>979,900</b></u>	<u>1,109,232</u>

The sales to and purchases from related parties are made at normal market prices. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2011: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**27 RELATED PARTY DISCLOSURES (continued)**

The remuneration of directors and other members of key management during the year was as follows:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Short term benefits	46,503	26,376
Board of directors sitting fees	4,483	3,722
Qatari employees' pension fund contribution	<u>1,150</u>	<u>1,035</u>
	<u>52,136</u>	<u>31,133</u>

**28 OTHER FINANCIAL LIABILITIES**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
<b>Other financial liabilities</b>		
<i>Derivatives held as cash flow hedges:</i>		
Interest rate swaps – 1	342,318	344,670
Interest rate swaps – 2	123,503	148,769
Interest rate swaps – 3	<u>67,498</u>	<u>77,738</u>
	<u>533,319</u>	<u>571,177</u>

Presented in the consolidated statement of financial position as follows:

Non-current portion	421,935	455,962
Current portion	<u>111,384</u>	<u>115,215</u>
	<u>533,319</u>	<u>571,177</u>

*Interest rate swaps - 1:*

As at 31 December 2012, QAFCO has two interest rate swap contracts replacing its floating interest rate bearing loans for fixed interest bearing loans, designated as hedges of expected future LIBOR interest rate payments during the period to 5 December 2017. The terms of the interest rate swap contracts have been negotiated to match the terms of the commitments of the term loan (Note 24). As at 31 December 2012, the Group's share of measurement of the fair values of the hedges resulted in a negative amount of QR 342.3 million (2011: QR 344.6 million) which has been recognised in the equity as changes in fair values and as derivative liabilities.

*Interest rate swaps - 2:*

During August 2006, Qatar Steel entered into interest rate swap agreements with two banks for a notional amount of USD 290.2 million, reducing regularly every six months starting from 31 March 2009. The Company receives a variable rate equal to LIBOR and pays a fixed rate of 5.45% on the reduced notional amount till 28 September 2007, and pays a fixed rate of 5.671% thereafter till 31 March 2017. Interest is settled under the agreements on a semi-annual basis. The swaps are designated to hedge the exposure to fluctuations on the variable portion (LIBOR) of the interest rate on Loan 2 included in Note 24. The term loan and interest rate swaps have the same critical terms.

At 31 December 2012, the measurement of the fair values of the hedges resulted in a negative amount of QR 123.5 million (2011: QR 148.8 million) which have been recognised in the equity as changes in fair values and as derivative liabilities.

*Interest rate swaps - 3:*

At 31 December 2012, QATOFIN had interest rate swap agreements in place with two banks with a notional amount of US\$ 262 million (2011: US\$ 302 million) whereby it receives a variable rate on the notional amount and pays a fixed rate of interest. The swaps are used to hedge the exposure to changes in the cash flow of its variable rate Syndicated Loan (i) included in Note 24. The loan and interest rate swaps have the same critical terms. The Group's share of the negative fair value of these interest rate swaps amounted to QR 67.5 million (2011: QR 77.7 million) has been shown as a separate component of equity and as derivative liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**29 INTEREST IN JOINT VENTURES**

The following amounts reflect, on a combined basis, the Group's proportionate share of the assets, liabilities, revenues and expenses of joint venture companies included in these consolidated financial statements.

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
<b>Assets:</b>		
Current assets	7,410,494	5,854,817
Non-current assets	<u>19,469,191</u>	<u>18,969,087</u>
	<u><b>26,879,685</b></u>	<u><b>24,823,904</b></u>
<b>Liabilities:</b>		
Current liabilities	4,512,248	4,100,608
Non-current liabilities	<u>3,207,175</u>	<u>5,022,677</u>
	<u><b>7,719,423</b></u>	<u><b>9,123,285</b></u>
<b>Revenues:</b>	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Sales	12,544,118	10,789,427
Other income	<u>160,826</u>	<u>118,492</u>
	<u><b>12,704,944</b></u>	<u><b>10,907,919</b></u>
<b>Expenses:</b>		
Direct costs	4,516,833	3,618,117
Interest and finance charges	204,280	83,298
Selling expenses	242,388	190,023
General and administrative expenses	<u>669,859</u>	<u>520,738</u>
	<u><b>5,633,360</b></u>	<u><b>4,412,176</b></u>

**Liquidation of Fereej**

On 17 August 2011, Fereej's Board of Directors have resolved and approved the voluntary dissolution of the Joint Venture, and as a result an independent Liquidation Committee was formed, duly appointed by the Joint Venture's Board of Directors, with the powers and responsibility to oversee and facilitate the liquidation of the Joint Venture. The Joint Venture effectively ceased operations on 30 November 2011, as determined and approved by the Liquidation Committee. All assets of the Joint Venture were either transferred to shareholders or sold to third parties with the proceeds being distributed to the shareholders, based on their respective shareholding, after settlement of all liabilities of the Joint Venture.

As a result of the liquidation of the investment in the Joint Venture, the Group received cash and available-for-sale investments amounting to QR 154.84 million and QR 6.36 million, respectively. The Company also recognised a loss on the liquidation of investment in the joint venture of QR 8.79 million.

**30 COMMITMENTS**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
<b>Capital expenditure commitments:</b>		
Estimated capital expenditure contracted for at the reporting date but not provided for:		
Property, plant and equipment	<u>1,190,436</u>	<u>1,643,527</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**30 COMMITMENTS (continued)**

- (a) Qatar Steel has open purchase order commitments for the supply of miscellaneous capital items amounting to QR 557million (2011: QR 345.8 million).
- (b) On 25 May 2009, QAPCO signed an agreement with UHDE GmbH for the construction of QAPCO LDPE III project with a contract value of USD 558.6 million. Included in the total commitments, is the group share of capital commitment amounting to Nil (2011: QR 199.16 million).
- (c) Included in the total commitments, is the Group's share of QATOFIN capital commitment and its joint venture, RLOC, amounting to QR 15.2 million (2011: QR 85.79 million).
- (d) On 2 December 2007, QAFCO signed an agreement with Hyundai Construction & Engineering Company Limited and Snamprogetti S.P.A. for building a new Ammonia plant and Urea Formaldehyde Concentrate (UFC) plant – UFC 85. The value of the contract including the variation orders is USD 3,515.5 million (Group share: USD 2,636.6 million). Group's share of capital commitment as of 31 December 2012 amounted to Nil (2011: QR 656 million).
- (e) On 9 October 2009, QAFCO signed an agreement with Hyundai Construction & Engineering Co. Ltd. and Snamprogetti S.P.A. for building a new Urea plant. The value of the contract is USD 620 million (Group share: USD 465 million). Group's share of capital commitment as of 31 December 2012 amounted to Nil (2011: QR 232 million).

**Operating lease commitments:**

The Group entered into operating lease agreements with Qatar Petroleum for the land on which certain plant facilities are constructed and for the use of berth facilities.

In addition, Qatar Steel entered into a lease agreement with the Government of Dubai, where it will be contingently liable for the value of the annual rent on the lease agreement for the land on which plant facilities are constructed.

Future minimum rentals payable under these leases at 31 December are as follows:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Within one year	<b>69,470</b>	70,957
After one year but not more than five years	<b>139,409</b>	142,876
More than five years	<b>328,740</b>	360,091
Total operating lease expenditure contracted for at the reporting date	<b><u>537,619</u></b>	<b><u>573,924</u></b>

**31 SIGNIFICANT UNDERTAKINGS**

QP has given an undertaking to produce, deliver and sell to QAFAC, such quantities of Gas and Butane (collectively called "plant feedstock") as QAFAC will require from time to time in to operate its Plant. The terms of this undertaking are contained in the Butane and Gas Feedstock Sale and Purchase Agreement between QAFAC and QP signed on 14 April 1997 and amended and restated subsequently on 9 August 2002. This Agreement is valid until the expiry or termination of the Joint Venture Agreement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**32 CONTINGENCIES**

At 31 December 2012, the Group had contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of business from which it is anticipated that no material liabilities will arise, amounting to QR 255.7 million (31 December 2011 : QR 333.4 million.).

The Group's contingent liabilities are as follows:

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Letters of credit	<b>164,696</b>	25,871
Bank guarantees	<b>419,384</b>	189,079
Legal cases	<b>1,386</b>	40,826
	<b><u>585,466</u></b>	<b><u>255,776</u></b>

**33 SEGMENTAL REPORTING**

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

- The petrochemical segments, which produces and sells ethylene, polyethylene, MTBE, methanol, caustic soda, ethylene dichloride, vinyl chloride monomer and other petrochemical products
- The fertiliser segment, which produces and sells urea, ammonia and other by products
- The steel segment, which produces and sells steel pellets, bars, billets and others

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements.

**Operating segments**

The following table present revenue and profit information regarding the Group's operating segments for the year ended 31 December 2012 and 2011 respectively:

	<i>Petrochemicals</i> <i>QR'000</i>	<i>Fertilisers</i> <i>QR'000</i>	<i>Steel</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
<b>Year ended 31 December 2012</b>				
Total revenue	<u>6,545,379</u>	<u>5,998,739</u>	<u>6,154,187</u>	<u>18,698,305</u>
Results:				
Segment results	<u>3,555,333</u>	<u>3,415,887</u>	<u>1,401,976</u>	8,373,196
Unallocated income				75,595
Unallocated expense				<u>(38,460)</u>
Profit for the year				<b><u>8,410,331</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**33 SEGMENTAL REPORTING (CONTINUED)****Operating segments (continued)**

	<i>Petrochemicals</i> <i>QR'000</i>	<i>Fertilisers</i> <i>QR'000</i>	<i>Steel</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Year ended 31 December 2011				
Total revenue	<u>6,503,316</u>	<u>4,286,111</u>	<u>5,760,020</u>	<u>16,549,447</u>
Results:				
Segment results	<u>3,785,662</u>	<u>2,548,659</u>	<u>1,646,677</u>	7,980,998
Unallocated income				55,194
Unallocated expense				<u>(112,122)</u>
Profit for the year				<u>7,924,070</u>

The following table present segmental assets regarding the Group's business segments for the year ended 31 December 2012 and 31 December 2011 respectively:

	<i>Petrochemicals</i> <i>QR'000</i>	<i>Fertilisers</i> <i>QR'000</i>	<i>Steel</i> <i>QR'000</i>	<i>Adjustments</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
<b>Segment assets:</b>					
<b>At 31 December 2012</b>	<u><b>10,016,119</b></u>	<u><b>16,657,870</b></u>	<u><b>9,296,787</b></u>	<u><b>4,239,923</b></u>	<u><b>40,210,699</b></u>
At 31 December 2011	<u>9,697,131</u>	<u>15,014,434</u>	<u>8,399,385</u>	<u>3,667,400</u>	<u>36,778,350</u>

*Notes:*

- (i) The amount included in the adjustment column represents assets carried in the books of Industries Qatar and which cannot be allocated to the primary segments.
- (ii) The above segmental reporting relates only to the subsidiaries and joint venture companies.
- (iii) Significant portion of the Group's non-current assets are located in the State of Qatar.

**34 FINANCIAL RISK MANAGEMENT****Objectives and policies**

The Group's principal financial liabilities, other than derivatives, comprise interest bearing loans and borrowings, accounts payable and certain accruals and due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as available-for-sale investments, held-for-trading investments, accounts receivables and certain other receivables, amounts due from related parties and cash and short-term deposits, which arise directly from its operations. The Group also enters into derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout 2012 and 2011 the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk, equity price risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**34 FINANCIAL RISK MANAGEMENT (continued)****Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risks management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group has a set of acceptable parameters, based on value at risk, that may be accepted and which is monitored on a regular basis.

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest bearing loans and borrowings and short term deposits with floating interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets and liabilities with floating interest rates and fixed interest instruments. To manage the risk of changes in floating interest rate on its interest bearing loan, the Group has entered into interest rate swaps as explained in Note 28. Under the swap agreements, the Group will pay an agreed fixed interest rate and receive a floating interest rate.

The following table demonstrates the sensitivity of the consolidated statement of income (due to call deposits), Property, plant and equipment and projects under development (due to interest cost capitalised) and equity (due to interest rate swaps) to reasonably possible changes in interest rates by 25 basis points, with all other variables held constant. The sensitivity of the consolidated statement of income, property, plant and equipment and equity is the effect of the assumed changes in interest rates for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2012. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

	<i>Net effect on</i>		
	<i>Profit</i>	<i>Property, plant and equipment</i>	<i>Equity</i>
	<i>+25bps</i>	<i>+25bps</i>	<i>+25 bps</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
<b>At 31 December 2012</b>			
<i>Variable rate instruments</i>			
Call deposits	4,366	-	-
Interest bearing loans and borrowings	(5,419)	-	-
Derivatives	-	-	(6,689)
	<u>(1,053)</u>	<u>-</u>	<u>(6,689)</u>
	<i>Net effect on</i>		
	<i>Profit</i>	<i>Property, plant and equipment</i>	<i>Equity</i>
	<i>+25bps</i>	<i>+25bps</i>	<i>+25 bps</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
<b>At 31 December 2011</b>			
<i>Variable rate instruments</i>			
Call deposits	8,953	-	-
Interest bearing loans and borrowings	(1,558)	9,552	-
Derivatives	-	-	(7,508)
	<u>7,395</u>	<u>9,552</u>	<u>(7,508)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**34 FINANCIAL RISK MANAGEMENT (continued)****Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy which limits its exposure to credit risk on its bank balances by dealing with financial institutions of good credit ratings. The Group's exposure to counterparties is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management. The carrying amount of the financial assets recorded in these consolidated financial statements, which is net of impairment losses represents the Group's maximum exposure to credit risks.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents and derivative instruments with positive values, the Group's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

	<i>2012</i> <i>QR</i>	<i>2011</i> <i>QR</i>
Bank balances (excluding cash)	<b>9,079,732</b>	6,957,803
Accounts receivable and other assets	<b>2,869,087</b>	2,567,128
Amounts due from related parties	<b>984,046</b>	593,734
	<b><u>12,932,865</u></b>	<u>10,118,665</u>

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet financial obligations as they fall due. The Group's approach to managing liquidity risk 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 Group limits its liquidity risk by maintaining adequate funds in the banks and ensuring bank facilities are available. The Group's terms of sales require amounts to be paid within 30 days of the date of invoice. Trade payables are normally settled within 45 – 60 days of the date of purchase.

<i>At 31 December 2012</i>	<i>Less than one year QR'000</i>	<i>1 to 5 years QR'000</i>	<i>&gt; 5 years QR'000</i>	<i>Total QR'000</i>
Accounts payables and accruals	<b>1,885,135</b>	-	-	<b>1,885,135</b>
Interest bearing loans and borrowings	<b>1,285,369</b>	<b>4,669,241</b>	<b>695,380</b>	<b>6,649,990</b>
Due to related parties	<b>979,900</b>	-	-	<b>979,900</b>
Other financial liabilities	<b>46,332</b>	<b>486,987</b>	-	<b>533,319</b>
	<b><u>4,196,736</u></b>	<b><u>5,156,228</u></b>	<b><u>695,380</u></b>	<b><u>10,048,344</u></b>
<i>At 31 December 2011</i>	<i>Less than one year QR'000</i>	<i>1 to 5 years QR'000</i>	<i>&gt; 5 years QR'000</i>	<i>Total QR'000</i>
Accounts payables and accruals	1,384,261	-	-	1,384,261
Interest bearing loans and borrowings	1,494,069	3,333,274	2,919,067	7,746,410
Due to related parties	1,109,232	-	-	1,109,232
Other financial liabilities	21,228	549,949	-	571,177
	<b><u>4,008,790</u></b>	<b><u>3,883,223</u></b>	<b><u>2,919,067</u></b>	<b><u>10,811,080</u></b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**34 FINANCIAL RISK MANAGEMENT (continued)****Currency risk**

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. As the Qatari Riyal is pegged to the US Dollars, the balances in US Dollars are not considered to represent significant currency risk.

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Qatari Riyal currency rate against the GBP and Euro, with all other variables held constant, on the consolidated statement of income (due to the fair value of currency sensitive monetary assets and liabilities). The effect of decrease in currency rates is expected to be equal and opposite to the effect of the increase shown.

	<i>Changes in currency rate to the Qatari Riyal</i>	<i>Effect on consolidated statement of income QR'000</i>
<b>2012</b>		
<b>GBP</b>	+5%	156
<b>Euro</b>	+5%	1,035
<b>2011</b>		
GBP	+5%	192
Euro	+5%	3,610

**Equity price risk**

The Group's listed and unlisted investments are susceptible to equity price risk arising from uncertainties about future values of the investments. The Group manages the equity price risk through diversification and placing limits on individual and total portfolio of equity instruments. Reports on the equity portfolio are submitted to the Group's senior management on a regular basis and results are reviewed by the Board of Directors.

At the reporting date, the exposure to unlisted securities at cost was Nil (2011: QR 2.1 million).

At the reporting date, the Group's exposure to listed equity securities at fair value was QR 648.6 million (2011: QR 679.06 million) which includes both available-for-sale investments and held-for-trading investments. An increase or decrease of 10% on the Qatar Exchange (QE) index would have an impact of approximately QR 0.72 million (2011: QR 0.41 million) on the consolidated statement of income in respect of held for trading investments. In respect of available-for-sale investments, a decrease of 10% on the QE & ASX index would have an impact of approximately QR 64.14 million (2011: QR 67.49 million) on the consolidated statement of income or equity attributable to the Group, depending on whether or not the decline is significant and prolonged. An increase of 10% in the value of the listed securities would impact equity in a similar amount but will not have an effect on income unless there is an impairment charge associated with it.

**Capital management**

Capital includes equity attributable to the equity holders of the parent less the net unrealised gains reserve.

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**34 FINANCIAL RISK MANAGEMENT (continued)**

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio at less than 50%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less the net unrealised gains reserve.

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
Interest bearing loans and borrowings	<b>5,875,418</b>	6,862,470
Accounts payable and accruals	<b>1,885,135</b>	1,384,261
Due to related parties	<b>979,900</b>	1,109,232
Other financial liabilities	<b>533,319</b>	571,177
	<b>9,273,772</b>	9,927,140
Less: Cash and short term deposits	<b>(9,080,209)</b>	(6,960,094)
Net debt	<b>193,563</b>	2,967,046
Equity	<b>30,334,411</b>	26,236,723
Cumulative changes in fair value	<b>(279,892)</b>	(314,711)
Hedging reserve	<b>559,576</b>	589,402
	<b>30,614,095</b>	26,511,414
<b>Capital and net debt</b>	<b>30,807,658</b>	29,478,460
<b>Gearing ratio</b>	<b>0.6%</b>	10.06%

**35 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements.

	<i>Carrying amount</i>		<i>Fair value</i>	
	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
<b>Financial assets</b>				
Available-for-sale investments	<b>641,441</b>	674,924	<b>641,441</b>	674,924
Accounts receivable and prepayments	<b>3,016,135</b>	2,665,175	<b>3,016,135</b>	2,665,175
Due from related parties	<b>984,046</b>	593,734	<b>984,046</b>	593,734
Held-for-trading investments	<b>7,154</b>	4,141	<b>7,154</b>	4,141
Bank balances and cash	<b>9,080,209</b>	6,960,094	<b>9,080,209</b>	6,960,094
<b>Total</b>	<b>13,728,985</b>	10,898,068	<b>13,728,985</b>	10,898,068

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**35 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

	<i>Carrying amount</i>		<i>Fair value</i>	
	<i>2012</i>	<i>2011</i>	<i>2012</i>	<i>2011</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
<b>Financial liabilities</b>				
Interest bearing loans and borrowings	<b>5,875,418</b>	6,862,470	<b>5,875,418</b>	6,862,470
Accounts payable and accruals	<b>1,885,135</b>	1,384,261	<b>1,885,135</b>	1,384,261
Due to related parties	<b>979,900</b>	1,109,232	<b>979,900</b>	1,109,232
Other financial liabilities:				
Interest rate swaps	<b>533,319</b>	571,177	<b>533,319</b>	571,177
<b>Total</b>	<b>9,273,772</b>	9,927,140	<b>9,273,772</b>	9,927,140

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Cash and short-term deposits, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- Fair value of available-for-sale financial assets and held-to-maturity investments are derived from quoted market prices in active markets, if available.
- The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives valued using a valuation techniques with market observable inputs are mainly interest rate swaps. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

**Fair value hierarchy**

At 31 December 2012, 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; and

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**35 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)**

The Group held the following financial instruments measured at fair value:

<i>At 31 December 2012</i>	<u>Total QR'000</u>	<u>Level 1 QR'000</u>	<u>Level 2 QR'000</u>	<u>Level 3 QR'000</u>
<b>Assets measured at fair value</b>				
Available-for-sale investments	641,441	641,441	-	-
Held-for-trading investments	7,154	7,154	-	-
<b>Liabilities measured at fair value</b>				
Other financial liabilities:				
Interest rate swaps	533,319	-	533,319	-
<i>At 31 December 2011</i>	<u>Total QR'000</u>	<u>Level 1 QR'000</u>	<u>Level 2 QR'000</u>	<u>Level 3 QR'000</u>
Assets measured at fair value				
Available-for-sale investments	672,744	672,744	-	-
Held-for-trading investments	4,141	4,141	-	-
Liabilities measured at fair value				
Other financial liabilities:				
Interest rate swaps	571,177	-	571,177	-

During the reporting period ending 31 December 2012, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

The fair values of the financial instruments with the exception of certain unquoted available-for-sale investments carried at cost are not materially different from their carrying values.

**36 SIGNIFICANT ACCOUNTING JUDGEMENTS OR ESTIMATES**

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

**Judgments**

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

*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 and the future cash flows and the discount factors for unquoted equities. During the current year, the Group has recognised impairment of available-for-sale investments of QR 2 million (2011: QR 9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**36 SIGNIFICANT ACCOUNTING JUDGEMENTS OR ESTIMATES (continued)**

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

*Impairment of accounts receivable*

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade accounts receivable were QR 2,200 million (2011: QR 1,912 million), and the provision for doubtful debts was QR 8.12 million (2011: 0.24 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the consolidated statement of income.

*Impairment of inventories*

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical realisable value.

At the reporting date, gross inventories were QR 2,418 million (2011: QR 2,348 million), with provisions for old and obsolete inventories of QR 123 million (2011: 117.2 million). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income.

*Revaluation of investment properties*

The Group carries its investment properties at fair value, with changes in fair values being recognised in the consolidated statement of income. The Group engaged independent valuation specialists to determine fair value as at 31 December 2012. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

*Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2012

**37 COMPONENTS OF OTHER COMPREHENSIVE INCOME**

	<i>2012</i> <i>QR'000</i>	<i>2011</i> <i>QR'000</i>
<i>Available-for-sale investments</i>		
Losses arising during the year	<b>(36,999)</b>	(10,571)
Reclassification adjustments for impairment included in the statement of income	<u>2,180</u>	<u>9,010</u>
	<b><u>(34,819)</u></b>	<b><u>(1,561)</u></b>
<i>Cash flow hedges</i>		
Gains/(losses) arising during the year – Interest rate swaps	<b>26,076</b>	(123,115)
Share of gains/(losses) from an associate arising during the year – Interest rate swaps	<u>3,750</u>	<u>(776)</u>
	<b><u>29,826</u></b>	<b><u>(123,891)</u></b>

**38 COMPARATIVES**

The Group has reclassified an amount of QR 94 million relating to 2011 balance of other financial liabilities from non-current liabilities to current liabilities to conform with the current year's presentation. This reclassification did not have any impact on the previously reported income and equity of the Group.