# INDUSTRIES QATAR
# ANNUAL REPORT
# 2009

Industries Qatar


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In The Name of Allah,
The Most Merciful, The Most Compassionate.

H.H. Sheikh Hamad bin Khalifa Al-Thani
*The Emir of the State of Qatar*

H.H. Sheikh Tamim bin Hamad Al-Thani
*The Heir Apparent*

P.O. Box 3212 Doha, Qatar
Tel: +974 430 8681
Fax: +974 430 8628
www.industriesqatar.com.qa

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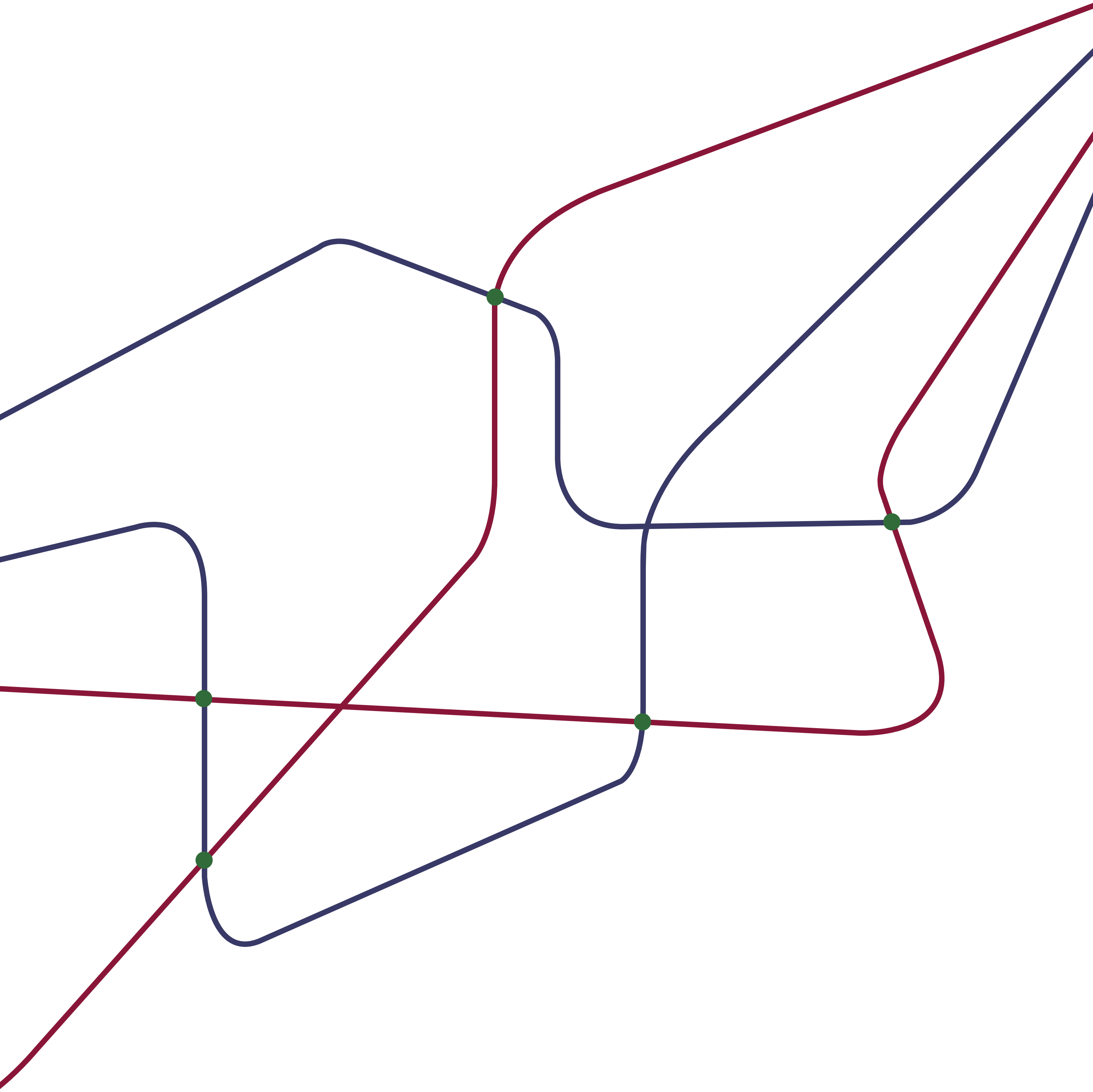
# ABOUT IQ



If we are together. Nothing will fall.

# About Industries Qatar

## Introduction

Industries Qatar Q.S.C. was incorporated as a Qatari joint stock company on April 19, 2003. The group head office is located at Qatar Petroleum Head Office, West Bay, P.O. Box 3212, Doha, State of Qatar. Through the group companies, IQ operates in 4 distinct segments: petrochemicals, fertilisers, steel, and real estate and property development.

## Head Office Functions & Management Structure

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

# Group Overview

## | Petrochemical Segment

### COMPANIES

Qatar Petrochemical Company Limited Q.S.C. ("QAPCO"): Incorporated in 1974 as a joint venture, it is currently owned by IQ (80%) and TOTAL Petrochemicals (France) [20%]. QAPCO has two joint ventures, Qatofin Company Limited Q.S.C. ("Qatofin") and Ras Laffan Olefins Cracker Company ("RLOC"), through QATOFIN, and two associated companies, Qatar Vinyl Company Limited Q.S.C. ("QVC") and Qatar Plastic Products Company W.L.L.

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

### Key Products

The group's petrochemical products are:

- Ethylene: Ethylene is used as a feedstock for a wide range of chemicals. Approximately 50% of ethylene produced by QAPCO is utilised in the LDPE production process. A further 25% is utilised by QVC in the production of ethylene dichloride, vinyl chloride monomer and caustic soda. The remainder is exported to a number of Asian countries. After production commences at RLOC, about 70% of the ethylene share of QATOFIN would be utilized towards LLDPE production and the remaining 30% will be exported. Once, the QAPCO LDPE-3 plant comes into operation in year 2012, the excess ethylene balance would be utilized towards LDPE production and thus there will not be any further export of ethylene, thereafter.

- Low-Density Polyethylene (LDPE): Various grades of LDPE, which is suitable for a wide range of thermoplastics processing techniques with applications such as films, pipes, cables and wires and other moulded products, is marketed under the Lotrène brand. It is exported to over 85 countries throughout the world.

- Sulphur: High quality sulphur is generated as a by-product from the ethyne process and is mostly exported to the Indian sub-continent and China.

- Pyrolysis Gasoline: The limited quantities of pyrolysis gasoline produced by QAPCO are used by associated local companies as a feedstock.

- Mixed LPG, C3/C4: The minimal quantities of mixed LPG generated are used locally to produce propane and butane.

- Methanol: The majority of the methanol produced is exported to markets within Asia, the Far East and Europe, with the balance used as feedstock for the MTBE process or sold to local industries. Within the petrochemical industry, methanol is used as a raw material for the manufacturing of solvents, formaldehyde, methyl-halide, acetic acid, ethyl-alcohol, acetic anhydride, DME and MTBE.

- Methyl-Tertiary-Butyl-Ether (MTBE): MTBE is used as a gasoline additive that provides clean burning fuel to reduce the tail gas pollution generated by motor vehicles, whilst eliminating the need for Tetra-Ethyl-Lead blending. Most of the MTBE produced is exported to other countries in the Gulf region. The remainder is either exported to Europe, South-East Asia or South America, or used by the Qatar Petroleum refinery to blend with the gasoline being marketed in Qatar.

## Fertiliser Segment

### COMPANY

Qatar Fertiliser Company S.A.Q. ("QAFCO"): Incorporated in 1969 as a joint venture, it is currently owned by IQ (75%), Fertilizer Holdings A.S. (10%) and Yara Netherland B.V. (15%). QAFCO has 2 subsidiaries, Gulf Formaldehyde Company (70%) and Qatar Melamine Company (60%).

### Key Products

The group's fertiliser products are:

- Ammonia: Approximately 80% of the ammonia produced is used as a feedstock for urea production, with the rest exported to India, Jordan and the United States of America. The exported ammonia is used as a feedstock for urea and ammonium phosphate production.

- Urea: Prilled and granular urea, which are both solid fertilisers, are exported to over 20 countries, in all regions of the world.

- Urea Formaldehyde Condensate (UFC-85): UFC-85 is an anti-caking agent which is added to urea products to improve its strength. Circa 65% of the UFC-85 produced is used in QAFCO's urea plants, with the remainder exported to neighbouring GCC countries.

## Steel Segment

### COMPANY

Qatar Steel Company Q.S.C. ("QS"): Originally incorporated in 1974, Qatar Steel is fully-owned by IQ and has several investments in the steel industry including Qatar Steel Company FZE, a fully-owned subsidiary of Qatar Steel and four associates, Qatar Metal Coating Company W.L.L., United Stainless Steel Company, Gulf United Steel Company (Foulath) BSC Closed and Gulf Industrial Investment Company.

### Products

The group's steel products consist of:

- Hot Bricked Iron (HBI) and Direct Reduced Iron (DRI): Qatar Steel produces more than

700,000 tpa of HBI/DRI for sale. Markets include the Middle East, India and the Far East.

- **Steel Billets:** Most of the steel billets produced are processed into steel bars by Qatar Steel, with the remainder exported to neighbouring countries in the Gulf region.

- **Steel Bars:** Hot rolled deformed steel bars are used extensively in the construction industry. The majority of the production is marketed in Qatar, with the remainder exported to neighbouring countries in the Gulf region.

- **Steel Coils:** Steel coils are used extensively in the construction industry, primarily as a binding medium and for making nuts and bolts. The majority of the production is marketed in Qatar, with the remainder exported to neighbouring countries in the Gulf region.

## Real Estate & Property Development

### COMPANY

**Fereej Real Estate Company:** Incorporated in 2008 as a joint venture, it is currently owned by IQ (34%), Qatar Real Estate Investment Company (33%) and Al-Koot Insurance And Re-Insurance Company (33%).

### Activities

The company's activities are focused on investing in residential and commercial buildings, and the provision of facilities management and third party construction project management services.

# Board of Directors

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

## H.E. Abdullah bin Hamad Al-Attiyah

- Deputy Premier
- Minister of Energy & Industry
- Chairman, Board of Directors and Managing Director

## H.E. Yousef Hussain Kamal

- Minister of Finance
- Minister of Economy & Commerce
- Vice-Chairman, Board of Directors

## Dr. Ibrahim Al-Ibrahim

- Economic Advisor, Diwan
- Member, Board of Directors

## Mr. Abdullah Hussain Salatt

- Senior Advisor to the Deputy Premier and Minister of Energy & Industry
- Member, Board of Directors

## Mr. Faisal Mohammed Al-Suwaidi

- Chairman and Chief Executive officer, QatarGas Operating Company
- Member, Board of Directors

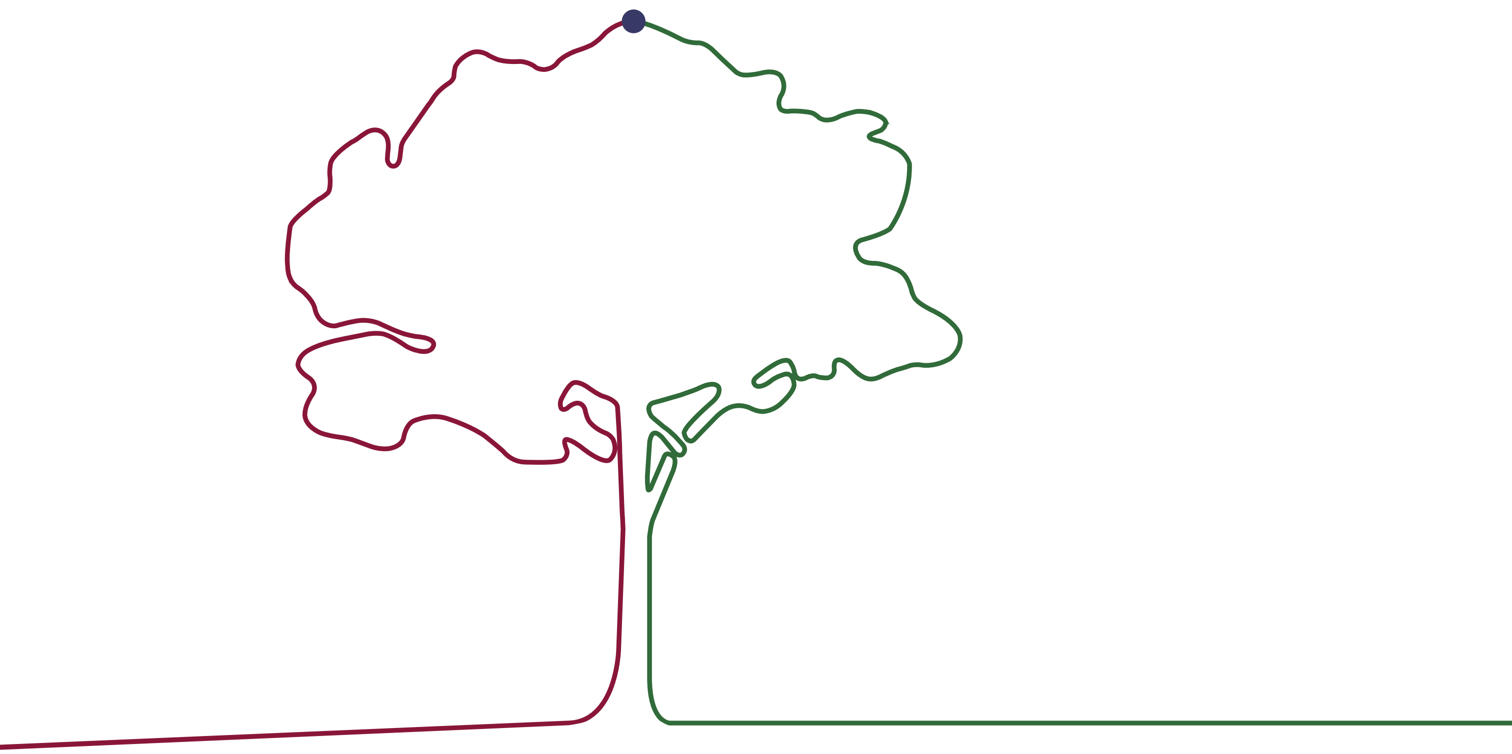
## Mr. Fahad Hamad Al-Mohannadi

- General Manager, Qatar Electricity and Water Company
- Member, Board of Directors

## Mr. Hamad Rashid Al-Mohannadi

- Managing Director (CEO), RasGas Company
- Member, Board of Directors

# REVIEWS, STRATEGIES
# & UPDATES



Grow where you are planted.

# Chairman's Message

## Introduction

On behalf of the Board of Directors, I am pleased to welcome you to the 7th Annual General Assembly Meeting of Industries Qatar.

It is a pleasure to be here with you, just like in the previous years and share one of the most successful business performance stories of Qatar, which will also be noticed throughout our region.

## 2009 Performance Summary

The financial crisis started during 2008 and it was inevitable for all petrochemical companies to experience its severe impact during 2009 just like many other companies around the world. The reduction in the selling prices affected all the players in the industry. The real challenge this year was to manage our operations in a highly uncertain economic environment prevailing all around us. We not only faced the challenge successfully, we also have proof of our achievements that are clearly highlighted in our financial results.

2008 was not an ordinary year, especially in terms of the significant price levels and therefore, we must bear in mind the fact that such levels of performance cannot be easy replicated every year. Our performance for 2009 has been very good as compared to many other companies and given the general state of the economy around our region due to the impact of the financial crisis. As in the past, I consider myself privileged to present the 2009 results of Industries Qatar. We need to be very proud of our remarkable performance during the year in the context of the performance of many other regional and international petrochemical companies whose results were way below what they achieved in their recent prior years.

Industries Qatar continued to make good progress on its capital expansion initiatives.  While most other companies had either shelved or slowed down their capex programs because of the severe credit crunch and non-availability of financing, we continued with our capex program in a pragmatic manner resulting in immense benefits associated with the reduction in construction costs and for the enhanced ability to quickly react and capitalize on the market conditions whenever they improve as we expect them to, in the near future.

Our sales volumes increased by approximately 500 MTs representing an increase of 6% compared to last year's levels. In addition, our net profit margin has also increased mainly due to the government's settlement of the price difference claim made by Qatar Steel. This timely and wise action on the part of our government has proved to be very helpful for our company and this act also demonstrates the excellent level of relationship that exists between our government and our company.

With regard to the financing decision, you will be pleased to note that our hedging costs have reduced by approximately QR 327 million. In addition, we also witnessed a reasonable reduction in financing costs amounting to QR 44.0 million due to the significant fall in the LIBOR rates that had a direct and positive impact on most of our financing arrangements that were based on variable interest rates.

As you are all aware, during the period of economic prosperity just prior to the financial crisis and meltdown, many companies in our industry had significantly increased, if not doubled, their respective share capital as well as the number of issued shares. However, we consciously decided not to follow this path and kept our share capital as well as the number of issued shares within reasonable levels despite our ambitious expansion plans. We are confident that this decision will help us to realize our plans and successfully meet our shareholders expectations in terms of our earnings and dividends per share in the forthcoming years, taking into consideration that the majority of our expansion plans are expected to commence by 2012.

Our expansion plans played a significant role in ensuring that our performance remained within reasonable levels despite the sharp downward trend recently experienced in the general economic conditions. This point is well evidenced by the fact that we have been able to increase our production capacity from 8.1 MTs in 2003 to 13.4 MTs in 2009. We also expect our production capacity to increase to 24.1 MTs in 2014, This will have a substantial impact on our profitability and cash flow situation.

Finally, we are proposing a 50% dividend per share for the year 2009. If we take into consideration all the dividends that were distributed from the date of commencement (7 years) and this proposed dividend, you will be pleased to note that the total dividend payout is equal to almost twice the IPO price.

## Budget and Business Plans

The expectations for 2010 and the 4 years that follow it are quite high and some key facts are as follows:

1. The Qatofin plant commenced its operations during the last quarter of 2009. In addition, the Ras Laffan Olefins Cracker project is expected to commence its operations during the first half of 2010, after rectifying some minor set backs relating to construction, engineering and raw materials.

2. The petrochemical and fertiliser industries are expecting to face significant additional capacities from MENA, South-East Asian and Far Eastern suppliers. However, the relatively lower cost of production advantage enjoyed by QAPCO and QAFCO and their well-established sales and marketing networks should ensure they both maintain their market shares in the increasingly competitive environment.

3. QAFCO VI is a bold statement of our intentions. Announced during the recession, it underscores QAFCO's financial strength and signals QAFCO's commitment to growth and its intention to become a major global fertiliser player. Upon completion of QAFCO V and VI, QAFCO expects to generate higher gross margins both through substantial economy of scale cost savings and increased selling prices through greater supplier power.

4. A number of new products are expected to be launched by our group companies such as melamine, aqueous ammonia and flat steel products.

5. QAFAC will continue to focus on improving its production efficiency by debottlenecking exercises and converter enhancements using CO2 produced in-house, rather than purchased.

By the year 2014, the revenue is projected to double to over QR 20 billion, that translates to an average growth rate of just under 17%.

## Conclusion

We are confident that the future appears to be bright for Industries Qatar. In closing, I would like to thank His Highness, Sheikh Hamad bin Khalifa Al-Thani, the Emir of the State of Qatar, for his support, guidance and vision, the respective senior management teams for their leadership and our staff for their dedication and hard work.

Thank you.

**Abdullah bin Hamad Al-Attiyah**
Deputy Premier
Minister of Energy and Industry
Chairman and Managing Director

Industries Qatar

# Board of Directors Report

## Introduction

The Board of Directors is pleased to present this 7th Annual Report on the finances and operations of Industries Qatar, Qatar's premier blue chip group and one of the Middle East's largest and most profitable listed companies.

## Impact Of The Global Recession

Despite the serious impact of the global recession, the world economy was nevertheless able to avoid some of the worst economic predictions for 2009, like a protracted economic downturn, the spectre of stagflation, and a widespread return to protectionism. The GCC experienced falls in GDP precipitated by the drop in oil and, to a lesser extent, natural gas prices, but still emerged, in general, relatively unscathed by the recession. Trade surpluses remained high, unemployment stayed low, inflation returned to more moderate levels, and fiscal deficits, where they existed, remained within more reasonable levels than in many developed economies.

## Summary Financial Results

By the end of 2009, the IQ group had recorded sales of QR 9.7 billion, a year-on-year drop of 34.5%, while for the same period, net profit dropped by 33.0%, to QR 4.9 billion. These results were largely due to the significant drop in product prices experienced from the end of 2008 until early 2009. Key product price drops, like LDPE, urea and steel bars ranged between 18% and 68%. Supported by the settlement of Qatar Steel's claim, positive feedstock price adjustments and cost control initiatives, net profit, as a % of sales, improved on last year: 50.5% against 49.3%.

This reduced trading impacted the group's net cash position with cash and cash equivalents QR 3.6 billion lower than last year. In conjunction with significant reductions in steel inventory levels, this resulted in net assets also decreasing compared to 2008.

## Notable Achievements

Despite these muted results, the Board of Directors is nevertheless pleased that the group was able to emerge from the crisis with a number of notable achievements:

- The group's challenging and realistic budget was achieved, with sales exceeding budget by QR 1.5 billion and net profit beating budget by QR 0.1 billion;

- Net margins were 1.1% better than 2008;

- Plants and facilities ran at full capacity resulting in production volumes being maintained at historic averages;

- Gearing was improved, with the group's debt to equity ratio standing at 31.5% versus 33.1% in 2008; and

- The group's ambitious capital expansion plans continued unabated with no project cancellations or recession-related construction delays.

## Strategic Direction

The group's financial results also underscore the Board of Directors' belief that IQ has benefitted significantly from past strategic decisions. Decisions that have improved gross margin levels by reducing foreign partners' off-take participation rates in favour of sale and purchase agreements. Decisions that have strengthened sales and distribution channels through establishing regional distribution warehouses and sales and marketing offices, expanding the agent network and increasing the number of vessels on time chartering. Decisions that have led to further diversification of the product portfolio to now include, for example, a wider grade of steel products, and decisions supporting the group's ambitious capital expansion vision that have seen IQ spend circa QR 21.0 billion in constructing and upgrading facilities and plants since 2003. These decisions have all laid a firm foundation for assured future prosperity.

## Dividend Announcement

The Board of Directors is pleased to recommend a total annual dividend distribution for the year ended December 31, 2009 of QR 2.75 billion, equating to a dividend payout of QR 5.00 per share and representing 50% of our share capital.

## Conclusion

Our financial results for 2009 underscore the financial and business leadership of the Managing Director, the hard work and dedication of the senior management teams and employees of the group companies and, most importantly, the firm economic, infrastructural and institutional foundations built in the state of Qatar under the guidance of His Highness the Emir of Qatar, Sheikh Hamad bin Khalifa Al-Thani. Industries Qatar stands as a source of pride for the state of Qatar, and all Qataris. The Board of Directors is confident of the future of the group.

*All figures in this report have been rounded to QR billions for reasons of presentation and figures for 2003 represent the nine month period from April 19, 2003 (date of IQ incorporation) to December 31, 2003 (IQ year end).*

# Chief Coordinator's Message

## "Well established and prepared to take on the challenges that are ahead"

Distinguished Shareholders,

As we all know, the financial crisis has affected several countries and organizations all around the world in varying degrees. Although the impact of this crisis has been generally quite minimal in Qatar, there is no doubt that the financial and operating performance of many local and international companies have been much less rosier than their respective plans for 2009. Keeping in mind that the year 2008 was an extra-ordinary and unprecedented year, we need to acknowledge the fact that 2009 was a year of strong financial and operational performance for Industries Qatar in the context of the overall economic and financial situation prevailing all around us. Our performance during the year was remarkable when compared to that of many other regional petrochemical companies whose results were way below what they achieved in their recent prior years.

Above all, the strategic leadership and guidance of our Chairman H.E. Abdulla Bin Hamad Al-Attiyah and the Board members have helped our company to successfully withstand the volatile market conditions and continue to deliver value to our respected shareholders. The continued efforts and emphasis on improving operating performance and long-term strategic investments have helped us exit the year 2009 on a positive note. The fact that these efforts have borne fruits is clearly demonstrated by the significant increase in sales volume of almost 500 tons, representing a 6% increase as compared to the performance during 2008. Furthermore, our net profit margin has also improved during the year.

It is a pleasure to take this opportunity and present my message as we move forward into a new decade. Qatar has witnessed notable developments in many aspects and particular mention must be made about its impressive economic and industrial performance.

During the past decade, Qatar's economic growth was the fastest amongst the other Arabic countries and it was also one of the fastest growing economies in the world. To further elaborate on this, Qatar currently enjoys the highest per capita income in the world. In addition, its hydrocarbon industry is growing at an accelerated pace and there is still much more to expect from this industry.

Amongst the many accomplishments of our emerging country, privatization played a prominent role in wealth creation and economic growth in various areas within the country and Qatar Petroleum has also contributed significantly to this process.

In light of the general background mentioned above, some key facts are worth highlighting:

1. The total value of dividends paid from the inception date (seven years), is QR 31 per share, which is nearly double the IPO price per share.  Not many companies of this size can easily achieve this type of extraordinary accomplishment within such a short period of time.

2. The listing of Industries Qatar resulted in the creation of wealth in the country of about QR 16 billion based on the total amount of capital gains associated with such shares.

3. More than 1,000 jobs were created within the four group companies of IQ. It should be noted that this figure does not include the jobs that were created by the associates of our group companies.

4. The numbers of companies that fall under the umbrella of IQ (directly and indirectly) have increased from 8 to 16 companies.

5. In addition to the favorable level of dividends that have paid regularly, the book value of our stock has tripled from QR 10 per share to QR 35 per share. This represents an annual growth rate of 23%.

6. The assets of the company have also tripled in value since the inception from QR 8.6 billion to QR 27.1 billion, reflecting an annual increase rate of 21%.

7. Industries Qatar holds the 'Blue-Chip' status in the Qatar Exchange and constitutes 15% of the market capitalization.

8. The sales of products have increased from 5,300 tons to more than 8,200 tons reflecting an increase of approximately 50% and the sales are expected to reach 12,300 tons by 2014.

All these outstanding accomplishments within a short period of time clearly demonstrate the seriousness of Industries Qatar in its pursuit of achieving all of its carefully developed goals.

**Abdul Rahman Ahmad Al Shaibi**
IQ Chief Coordinator

# Financial Review

## Consolidated Statement Of Comprehensive Income

The 5-year period from 2003, the year of IQ's incorporation, until the third Quarter of 2008, witnessed a continual upward trend in key product prices. By the end of the year as the global economy was gripped by the economic recession and financial crisis, the upward cycle was broken as key product prices dropped by an average 47.2% from peak to trough. Despite year on year decreases in feedstock prices and stringent control measures imposed on operating expenditure, operating profit margin still decreased from 45.7% to 34.4%. Reduced by the imposition of the government's compulsory 2.5% contribution to the Social Fund but assisted by the settlement of Qatar Steel's price difference claim, net profits totalled QR 4.9 billion by the end of the year.

### SALES

All of the group companies were impacted by the precipitous drop in product prices, and displayed varying recovery trajectories during the year. Key petrochemical products, namely LDPE and MTBE troughed in the first quarter of 2009, improved in the second and then stabilised. Steel and fertiliser prices, however, moderately improved on their 2009 lows which were sustained in the second quarter. Senior management of the group companies are confident that product prices will continue to gradually improve; but, there are no expectations that prices will return to pre-recession levels in 2010.

The historically low prices that characterised much of the latter part of 2008 and the majority of 2009 were not accompanied by corresponding production volume reductions or inventory stockpiling; on average, sale volumes remained on par with 2008 levels as all facilities continued to operate at full utilisation. A notable exception was Qatar Steel which saw sales volumes increase by 30.2% - partly due to the sale in the first half of excess inventory carried over from 2008, but also due to higher production volumes. There was only one major shut-down in 2008, with QAFCO experiencing short planned downtime in one of its ammonia plants in Q1.

Despite increased price competition following drops in consumer and government spending, demand for the IQ group companies' products remained high in key Asian, Far Eastern and Indian sub-continent markets. No significant shifts in market penetration were noted, except for Qatar Steel which increased its geographical presence beyond the GCC. During the year, circa 10% of sales were made to non-GCC markets, from the Far East to Europe. Also worthy of note was the opening by QAPCO and QAFCO of 7 new sales and marketing offices, in South-East Asia and Australia.

## GROSS PROFIT

Despite, on average, natural gas and butane feedstock prices decreasing due to linkages with declining spot market prices and listed product prices, and the group's plants and facilities operating at full capacity, thereby maintaining economy of scale efficiencies, the group's gross profit margin dropped from 49.7% to 40.4%, totalling QR 3.9 billion by year end. The feedstock contracts, the majority of which are entered into with Qatar Petroleum, allowed for natural gas price adjustments. However, the allowed decline in feedstock prices did not perfectly correlate to product price drops in scale or timing, resulting in an erosion of the group's gross margin levels.

Qatar Steel, which closed 2008 with grossly weaker margins due material stock write offs, record iron oxide raw material prices and the imposition of an export ban and price cap, suffered from low margins in the early part of the year, before recovering in the second half.

QAFCO's gross margins were the most significantly impacted. Natural gas feedstock negotiations for the majority of trains were concluded shortly before the onset of the global slowdown and hence not only reflected more bullish expectations for urea prices but also did not contain a urea price adjustment factor.

## OPERATING COSTS

In line with the reduction in selling prices, but also due to the reduced use of off-take agreements, selling expenses declined by 31.5%. Underlying general and administrative expenses marginally increased; however, the actual increase was accentuated by initial general and administrative expenses related to the commissioning and inauguration of Qatofin. Group headcount increased to 4,170, of which 15.5% were nationals (2008: 15.0%).

## NON-OPERATING INCOME AND CHARGES

Net non-operating income increased by QR 1.1 billion due principally to the full and final settlement of a claim by Qatar Steel against the government of the state of Qatar related to losses incurred due to the imposition of a price cap and export ban in 2008. This claim, originally for QR 1.8 billion, was settled for QR 1.2 billion in the second quarter of 2009.

Other significant one-off income relates to liquidated damages received by Qatar Steel against an EPC contractor connected to the Phase 1 expansion project, liquefied petroleum gas price adjustments for 2008 and 2009 received by QAPCO. Interest income net of finance charges improved on 2008 by QR 0.2 billion, to QR 0.3 billion, giving the group an interest cover ratio of 33.3 (2008: 46.9). Qatar Steel's Dubai subsidiary suffered losses of QR 0.02 billion due to the slump in construction activity witnessed in the emirate.

### NET PROFIT

Boosted by the Qatar Steel price claim settlement, group net profit margins improved versus last year, from 49.3% to 50.5%. Overall, net profit dropped by QR 2.4 billion. Basic and diluted earnings per share was QR 8.86 per share (2008: QR 13.23 per share), and return on equity was 25.6% (2008: 39.9%).

## Consolidated Statement Of Financial Position

### PROPERTY, PLANT AND EQUIPMENT / PROJECTS UNDER DEVELOPMENT

Feedstock and engineering problems caused delays in the operational launch of Ras Laffan Olefins Cracker, resulting in it being carried over to 2010 as a project under development. Other major changes to projects under development consisted of the completion of Qatar Steel Dubai's new bar mill, further works on QAFCO V and a write-off associated with the cancellation of QAFAC II. In the first half of 2010, Fereej expect to complete their Airport Road commercial tower works, initial works on QAFCO VI will start and QAFCO are due to launch their melamine plant.

### WORKING CAPITAL

The year-on-year decline in working capital can be attributed to decreases in inventory, cash and short-term deposits and reductions in the current portion of long-term loans. Inventory levels were reduced, but last year could be considered exceptional due to Qatar Steel's unusually high closing stock levels (QR 2.0 billion). Also, it is noteworthy that despite depressed market conditions and plants running at capacity, there was no stockpiling, as inventory, excluding Qatar Steel, increased by only QR 0.02 billion.

Cash and short-term deposits decreased principally due to significant investment outflows and payment of the record 2008 dividend.

### LONG-TERM LOANS

During the year, the group drew down an additional QR 1.6 billion to support the expansion plans of QAFCO and QAPCO. Concurrently, other outstanding loans were settled, resulting in net indebtedness marginally decreasing on last year by QR 0.04 billion. Despite the significant capital expansion plans, IQ has maintained a consistently low gearing; by the end of 2009, the debt to equity ratio further improved, moving from 33.0%, in 2008, to 31.5%.

### CONSOLIDATED STATEMENT OF CASH FLOWS

In 2009, the group was able to generate healthy operating cash flows of QR 4.3 billion primarily due to cash flows associated with net operating profits, but also aided by the favourable movement in working capital amounting to QR 0.3 billion. The group continued to invest in strategic capacity additions resulting in net investing cash out flows of QR 2.0 billion. The group's debt position remained unchanged with a marginal movement in the net loan position.

The payment of 2008 dividends, totalling QR 4.4 billion, affected financing cash flows, although the impact was partially off-set by the receipt of the claim settlement from the State of Qatar (QR 1.2 billion). The combined impact of all of these resulted in a net cash outflow of QR 1.1 billion.

These results, in light of the global recession and credit crunch, are a testament to the senior management and staff of the IQ group companies.

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# Strategies for Growth

## Introduction

The group's current 5 year business plan, which covers the period from 2010 to 2014 inclusive, builds on the vision of the Board of Directors to pursue a capital intensive growth model which identifies sustainable market opportunities that match core competencies. By 2014, the group expects to invest an additional QR 16.9 billion in expansion projects and new facilities, to double group sales to over QR 20 billion and significantly increase net profits to QR 7.9 billion. Earnings per share are expected to grow by an annual average rate of over 10%, to end at QR 14.39 per share in 2014. Progressively improving net cash flows are forecast to yield 2014 closing net cash and short-term deposits of between QR 25 billion and QR 30 billion (excluding dividends declared in financial years 2009 through to 2013), as compared to QR 5.8 billion in 2009.

## Capital Projects

To support this growth, the group will be involved in numerous projects to build new facilities or expand existing ones across all segments during the planning period. With the launch of Qatofin in Q1, 2010, the group will add linear low density polyethylene to its suite of petrochemical products and, in the first quarter of 2012, significantly boost its production capacity of LDPE. In the fertiliser segment, QAFCO's investment in 2 new fertiliser plants, QAFCO V and VI, will make QAFCO the world's largest single-site fertiliser manufacturer, while the completion of Qatar Melamine will increase the range of products within that segment. However, the most ambitious capital investment plans exist within the steel segment. From 2010, Qatar Steel will commence works on a range of new facilities that will significantly increase the tonnage of billets and bars available for sale, and widen the range of products to include galvanized wire, PC strands and coil. With these investments, Qatar Steel expects to be a major regional player in the market for wire-rods and flats in the short to medium term.

## Petrochemical Segment

*The petrochemical segment, comprising of Qatar Petrochemical Company (QAPCO) and Qatar Fuel Additives Company (QAFAC), has been the mainstay of Industries Qatar since the group's incorporation. This segment consistently provides over 30% of revenue and 40% of net profits through the sale of its 4 key products and 3 main by-products.*

### SALES

Base Business

Due to the economic recession, the petrochemical base business, which consists of existing plants and facilities, contracted by 27% in 2009. Given that these production sites are currently operating at full utilisation, and only two major shut-downs are planned during the next 5 years, the positive growth that is expected over the coming years will be in close correlation to key product price trends. This business plan assumes average expected product price inflation over all key products of circa 5% over the planning horizon, implying base revenue growing from QR 3.2 billion, in 2009, to QR 4.0 billion by 2014.

To support the existing business, both QAPCO and QAFAC intend to continue expanding their respective sales and marketing networks. While specific numbers and locations of additional offices are subject to emerging market trends, both companies intend to expand their presence in their key Far East and Indian sub-continent markets. QAPCO currently have no plans to further reduce the existing off-take percentage agreed with TOTAL.

New Operations / Expansions

The group expects to add an additional QR 7.6 billion of petrochemical sales over the coming 5 years from new operations. RLOC, delayed in 2009 due to feedstock and engineering problems associated with Q-Chem and the connecting feedstock pipeline, will launch in the first quarter of 2010, supplying Qatofin with ethylene needed for its LLDPE production. Both plants are expected to quickly ramp-up to full rated capacity by the end of the year. Minimal excess LDPE, mixed LPG and pyrolysis gasoline are also expected to be produced. LDPE-3 is currently on schedule for completion in the first quarter of 2012. On launching, the facility will use up all excess ethylene produced by RLOC as well as some of QAPCO's existing excess production. This plant is also expected to ramp-up to full rated capacity within the year. New operations' product selling prices, including LLDPE, are expected to trend in tandem with core business prices.

## GROSS PROFIT

Feedstock contracts for the main inputs supplied by Qatar Petroleum, natural gas and butane, are agreed per plant on varying terms. All contracts are expected to be re-negotiated during the planning period. However, the feedstock advantage currently enjoyed, namely, guaranteed availability, flexible pricing formulae and competitive prices, is not expected to be eroded. Accordingly, gross profit margins for the core business are expected to remain broadly consistent with current trends. Gross margins for new operations, however, are expected to be lower than comparable core business margins due to high initial depreciation. Accordingly, overall gross margin is expected to average just over 60% for the coming 5 years.

## NET PROFIT

Historically, the business has enjoyed good gross to net margin conversion rates, typically losing between 2% and 5% in moving from gross profit to net profit. This trend is expected to continue with net profit, buoyed by low net finance expenses and consistent income from associates, expected to average between 50% and 55%. Total net profit in the petrochemical segment is expected to grow by over 10% per annum to QR 3.3 billion in 2014.

## Fertiliser Segment

*Despite modest price inflation expectations over the coming 5 years, the fertiliser segment is still expected to almost double revenue to QR 4.9 billion, and increase net profits by almost 70%, to QR 2.1 billion.*

### SALES

Base Business

Urea prices declined significantly in the latter part of 2008 after peaking in the third quarter. By the end of 2009, prices declined by a further 5%. For the 5 year planning period, urea prices are assumed to reverse this downward trend and close 2014 circa 5% up on 2009. Expectations for ammonia, however, are more positive with average price increases in the range of 5% to 10% budgeted.

With rolling major shut-downs of the 4 ammonia and 4 urea plants expected from 2010, negligible volume growth is expected in the base business. Overall, base business revenue is projected to increase in the 5 years to 2014 by approximately QR 0.4 billion, to QR 2.9 billion (2009 = QR 2.5 billion).

Currently, QAFCO have no intention of reducing current off-take percentages agreed with Yara, but there are plans to increase the number of direct sales and marketing offices and agents.

New Operations / Expansions

IQ's share of new operations within the fertiliser segment is budgeted to add a cumulative total of QR 7.2 billion more sales in the 5 years to 2014. Both QAFCO V and VI are expected to reach full operational capacity within 6 to 9 months of commissioning (Q1, 2011 and Q3, 2012 respectively). Minimal excess ammonia is expected to be sold, as most will be converted to urea. In combination, both plants will produce 1.9 million metric tonnes per annum of urea. Urea product prices are expected to grow modestly, in line with base business price inflation.

### GROSS PROFIT

Despite the distinct possibility of natural gas prices only marginally improving on 2009 levels, downward revision of pre-recession feedstock rates for existing plants has not been factored in. Likewise, contracts for QAFCO V and VI have been prudently assumed to be at levels consistent with QAFCO IV. Accordingly, gross profit margin is expected to only marginally deteriorate over the coming 5 years, mostly due to the additional depreciation burden of the new facilities. The business plan assumes an average gross margin of between 55% and 60%.

Net Profit

Net profit will be adversely affected by expected increases in gearing and interest rates, and will drop below 50% range during the planning period. Total net profit in the fertiliser segment is budgeted to increase from QR 1.3 billion in 2009, to QR 2.1 billion in 2014, an average growth rate of circa 11%.

## | Steel Segment

*With the most ambitious expansion plans, the steel segment will grow annually by circa 20% and account for almost 50% of the group's sales by 2014, or approximately QR 10 billion. Net profit within the segment will also improve as Qatar Steel's profits are budgeted to exceed QR 2.7 billion, from the current QR 1.8 billion.*

### SALES

Base Business

Spurred by expectations of continued strong construction activity within Qatar and key GCC markets over the coming 5 years, Qatar Steel's main product prices are expected to grow between 5% and 10%. Output is currently capacity constrained, so significant volume changes are not envisaged. Overall, base sales are budgeted to increase by an average of up to 8% annually, from QR 4.0 billion in 2009 to almost QR 6.0 billion by the end of 2014.

New Operations / Expansions

Qatar Steel's range of expansion and affiliate investment activities will gradually drive significant incremental sales from new operations. A cumulative total of QR 9.0 billion of additional sales would have been realised by 2014. Budgeted sales in 2014 are set at QR 4.2 billion, which is slightly larger than the company's current total sales, spurred on primarily by almost QR 2.0 billion of additional bar sales and approximately QR 1.0 billion of coil sales. Necessarily, these projections are sensitive, *inter alia*, to project completion timelines, but senior management are of the opinion that expected completion dates are realistic and achievable. It is also worthy of note that the business plan expects construction activity to have significantly picked up towards the middle of the new decade and, as many of the new products identified are not expected to sell in as highly a competitive market as existing products, robust product prices are budgeted.

### GROSS PROFIT

Increased production and new sources of iron ore are expected to moderate prices for this critical raw material over the entire planning period.

In addition to buoyant product prices and high grossing products, gross margin is forecast to progressively improve over the 5 year planning period. By 2014, gross margins are expected to be close to 30%, almost doubling from the current 15.3%. Gross profits, however, are expected to increase by more than 4 times, to end 2014 at close to QR 3.0 billion.

Net Profit

Budgeted additional interest expense caused by the increased debt burden required to fund these activities is expected to be largely offset by higher returns resulting from increased investment in Qatar Steel's Bahraini associate, Gulf United Steel Company. Therefore, the historical gross to net margin differential, of between 0% and 2% is expected to marginally increase to between 1% and 3%, as net profits increase by more than 50% to QR 2.7 billion.

## Head Office

Qatar Petroleum, the majority shareholder, provides all of the head office functions for IQ through a comprehensive services directive. In 2010, QP intends to invest further in many of the head office functions of IQ, like:

- Consolidation and Group Reporting, with the aim of shortening the reporting cycle and publishing financial results earlier.

- Investor Affairs, with the regular publication of detailed investor presentations, hosting of road shows and attendance at more investor conferences. Most importantly, the investor affairs team will remain accessible for queries from all investors, nationals and non-nationals, potential or existing, Arabic or English-speaking.

- Public Relations, with regular maintenance of the IQ website and better utilising it as a portal to communicate with stakeholders. In addition, the PR team aims to increase the visibility of the group, both within Qatar and the wider region.

- Corporate Governance by ensuring the group as a whole is complying with relevant regulatory and statutory rules for listed companies.

- Human resources by identifying and developing suitable nationals for key posts.

*References to average growth over a multi-year period refer to compound annual growth rates, not arithmetical averages. All figures in this report have been rounded to QR billions for reasons of presentation and figures for 2003 represent the nine month period from April 19, 2003 (date of IQ incorporation) to December 31, 2003 (IQ year end).*

# Capital Projects Update

Past and current projects and investments have significantly contributed to an almost trebling of non-current assets since 2003.  By the end of 2012, it is expected that capital expenditure would have added almost QR 21.0 billion to IQ's balance sheet.  This represents a significant investment for the future prosperity and growth of IQ.

## Past Projects

Since 2003, the group has completed 5 significant capital expansion projects at a cost to IQ of QR 4.4 billion, and acquired 4 additional companies.  This expenditure has increased the range of products being sold and the production capacity of existing facilities, thereby enabling IQ to produce strong sales and net profits.

| Stated in QR Billions | Completion Date | Total Cost | IQ Cost |
|---|---|---|---|
| Qatar Steel Dubai - Bar Mill | Q3. 2009 | 0.2 | 0.2 |
| Qatar Steel Expansion - Phase I | Q3. 2007 | 2.1 | 2.1 |
| QAPCO Ethylene Expansion (EPII) | Q3. 2007 | 0.9 | 0.7 |
| QAFAC De-Bottlenecking | Q2. 2007 | 0.1 | 0.1 |
| QAFCO IV | Q2. 2004 | 1.7 | 1.3 |
| | | **5.0** | **4.4** |

## Current Projects

The group is currently involved in 7 major projects at a total cost to IQ of QR 16.1 billion. The largest of these, and one of the largest capital projects in Qatar, QAFCO V, is now expected to launch earlier than expected - in the first quarter of 2011. IQ's share of project costs is still QR 9.6 billion. QAFCO VI, to be established adjacent to the QAFCO V facility, is budgeted to cost a total of QR 2.3 billion, with IQ's share totalling QR 1.7 billion. The plant is expected to be operational in the third quarter of 2012.
Qatar Melamine is now expected to cost a total of QR 1.3 billion, with commercial production expected to start in the first quarter of 2010, while QAFCO's remaining project, Urea-1 revamp, will also finish in the first quarter, at a total cost of only QR 0.3 billion.

Of QAPCO's 2 projects, Ras Laffan Olefins Cracker is due to launch in the first quarter of 2010 at a cost to IQ of QR 2.5 billion, and LDPE-3 is still on schedule and within budget.

| Stated in QR Billions | Completion Date | Total Cost | IQ Cost |
|---|---|---|---|
| QAFCO VI | Q3. 2012 | 2.3 | 1.7 |
| LDPE-3 | Q1. 2012 | 2.3 | 1.8 |
| QAFCO V | Q2. 2011 | 12.8 | 9.6 |
| Qatofin / Ras Laffan Olefins Cracker | Q1. 2010 | 5.1 | 2.6 |
| Qatar Melamine | Q1. 2010 | 1.3 | 0.5 |
| Urea-1 Revamp | Q1. 2010 | 0.3 | 0.3 |
| Fereej Tower II | Q1. 2010 | 0.3 | 0.1 |
| | | **24.4** | **16.6** |

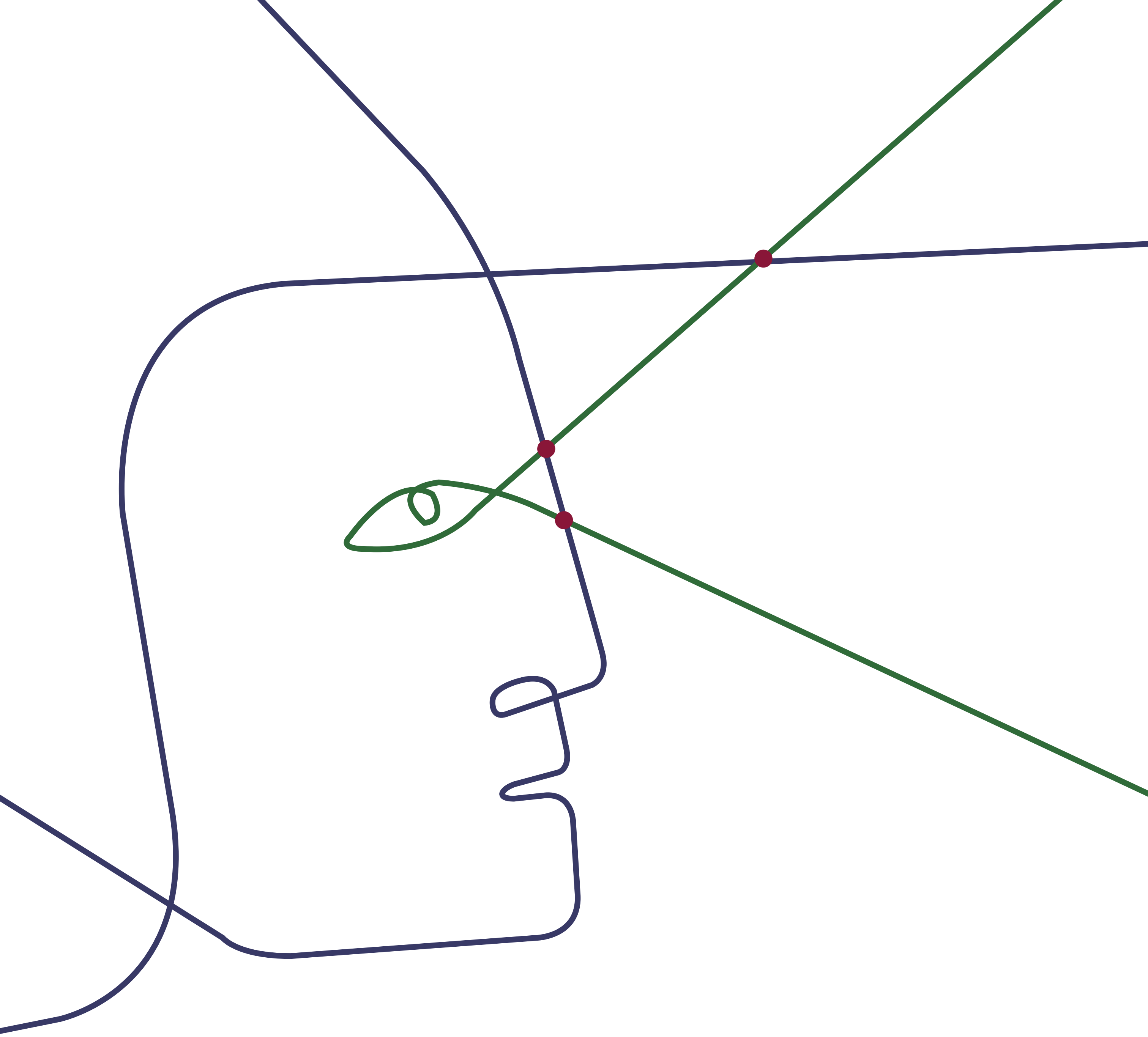
## Future Projects

The most ambitious capital investment plans exist within the steel segment. From 2010, Qatar Steel will commence works on a range of new facilities that will significantly increase the tonnage of billets and bars available for sale, and widen the range of products to include galvanized wire, PC strands and coil. With these investments, Qatar Steel expects to be a major regional player in the market for wire-rods and flats in the short to medium term.

| Stated in QR Billions | Completion Date | Total Cost | IQ Cost |
|---|---|---|---|
| QS Phase 3 | Q3. 2014 | 5.0 | 5.0 |
| QS Phase 2 | Q3. 2012 | 4.0 | 4.0 |
| QS Dubai | Q4. 2011 | 0.2 | 0.2 |
| QS Upgrade DR1 / EF1 | Q3. 2011 | 0.6 | 0.6 |
| | | **9.8** | **9.8** |

*All figures in this report have been rounded to QR billions for reasons of presentation and figures for 2003 represent the nine month period from April 19, 2003 (date of IQ incorporation) to December 31, 2003 (IQ year end).*

# INTERVIEWS



Integrity is the essence of everything successful.

# Interview With The GM of QAPCO

## Dr. Mohamed Al-Mulla

### Impact of the global recession

***Taking into account key macroeconomic and financial variables, like inflation / deflation, interest rates, unemployment, GDP, consumer spending and the like, how was QAPCO impacted by the recent global recession?***

As a matter of fact, it is difficult to say which of the two factors, inflation or deflation, worked more in our favour in 2009. Recovery of the world economy was the prime concern during the year after the passing of the worst effects of the worldwide recession and financial crisis. Inflation, which is generally considered bad for an economy during normal conditions, is considered favourable during a recession, particularly in economies driven by consumer spending. Towards the end of 2009, it showed signs of recovery. Higher inflation prevailed particularly in emerging Asian economies where we sell the majority of our products. On the other hand, many developed countries experienced deflation, where we have few sales.

Unemployment, lowering GDP levels and weak consumer spending all impacted the general demand cycle as well as demand specifically for plastic products and their raw-materials. In turn, the prices of final plastic products and their raw materials also declined due to lower demand, which was reflected in our net back prices during the first half of 2009.

Interest rates, including LIBOR, were lower throughout the year. Due to the liquidity crunch, finance was not so easily available. There were no obligations on QAPCO during the year on any term loan or bank finance having any impact on our financials, although QAPCO did sign a 3-year working capital facility of $200 million with QIB.

There is no doubt that consumer spending deeply impacted the world market, particularly in the West. However, as our major markets are in Middle East and Asia, we were much less affected.

## Capital expansion projects

***Did the recession or credit crisis have an impact on your capital expansion plans? For example, Qatofin was delayed in 2009 – was this due to the economic slowdown?***

There have been no major changes to completion timetables, construction cost or costs of funding due to the recession on any of our major projects except that the Ras Laffan Olefins Cracker, which was scheduled to start around September / October 2009, is now forecasted to start by the end of Q1, 2010. The Qatofin LLDPE plant was also delayed due to the non-availability of ethylene from the RLOC.

***What progress has there been on your 3 major projects – RLOC, Qatofin and LDPE-3?***

Firstly, the Qatofin LLDPE plant was successfully commissioned in July, 2009 and started in HDPE mode. By the middle of December, 2009, it switched to LLDPE mode using ethylene from QAPCO and butene from Q-Chem. His Highness, Sheikh Hamad bin Khalifa Al-Thani, the Emir of Qatar inaugurated the LLDPE plant on November 24th, 2009 and dedicated it to the people of Qatar for their further prosperity. The ethylene feedstock is yet to be received from Ras Laffan Olefins Cracker which is under process of start-up and final commissioning.

Secondly, the EPC contract for the LDPE-3 plant was signed in May, 2009 with UHDE of Germany, with commercial production forecasted to start in 2012. The Stone Laying Ceremony for the plant was officially attended on December 14th, 2009 by His Highness, the Heir Apparent of Qatar, Sheikh Tamim bin Hamad Al-Thani.

## Financial and operational review of 2009

***Were there any significant changes in your marketing strategy or marketing spend during 2009?***

There were no major shifts in our marketing strategy during the year. We continued to develop our global marketing network by opening new offices or warehouses at strategic places. By the end of 2009, QAPCO's global marketing network consisted of 26 self-operated offices, 2 warehouses and 1 sub-warehouse, along with an extensive agent and distributor network.

***What major changes have you witnessed within your industry in 2009?***

One year is too short a period to witness major changes within an industry. But, if we talk about the period of the past 4 to 5 years, than yes we could say, there has been a major shift of activities in the petrochemical field with the GCC becoming a hub for petrochemical production. All the major world petrochemical players have established a presence in the region and we hope that it will continue like this for the long run.

## Outlook for 2010 and beyond

### *Are there any plans to launch new products?*

The LLDPE or LDPE (from the new LDPE-3 facility) production shall have different grades to offer in the market. Other than this, we do not have any other plans to launch new products. However, given our desire to continually grow, we may consider expansions or projects to offer different grades of existing petrochemical products.

### *How about entering into new markets?*

Yes, we are spreading our wings through our global marketing network to all parts of the world to find markets for our new LLDPE product and additional LDPE-3 production.

### *What kind of marketing initiatives are you planning?*

Besides, having new offices and warehouses at strategic places, our main focus would be on increasing customer satisfaction.

### *What are your expectations for additions of new capacity or withdrawal of existing capacity by competitors?*

We are not at all worried about the addition of new capacity in the region as GCC producers continue to have leverage over other producers on account of our feedstock cost advantage. Currently, there have been some delays on completion of certain projects on account of the financial crisis and world recession, with some projects that were announced in the past two years being postponed.

### *Given the potential for significant new capacity, do you think we will see price wars break out between Gulf petrochemical producers, or at least intense price competition, during the coming years?*

We do not expect a price war with any other petrochemical producer. We have long-term and mature relationships with our customers.

# Interview With The GM of QAFAC

## Mr. Rashid Al-Hajri

### | Impact of the global recession

***What effect did the recent global financial crisis have on the operations and financial results of QAFAC?***

While acknowledging the fact that the recent economic recession had impacted all economies in varying degrees, the impact of these variables on QAFAC's operations was very minimal. The notable impact was the significant fall in product prices due to reduced consumer spending and GDP in our key markets.

### | Capital expansion projects

***With regard to a future expansion strategy, does QAFAC have any plans to invest in any new facilities, given that there is currently a slump in construction costs and raw material prices?***

QAFAC's decisions to invest in new plants is based on its detailed business plan approved by the Board of Directors. The business plan will not only look at the costs but also look at various other parameters before making a recommendation to the Board of Directors. The Board of Directors critically reviews the project economics of any available opportunities identified in the Business Plan, before deciding on such opportunities.

As per our Business Plan for the period 2010 to 2014, we do not envisage any such opportunities. However we are focusing on improving our production through efficiency improvement such as de-bottlenecking exercise and converter enhancements.

However QAFAC will closely monitor the market for any profitable opportunities and decide on such opportunities on a case by case basis.

### | Financial and operational review of 2009

***What major changes have you witnessed within your industry in 2009?***

The major change noted within the industry was the anti-dumping investigation by China which forced many methanol suppliers to adjust their sales strategies into China, thus affecting the demand / supply balance of other regions. Even though China initiated its anti-dumping investigations, it is still the biggest importer of methanol in the world as most of its own coal based methanol plants cannot compete with other low cost producers, especially in the Middle East. However, it should be clearly noted that QAFAC was not on the list of companies being investigated.

***How about marketing spending, have there been any significant changes in this area?***

No. There have been no significant changes. However, off-take commissions have been removed thereby increasing the net return to QAFAC.

## Outlook for 2010 and beyond

***Do you have any plans to launch any new products?***

No. We do not have any plans to launch any new products in the immediate horizon

***Or, enter into new markets***

QAFAC's products are already present in all major markets in Asia and Europe. Smaller markets are being closely monitored for opportunities.

We will be interested in expanding from current markets if new markets ensure better overall returns to the company than going to its traditional markets. If feasible, profitable, and depending on the markets themselves, QAFAC will sell to those markets mostly on spot basis.

***What kind of marketing initiatives are you planning?***

Starting 1 January 2009, QAFAC moved from traditional off-take agreements to sale and purchase agreements (SPA) selling directly to end users and thereby assuming responsibility for the marketing function of the business.

We have no intention of moving away from this new mode of marketing operation in the immediate future.

***What are your expectations for additions of new capacity or withdrawal of existing capacity by competitors?***

The global market for methanol is expected to experience capacity growth of 34 million tons between 2009 and 2014 with supply growth of 9, 14, and 6 million tons in 2009, 2010 and 2011 respectively. Most of this growth is expected from Northeast Asia. We expect such capacity additions to put significant pressure on inefficient small scale plants in China and other high cost plants in the region, forcing them to shut-down. European producers will continue to be uncompetitive due to their uncompetitive gas costs and struggle to support capacity growth. In fact, it is likely to see a slight decline in European production as growing Middle East imports easily compete.

# Interview With The MD of QAFCO

## Mr. Khalifa Al-Suwaidi

### | Impact of the global recession

***To what extent was QAFCO impacted by the global recession, focusing on common economic factors like inflation / deflation, interest rates, unemployment, consumer spending and GDP?***

Other than consumer spending, changes in other variables had a minimal impact on QAFCO. The significant impact on consumer spending brought about by the recent global recession greatly affected QAFCO's revenue. Demand for fertilizers was relatively lower compared to previous years as growers reduced their fertilizer applications. Make no mistake about it, the world is still going through the food shortage; however, consumers continue to tighten-up their spending to cope with the effect of the financial crisis. The recent goal of food production maximization temporarily shifted to wise spending.

### | Capital expansion projects

***How are QAFCO projects progressing? Can you please update us with the latest development on these projects?***

There were no significant additions to capacity in 2009. In 2010 we will see the addition of one melamine plant which will increase the range of products within that segment. QAFCO V is well underway. It is already at 69% weighted average completion. It is expected to come on-stream by the second half of 2011. In the meantime, QAFCO VI is expected to start production in late 2012. QAFCO V and VI will make QAFCO the world's largest single-site fertiliser manufacturer.

### | Financial and operational review of 2009

***During 2009, were there any significant changes in your marketing strategy or marketing spend?***

We never deviated and continue selling our products either under long-term contracts, by tenders or on spot sales. However, we expanded our marketing networks by engaging new agents and we have taken a new vessel, Al Majedah, on time charter.

***What major changes have you witnessed within your industry in 2009?***

There were no major changes in 2009 except for the fact that new capacities were added across the region. However there have been a few legislation changes. For example, China has declared their new export tariffs for 2010. The off-season fertilizer export tax was cut from 10% to 7% and would be applied provided the exports were priced at or below specified base prices. India is working out their new fertilizer policy about subsidies etc. and is expected to announce it in a few weeks time.

## Outlook for 2010 and beyond

***Are there any plans to launch new products?***

Other than melamine, aqueous ammonia will be sold from February 2010.

***How about entering into new markets?***

In a commodity business like urea and ammonia, new markets are not added but we have plans to expand our volumes in existing markets.

***What kind of marketing initiatives are you planning?***

New long-term contracts are being signed and more capable agents are being appointed.

***What are your expectations for additions of new capacity by competitors? Do you think we will see price wars during the coming years?***

Price competition will continue to be intense as new capacities have been added across the region. Iran and Egypt have increased their ammonia capacities, whilst, there were urea capacity additions from Pakistan, Iran, Malaysia, Vietnam and China.

# Interview With The GM of Qatar Steel

## Sheikh Nasser Al-Thani

### | Impact of the global recession

***Did changes in key economic variables such as inflation / deflation, interest rates, bank liquidity and GDP growth due to the recent economic recession affect the operational and financial results of Qatar Steel?***

Yes. We acknowledge that the changes to key economic variables mentioned did affect the operational and financial results of Qatar Steel. Some of these variables had a positive impact whilst others a negative impact. During the year inflation levels were more or less similar to previous years in most of the GCC countries. The unavailability of capital has negatively impacted the real-estate development and adversely affected the steel industry in terms of lower product prices.

More importantly, lower oil prices resulted in low GDP growth in the GCC, resulting in significant delay in some government development and investment expenditure, which in-turn affected steel prices.

### | Capital expansion projects

***Taking your future expansion strategy, how far you have progressed with planned expansion plans?***

The expansion plans are well underway and we are well within schedule. During the year, Qatar Steel commenced work on some of its major projects such as EF1 and 2 projects, revamping and upgrading of DR1 and DR2 facilities. Further our fully owned subsidiary, Qatar Steel FZE, successfully commenced operation of its new bar mill with a capacity of 300,000 MT per annum.

### | Financial and operational review of 2009

***Have there been any significant changes to your marketing strategy / spend in 2009?***

There has not been any major change in our marketing strategy, essentially our market (the GCC Countries) have fared well in this last economic slowdown. And we feel that with expected strong oil prices recovery will be fast.

## Outlook for 2010 and beyond

***Are there any plans to launch new products or to modify current product range?***

Qatar Steel does have plans to diversify into flat products - HRC / CRC, HR Plates, and Coated Steel. We also have plans to go for changes in rib pattern, from bamboo shaped ribs to transverse rib patterns, to meet the market requirements and changes in grades / specification to meet requirements of local and international quality accreditations.

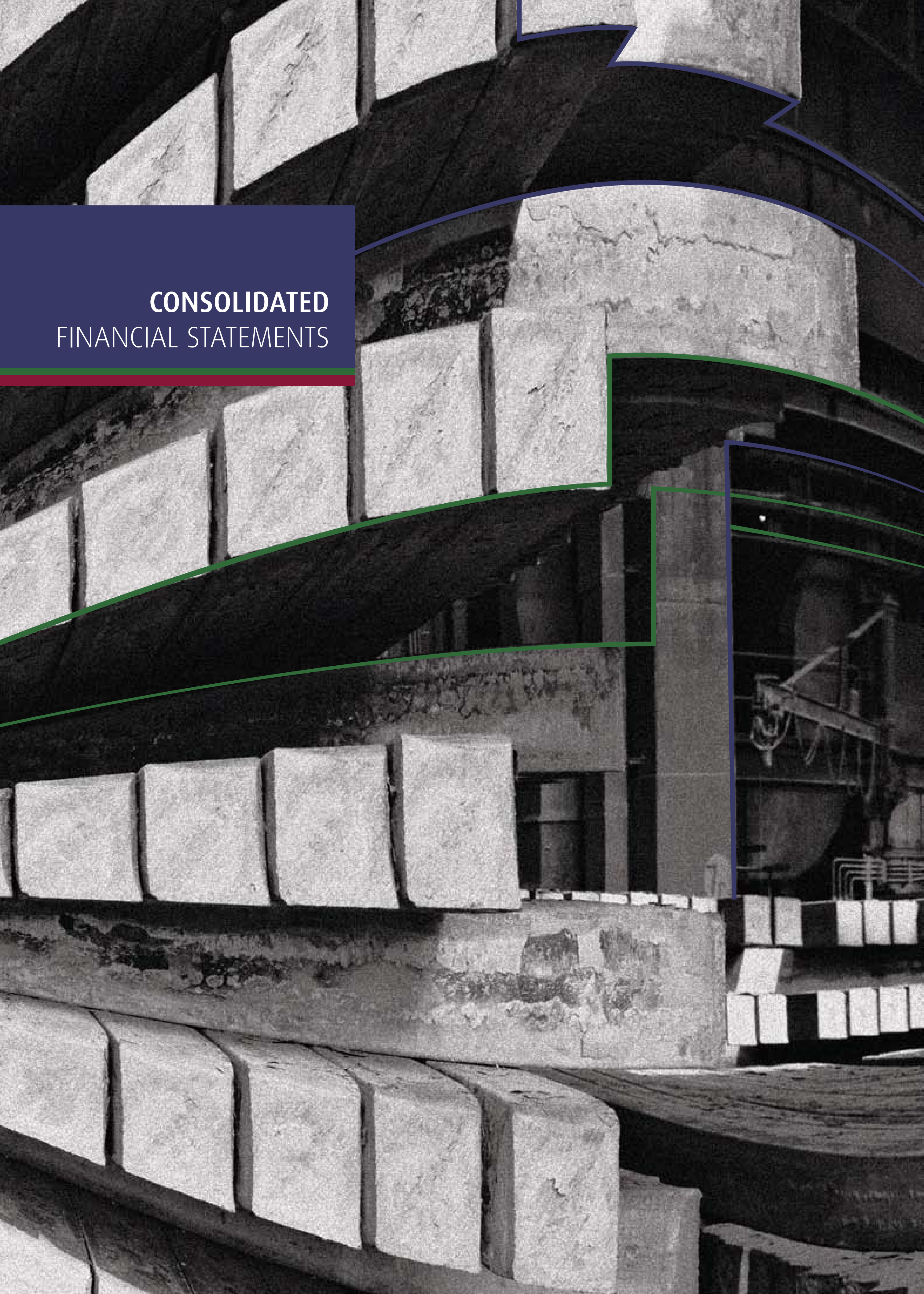
***How about developing new markets or forming any strategic alliance?***

We have different marketing strategies for different product ranges. For example we are constantly looking for new markets and customers for DRI/HBI to maximize sales. We focus on selling rebars predominantly in the GCC region due to its growing demand. We are also seeking to expand the customer base in the neighbouring countries within the MENA region to support us during times of weak export demand in GCC. We also have plans to invest in some of the steel companies within the GCC region. These investments may be in the form of forward integration / diversification such as HR / CR coils etc.

***With regard to capacity changes, have there been any additions of new capacity or withdrawal of existing capacity by competitors?***

Our subsidiary in Dubai, UAE started production from its new 300,000 tonnes per year rebar mill in Dubai, UAE. Emirates Steel Industries has moved from a re-roller to an integrated steel mill and continues its expansion to add new products in the coming years.

Industries Qatar



# **CONSOLIDATED** FINANCIAL STATEMENTS

Inspired to reach wider horizons...

# Independent Auditors' Report To The Shareholders of Industries Qatar Q.S.C.

We have audited the accompanying 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 2009 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 notes.

We did not audit the financial statements of Qatar Steel Company Q.S.C., a wholly-owned subsidiary and Qatar Petrochemical Company Limited Q.S.C., of which the Company is a co-venturer. The Group's share of the total assets and total revenues in these entities amounted to QR 14.83 billion and QR 6.15 billion, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to data included in those companies, is based solely on the report of the other auditors.

### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate for 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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

## 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.

**Firas Qoussous**
of Ernst & Young
Auditor's Registration No. 236

Date: 28 February 2010
Doha

# CONSOLIDATED STATEMENT OF INCOME
## For the year ended 31 December 2009

| | Notes | 2009 QR'000 | 2008 QR'000 |
|---|---|---|---|
| Revenues | 3 | 9,656,667 | 14,743,056 |
| Direct costs | | (5,757,013) | (7,412,548) |
| **GROSS PROFIT** | | 3,899,654 | 7,330,508 |
| Share of results from associates | 14 | 30,251 | 269,529 |
| Other income, net | 4 | 1,369,407 | 125,673 |
| Income from investments | 5 | 380,705 | 319,383 |
| Selling expenses | | (137,756) | (201,038) |
| General and administrative expenses | 6 | (439,214) | (391,785) |
| Impairment loss on available-for-sale investments | 15 | - | (31,451) |
| Finance costs | | (99,758) | (143,693) |
| **PROFIT BEFORE CONTRIBUTION FOR SOCIAL AND SPORTS ACTIVITIES** | | 5,003,289 | 7,277,126 |
| Contribution to social fund | 7 | (125,082) | - |
| **PROFIT FOR THE YEAR** | 8 | 4,878,207 | 7,277,126 |
| **Attributable to:** | | | |
| Equity holders of the parent | | 4,875,740 | 7,275,554 |
| Non-controlling interest | | 2,467 | 1,572 |
| | | 4,878,207 | 7,277,126 |
| **BASIC AND DILUTED EARNINGS PER SHARE** (Expressed as QR per share) | 9 | 8.86 | 13.23 |

The attached notes 1 to 35 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## For the year ended 31 December 2009

| | 2009<br>QR'000 | 2008<br>QR'000 |
|---|---|---|
| **Profit for the year** | 4,878,207 | 7,277,126 |
| **Other comprehensive income** | | |
| Net movement on fair value of cash flow hedges | 327,500 | (531,253) |
| Net movement on available-for-sale investments | 1,049 | (168,372) |
| **Other comprehensive income for the year** | 328,549 | (699,625) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | 5,206,756 | 6,577,501 |
| **Attributable to:** | | |
| Equity holders of the parent | 5,204,289 | 6,575,929 |
| Non-controlling interest | 2,467 | 1,572 |
| | 5,206,756 | 6,577,501 |

The attached notes 1 to 35 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## At 31 December 2009

| | Notes | 2009 QR'000 | 2008 QR'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **8,114,738** | 6,137,619 |
| Projects under development | 11 | **7,517,870** | 5,186,479 |
| Investment properties | 12 | **196,731** | 124,347 |
| Intangible assets | 13 | **95,799** | 71,707 |
| Investment in associates | 14 | **1,412,401** | 1,487,160 |
| Available-for-sale investments | 15 | **288,630** | 247,773 |
| Catalysts | | **133,697** | 118,981 |
| Other non-current assets | | **1,125** | - |
| | | **17,760,991** | 13,374,066 |
| **Current assets** | | | |
| Inventories | 16 | **1,376,948** | 2,520,907 |
| Accounts receivable and prepayments | 17 | **1,527,040** | 1,297,557 |
| Due from related parties | 27 | **491,742** | 566,119 |
| Held for trading investments | 18 | **128,505** | 125,051 |
| Other financial assets | 19 | **2,277** | 120,755 |
| Cash and short term deposits | 20 | **5,833,786** | 9,445,207 |
| | | **9,360,298** | 14,075,596 |
| **TOTAL ASSETS** | | **27,121,289** | 27,449,662 |

The attached notes 1 to 35 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
## At 31 December 2009

| | Notes | 2009 QR'000 | 2008 QR'000 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 21 | **5,500,000** | 5,500,000 |
| Legal reserves | 22 | **142,747** | 141,832 |
| Cumulative changes in fair value | | **142,262** | 141,213 |
| Hedging reserve | 19 | **(307,165)** | (634,665) |
| Retained earnings | | **10,819,414** | 8,694,589 |
| Proposed dividends / Bonus issue | 23 | **2,750,000** | 4,400,000 |
| **Equity attributable to the parent** | | **19,047,258** | 18,242,969 |
| Non-controlling interest | | **12,835** | 11,493 |
| **Total equity** | | **19,060,093** | 18,254,462 |
| **Non-current liabilities** | | | |
| Interest bearing loans and borrowings | 24 | **5,691,727** | 3,369,025 |
| Employees' end of service benefits | 25 | **179,558** | 177,080 |
| Other financial liabilities | 19 | **259,932** | 589,668 |
| | | **6,131,217** | 4,135,773 |
| **Current liabilities** | | | |
| Accounts payable and accruals | 26 | **1,116,807** | 1,367,321 |
| Due to related parties | 27 | **478,345** | 858,279 |
| Other financial liabilities | 19 | **28,103** | 165,751 |
| Interest bearing loans and borrowings | 24 | **306,724** | 2,668,076 |
| | | **1,929,979** | 5,059,427 |
| **Total liabilities** | | **8,061,196** | 9,195,200 |
| **TOTAL EQUITY AND LIABILITIES** | | **27,121,289** | 27,449,662 |

……………………………………………………
Abdullah Bin Hamad Al-Attiyah
Deputy Premier and
Minister of Energy and Industry
Chairman and Managing Director

……………………………………………
Yousef Hussain Kamal
Minister of Economy and Finance
Vice Chairman

The attached notes 1 to 35 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## For the year ended 31 December 2009

| | Notes | 2009 QR'000 | 2008 QR'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **4,878,207** | 7,277,126 |
| Adjustments for: | | | |
| Depreciation and amortisation | | **524,579** | 460,984 |
| Provision for employees' end of service benefits | 25 | **42,189** | 58,832 |
| Provision/write off for obsolete inventory | | **13,310** | 334,772 |
| Gain on disposals of investments | | **(437)** | (24,230) |
| (Gain)/loss on revaluation of investment properties | 4 | **(5,921)** | 23,685 |
| Income from associates | | **(30,251)** | (269,529) |
| Loss on disposal of property, plant and equipment | | **3,195** | 3,887 |
| Impairment loss on available-for-sale investments | | **-** | 31,451 |
| Finance costs | | **99,758** | 143,693 |
| (Gain)/loss from change in fair value of held for trading securities | 4 | **(4,484)** | 37,702 |
| Interest income | 5 | **(357,753)** | (305,641) |
| Write off of projects under development | 11 | **57,700** | - |
| Grant income | 4 | **(1,165,711)** | - |
| Contribution to social fund | 7 | **125,082** | - |
| | | **4,179,463** | 7,772,732 |
| Working capital changes: | | | |
| Inventories | | **1,104,981** | (1,482,453) |
| Accounts receivable and prepayments and due from related parties | | **(155,107)** | 42,174 |
| Accounts payable and accruals and due to related parties | | **(630,449)** | (539,470) |
| Cash from operations | | **4,498,888** | 5,792,983 |
| Interest paid | | **(243,034)** | (143,693) |
| Employees' end of service benefits paid | 25 | **(39,711)** | (35,492) |
| Net cash from operating activities | | **4,216,143** | 5,613,798 |
| **INVESTING ACTIVITIES** | | | |
| Proceeds from disposals of property, plant and equipment | | **94** | 110 |
| Purchase of property, plant and equipment | | **(980,505)** | (221,665) |
| Net movement in catalysts and other assets | | **(33,623)** | (31,088) |
| Acquisition of investments in associates | | **-** | (48,188) |
| Net movement in projects under development | | **(3,849,011)** | (2,910,710) |
| Purchase of investments | | **(108,989)** | (113,780) |
| Proceeds from disposal of investments | | **2,395** | 83,123 |
| Movement in intangible assets | | **(24,092)** | 606 |
| Movement in other non-current assets | | **(1,126)** | - |
| Dividends received | | **83,604** | 1,743 |
| Net movement in deposits maturing after 90 days | | **2,515,425** | (1,001,640) |
| Interest income received | | **357,753** | 305,641 |
| Net cash used in investing activities | | **(2,038,075)** | (3,935,848) |
| **FINANCING ACTIVITIES** | | | |
| Net movement in loans | | **(38,650)** | 2,595,315 |
| Grant income from the State of Qatar | 4 | **1,165,711** | - |
| Dividends paid | | **(4,400,000)** | (2,000,000) |
| Dividends paid to non-controlling interests | | **(1,125)** | (1,125) |
| Net cash (used in) from financing activities | | **(3,274,064)** | 594,190 |
| **(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | | **(1,095,996)** | 2,272,140 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | | **5,936,227** | 3,664,087 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 20 | **4,840,231** | 5,936,227 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## For the year ended 31 December 2009

| | *Attributable to the equity holders of the parent* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Share capital QR'000* | *Legal reserve QR'000* | *Cumulative changes in fair value QR'000* | *Hedging reserve QR'000* | *Retained earnings QR'000* | *Proposed dividend/ bonus issue QR '000* | *Total QR'000* | *Non-controlling interest QR'000* | *Total QR'000* |
| Balance at 1 January 2009 | 5,500,000 | 141,832 | 141,213 | (634,665) | 8,694,589 | 4,400,000 | 18,242,969 | 11,493 | 18,254,462 |
| Profit for the year | - | - | - | - | 4,875,740 | - | 4,875,740 | 2,467 | 4,878,207 |
| Other comprehensive income for the year | - | - | 1,049 | 327,500 | - | - | 328,549 | - | 328,549 |
| Total comprehensive income for the year | - | - | 1,049 | 327,500 | 4,875,740 | - | 5,204,289 | 2,467 | 5,206,756 |
| Transfer to legal reserve | - | 915 | - | - | (915) | - | - | - | - |
| Dividends paid | - | - | - | - | - | (4,400,000) | (4,400,000) | - | (4,400,000) |
| Dividends paid to non-controlling interests | - | - | - | - | - | - | - | (1,125) | (1,125) |
| Dividend proposed | - | - | - | - | (2,750,000) | 2,750,000 | - | - | - |
| **Balance at 31 December 2009** | **5,500,000** | **142,747** | **142,262** | **(307,165)** | **10,819,414** | **2,750,000** | **19,047,258** | **12,835** | **19,060,093** |

The attached notes 1 to 35 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

## For the year ended 31 December 2009

| | *Attributable to the equity holders of the parent* | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | *Share capital QR'000* | *Legal reserve QR'000* | *Cumulative changes in fair value QR'000* | *Hedging reserve QR'000* | *Retained earnings QR'000* | *Proposed dividend/ bonus issue QR '000* | *Total QR'000* | *Non-controlling interest QR'000* | *Total QR'000* |
| Balance at 1 January 2008 | 5,000,000 | 141,309 | 309,585 | (103,412) | 5,819,558 | 2,500,000 | 13,667,040 | 11,046 | 13,678,086 |
| Profit for the year | - | - | - | - | 7,275,554 | - | 7,275,554 | 1,572 | 7,277,126 |
| Other comprehensive income for the year | - | - | (168,372) | (531,253) | - | - | (699,625) | - | (699,625) |
| Total comprehensive income for the year | - | - | (168,372) | (531,253) | 7,275,554 | - | 6,575,929 | 1,572 | 6,577,501 |
| Transfer to legal reserve | - | 523 | - | - | (523) | - | - | - | - |
| Dividends paid | - | - | - | - | - | (2,000,000) | (2,000,000) | - | (2,000,000) |
| Dividends paid to non-controlling interest | - | - | - | - | - | - | - | (1,125) | (1,125) |
| Dividends / Bonus shares proposed | - | - | - | - | (4,400,000) | 4,400,000 | - | - | - |
| Issue of bonus shares | 500,000 | - | - | - | - | (500,000) | - | - | - |
| Balance at 31 December 2008 | 5,500,000 | 141,832 | 141,213 | (634,665) | 8,694,589 | 4,400,000 | 18,242,969 | 11,493 | 18,254,462 |

The attached notes 1 to 35 form part of these consolidated financial statements.

# 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 in 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:

| ***Entity Name*** | ***Country of incorporation*** | ***Relationship*** | ***Ownership interest*** | |
|---|---|---|---|---|
| | | | ***2009*** | *2008* |
| Qatar Steel Company Q.S.C. | Qatar | Subsidiary | **100%** | 100% |
| Qatar Petrochemical Company Limited Q.S.C. | Qatar | Joint venture | **80%** | 80% |
| Qatar Fertiliser Company (S.A.Q.) | Qatar | Joint venture | **75%** | 75% |
| Qatar Fuel Additives Company Limited Q.S.C. | Qatar | Joint venture | **50%** | 50% |
| Fereej Real Estate Company Q.S.C. | Qatar | Joint venture | **34%** | 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 Limited 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). This Company is currently in a pre-operating stage.

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 and is currently in a pre-operating stage.

- **Qatar Fertiliser Company (SAQ) ("QAFCO")**, a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ (75%), Fertiliser Holdings ASA (10%) and Yara Netherland BV (15%). QAFCO is engaged in the production and sale of ammonia and urea.

**QAFCO** has ownership interest in Gulf Formaldehyde Company ("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.

- **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.

The consolidated financial statements of the Group for the year ended 31 December 2009 were authorised for issue by Chairman and the Vice Chairman on 28 February 2010.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

**Basis of preparation**

The consolidated financial statements have been prepared on a historical cost basis, except for investment properties, derivative financial instruments and available-for-sale 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.

**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.

**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 2009.

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.

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

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. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

**Changes in accounting policies and disclosures**

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended IFRS's which became effective during the year. Adoption of these new or revised standards did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures.

*IAS 1 "Presentation of Financial Statements" (Revised)*

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expenses, either in one single statement, or in two linked statements. The Group has elected to present two statements.

*IFRS 7 "Financial Instruments: Disclosures"*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition reconciliation between the beginning and ending balance for level 3 fair value measurements is required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 34. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 33.

*IFRS 8 "Operating Segments"*

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this standard did not have any effect on the financial position or performance of the Group. The Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting.

*IAS 23 "Borrowing Costs"*

The Standard has been revised to require capitalisation of borrowing costs when such costs relate to qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group had already adopted the policy of capitalising borrowing costs on qualifying assets and hence adoption of this Standard did not have any effect on the financial performance or position of the Group.

*Improvements to IFRSs*

In May 2008, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of these amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

The following amendments and interpretations became effective in 2009, but were not relevant to the Group's operations:

| *Standard/Interpretation* | *Content* |
|---|---|
| IFRIC 16 | Hedges of net investment in a foreign operation |
| IFRIC 9 and IAS 39 | Embedded derivatives |
| IAS 32 and IAS 1 (Amendment) | Puttable financial instruments and obligations arising on liquidation |
| IFRS 2 | Share based payments – Vesting conditions and cancellations |
| IFRIC 13 | Customer loyalty programmes |

## Standards, amendments and interpretations issued but not adopted

The following standards, amendments and interpretations have been issued but are mandatory for accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

| *Standard/Interpretation* | *Content* | *Effective date* |
|---|---|---|
| IFRS 1 and IAS 27 | Cost of an investment in a subsidiary, jointly controlled entity or associate | 1 July 2009 |
| IFRS 3 | Business combinations | 1 July 2009 |
| IAS 27 | Consolidated and separate financial statements | 1 July 2009 |
| IAS 39 | Financial instruments: Recognition and measurement – eligible hedged items | 1 July 2009 |
| IFRIC 17 | Distribution of non-cash assets to owners | 1 July 2009 |
| IFRIC 18 | Transfers of assets from customers | 1 July 2009 |
| IFRS 9 | Financial instruments part 1: Classification and measurement | 1 January 2013 |

The Group is considering the implications of the above standards, the impact on the Group and the timing of their adoption by the Group. The Group did not early adopt new or amended standards in 2009.

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

### 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 recognized 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 recognized 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 | 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.

**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.

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

### 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 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.

### 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 parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the 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.

### 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 Group recognises its interest in the joint venture using proportionate consolidation.

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

**Interest in a joint venture (continued)**

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 parent company. 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.

**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 recognised directly in equity 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)

**Financial assets (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. 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 equity 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.

### 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

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

**Derivative financial instruments and hedging (continued)**

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 profit or loss.

*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.

Under Law No. 24 of 2002 on Retirement and Pensions, the Company 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.

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

### Provisions

Provisions are recognised when the Company 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.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

*Financial liabilities*

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

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

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

**Fair values (continued)**

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

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Steel | **3,987,360** | 5,769,580 |
| Fertilisers | **2,479,950** | 4,589,661 |
| Petrochemicals | **2,164,090** | 2,981,527 |
| Fuel additives | **1,023,151** | 1,402,288 |
| Rental income | **2,116** | - |
| | **9,656,667** | 14,743,056 |

## 4. OTHER INCOME, NET

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Grant income (Note (i)) | **1,165,711** | - |
| Net movement in fair value of investment properties | **5,921** | (23,685) |
| (Loss) / gain from change in fair value of held for trading securities | **4,484** | (37,702) |
| Gain on disposal of held for trading securities | **345** | 19,939 |
| Net gain on disposal of available for sale securities | **92** | 4,291 |
| Write off of projects under development (Note 11) | **(57,700)** | - |
| (Loss) / gain on foreign exchange | **(1,890)** | (22,087) |
| Other income | **252,444** | 184,917 |
| | **1,369,407** | 125,673 |

Note:

(i) In May 2009, the Ministry of Economy and Finance, based on the Group's request for compensation against fixing of steel prices for local sales in 2008, have compensated the Group with an amount of QR 1,165,711 thousand. This has been disclosed as income from government grants in the statement of income.

## 5. INCOME FROM INVESTMENTS

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Dividend income | 22,952 | 13,742 |
| Interest on bank deposits | 357,753 | 305,641 |
| | 380,705 | 319,383 |

## 6. GENERAL AND ADMINISTRATIVE EXPENSES

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Staff costs | 192,135 | 202,398 |
| Depreciation (Note 10) | 42,498 | 38,795 |
| Repairs and maintenance | 25,674 | 23,273 |
| Public relations and gifts | 23,706 | 11,355 |
| Insurance, rents and fees | 17,907 | 5,043 |
| External services | 15,705 | 12,784 |
| Spares and equipment | 12,357 | 5,584 |
| Travel and conveyance | 9,814 | 9,815 |
| Board of Directors fees and expenses | 7,078 | 4,874 |
| QP annual charges | 6,831 | 6,831 |
| Provision for obsolete and slow moving spare parts | 5,607 | 6,915 |
| Communication expenses | 5,372 | 4,470 |
| Other expenses | 74,530 | 59,648 |
| | 439,214 | 391,785 |

## 7. CONTRIBUTION TO SOCIAL FUND

In accordance with Law No. 13 of 2008, the Group has provided for an amount equivalent to 2.5% of the consolidated net profit for the year for the support of sports, cultural, social and charitable activities.

## 8. NET PROFIT FOR THE YEAR

The profit for the year is stated after charging:

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Staff costs | 867,259 | 931,114 |
| Depreciation on property, plant and equipment | 503,227 | 444,083 |
| Amortisation of catalysts and other non-current assets | 19,597 | 16,901 |
| Operating lease rentals | 28,368 | 51,750 |
| Increase/(decrease) in fair value of investment properties | 5,921 | (23,685) |

## 9. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share are 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:

| | *2009* | *2008* |
|---|---|---|
| Profit attributable to the equity holders of the parent for the year (QR'000) | **4,875,740** | 7,275,554 |
| Weighted average number of shares outstanding during the year (in thousands) | **550,000** | 550,000 |
| Basis and diluted earning per share (expressed in QR per share) | **8.86** | 13.23 |

In 2008, the Company issued bonus shares for the year 2007. The figures for basic and diluted earnings per share are the same as the Company has not issued any instruments which would have an impact on the earnings per share when exercised.

The weighted average number of shares has been calculated as follows:

| | *2009* | *2008* |
|---|---|---|
| Qualifying shares at beginning of the period (in thousands) | **550,000** | 500,000 |
| Effect of bonus shares issued (in thousands) | - | 50,000 |
| Weighted average number of shares outstanding (in thousands) | **550,000** | 550,000 |

## 10. PROPERTY, PLANT AND EQUIPMENT

| | *Land and buildings QR'000* | *Plant, machinery and equipment QR'000* | *Heavy duty mobile equipment QR'000* | *Furniture equipment and fixtures QR'000* | *Motor vehicles QR'000* | *Computer equipment QR'000* | *Capital work in progress QR'000* | *Total QR'000* |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| At 1 January 2009 | 1,921,107 | 11,995,469 | 64,944 | 49,586 | 13,436 | 65,964 | 657,180 | 14,767,686 |
| Additions | 892 | 12,135 | 1,266 | 886 | 723 | 609 | 963,994 | 980,505 |
| Transfers | 75,225 | 525,811 | 12,885 | 310 | - | 14,130 | (259,373) | 368,988 |
| Retirement and disposals | (2,148) | (167,884) | (2,065) | (156) | (168) | (581) | (2,443) | (175,445) |
| Reclassifications | - | 97,737 | 18,417 | (740) | (582) | 702 | 1,133,914 | 1,249,448 |
| At 31 December 2009 | 1,995,076 | 12,463,268 | 95,447 | 49,886 | 13,409 | 80,824 | 2,493,272 | 17,191,182 |
| Depreciation: | | | | | | | | |
| At 1 January 2009 | 1,052,857 | 7,455,823 | 25,118 | 36,742 | 11,263 | 48,264 | - | 8,630,067 |
| Depreciation charge for the year | 54,633 | 430,169 | 4,786 | 2,902 | 696 | 10,041 | - | 503,227 |
| Reclassifications | 35,202 | 65,788 | 13,335 | (1,117) | - | 1,983 | - | 115,191 |
| Relating to disposals | (1,548) | (167,523) | (2,065) | (155) | (168) | (582) | - | (172,041) |
| At 31 December 2009 | 1,141,144 | 7,784,257 | 41,174 | 38,372 | 11,791 | 59,706 | - | 9,076,444 |
| Net carrying amount: | | | | | | | | |
| **At 31 December 2009** | **853,932** | **4,679,011** | **54,273** | **11,514** | **1,618** | **21,118** | **2,493,272** | **8,114,738** |

## 10. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Land and buildings QR'000 | Plant machinery and equipment QR'000 | Heavy duty mobile equipment QR'000 | Furniture equipment and fixtures QR'000 | Motor vehicles QR'000 | Computer equipment QR'000 | Capital work in progress QR'000 | Total QR'000 |
|---|---|---|---|---|---|---|---|---|
| Cost: | | | | | | | | |
| At 1 January 2008 | 1,804,008 | 11,464,987 | 57,770 | 45,049 | 13,287 | 57,164 | 1,112,360 | 14,554,625 |
| Additions | 1,522 | 7,660 | 172 | 2,264 | 468 | 3,042 | 226,605 | 241,733 |
| Transfers | 115,577 | 528,095 | 9,346 | 2,278 | - | 6,422 | (681,785) | (20,067) |
| Retirement and disposals | - | (5,273) | (2,344) | (5) | (319) | (664) | - | (8,605) |
| At 31 December 2008 | 1,921,107 | 11,995,469 | 64,944 | 49,586 | 13,436 | 65,964 | 657,180 | 14,767,686 |
| Depreciation: | | | | | | | | |
| At 1 January 2008 | 1,002,300 | 7,078,659 | 22,338 | 33,168 | 11,363 | 42,762 | - | 8,190,590 |
| Depreciation charge for the year | 50,557 | 378,902 | 4,706 | 3,578 | 175 | 6,165 | - | 444,083 |
| Relating to disposals | - | (1,738) | (1,926) | (4) | (275) | (663) | - | (4,606) |
| At 31 December 2008 | 1,052,857 | 7,455,823 | 25,118 | 36,742 | 11,263 | 48,264 | - | 8,630,067 |
| Net carrying amount: | | | | | | | | |
| At 31 December 2008 | 868,250 | 4,539,646 | 39,826 | 12,844 | 2,173 | 17,700 | 657,180 | 6,137,619 |

## 10. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(i) Certain of the buildings and plants located at Messaied, Qatar amounting to QR 1,699 million (2008: QR 1,673 million) 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, having a net book value of QR 43.8 million (2008: QR 9.1 million), are constructed on a leased land from Jebel Ali Free Zone Authority for an initial period of 15 years from August 2003.

(iii) As of the 31 December 2009, no capitalised borrowing costs have been included in property, plant and equipment (2008: QR 54.10 million).

(iv) Depreciation charge has been allocated in the consolidated statement of income as follows:

| | ***2009 QR'000*** | *2008 QR'000* |
|---|---|---|
| Direct costs | **460,070** | 404,618 |
| Selling expenses | **659** | 670 |
| General and administrative expenses | **42,498** | 38,795 |
| | **503,227** | 444,083 |

## 11. PROJECTS UNDER DEVELOPMENT

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| QAFCO-5 Project | **5,934,920** | 2,745,815 |
| Qatofin LLDPE plant facilities | **1,095,280** | 915,342 |
| Ras Laffan Olefin Company - plant and facilities | **997,921** | 824,450 |
| Qatar Melamine Project | **445,542** | 348,098 |
| TMT Wire Rode Project at Dubai Plant | **10,805** | - |
| QAFAC II project | **540** | 58,240 |
| New Bar Mill Project at Dubai Plant (Qatar Steel) | **-** | 218,650 |
| | **8,485,008** | 5,110,595 |
| *Properties under development:* | | |
| IQ Tower | **42,971** | 27,597 |
| Fereej Project | **85,171** | 48,287 |
| | **8,613,150** | 5,186,479 |
| Less: Reclassified to property, plant and equipment | **(1,095,280)** | - |
| | **7,517,870** | 5,186,479 |

Notes:

(i) During the year, the Group has written off costs relating to the QAFAC II project amounting to QR 57.7 million, as the project was suspended due to the non-availability of natural gas for expansion.

(ii) Project under development include an amount of QR 192.93 million (2008: QR 78.05 million) representing total borrowing costs capitalised during the year.

(iii) Certain of the plant facilities is being constructed on land leased from Qatar Petroleum.

## 12. INVESTMENT PROPERTIES

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| **At fair value:** | | |
| At 1 January | **124,347** | 148,032 |
| Additions during the year | **66,463** | - |
| Net (loss) / gain from fair value adjustments (Note 4) | **5,921** | (23,685) |
| At 31 December | **196,731** | 124,347 |

The fair value of the Group's investment properties at 31 December 2009 has been arrived at on the basis of a valuation carried by an independent valuer that is not related to the Group on 12 January 2010. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. The management believes that this approximated the fair value as at 31 December 2009. The encumbrances and liens on investment properties are disclosed in Note 24.

## 13. INTANGIBLE ASSETS

This represents 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. Qatofin has determined that those assets have an indefinite useful life. The assets are tested for impairment on an annual basis.

## 14. INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

| | *Effective ownership* | *Country of incorporation* | ***2009 QR'000*** | *2008 QR'000* |
|---|---|---|---|---|
| Qatar Metal Coating Company Q.S.C. | 50.00% | Qatar | **22,020** | 19,491 |
| United Stainless Steel Company | 25.00% | Bahrain | **64,801** | 70,392 |
| Gulf Industrial Investment Company | 25.00% | Bahrain | **902,093** | 962,414 |
| Qatar Vinyl Company Ltd. (Q.S.C) | 25.52% | Qatar | **368,159** | 379,735 |
| Qatar Plastic Products Company W.L.L | 26.66% | Qatar | **11,630** | 11,430 |
| Gulf United Steel Company (Foulath) B.S.C.Closed | 25.00% | Bahrain | **43,698** | 43,698 |
| | | | **1,412,401** | 1,487,160 |

The results of associates included in these consolidated financial statements are based on the management accounts and information.

(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) United Stainless Steel Company (USCO) started operations in 2007. USCO is engaged in the manufacture of cold rolled stainless steel coils and sheets.

(iii) Effective 17 May 2007, Qatar Steel acquired 25% of the issued share capital of Gulf Industrial Investment Co. (GIIC) which is engaged in the manufacture of iron ore pallets, through payment of USD 209 million, equivalent to QR 761 million. Included in this amount is goodwill amounting to QR 681.16 million. The management have concluded based on their testing that no impairment is considered necessary.

(iv) Qatar Vinyl Company Ltd (Q.S.C) (QVC) is engaged in the production of caustics soda, ethylene dichloride and vinyl chloride mononer.

(v) Qatar Plastic Products Company W.L.L. (QPPC) is engaged in the manufacturing of plastic heavy-duty bags, sheet and industrial products.

(vi) Effective 26 June 2008, Qatar Steel acquired 25% of the issued share capital of Gulf United Steel Company (Foulath) BSC closed (GUC), through payment of USD 3.25 million, equivalent to QR 11.8 million. In addition a shareholder loan for an amount of USD 8.75 million, equivalent to QR 31.8 million has been provided by Qatar Steel and is included in the carrying cost of the investment.

# 14. INVESTMENTS IN ASSOCIATES (continued)

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

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| **Share of associates' statement of financial position:** | | |
| Current assets | 631,980 | 695,308 |
| Non-current assets | 1,243,413 | 975,911 |
| Current liabilities | (324,354) | (188,663) |
| Non-current liabilities | (824,102) | (680,860) |
| **Share in net assets** | 726,937 | 801,696 |
| Add: Goodwill on acquisition | 684,804 | 684,804 |
| Add: Pre-acquisition equity adjustment | 660 | 660 |
| **Group's share of net assets of associates** | 1,412,401 | 1,487,160 |
| **Share of associates revenue and profit** | | |
| Revenue | 726,618 | 1,037,610 |
| Net share of result of associates | 30,251 | 269,529 |

# 15. AVAILABLE- FOR- SALE INVESTMENTS

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Quoted shares | 286,450 | 245,593 |
| Unquoted shares | 2,180 | 2,180 |
| | 288,630 | 247,773 |

Notes:

(i) A total of 54,999 shares of Qatar Shipping Company Q.S.C. having a market value of QR 1.79 million as at 31 December 2009 are restricted due to Directorship held by the Group (2008: 54,999 shares having a market value of QR 2.06 million.).

(ii) As of the 31 December 2009, no impairment loss was recognised in the consolidated statement of income (2008: QR 31.45 million).

## 16. INVENTORIES

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Fuel additives | 27,797 | 21,889 |
| Steel | 213,242 | 358,067 |
| Fertilisers | 39,117 | 30,177 |
| Petrochemicals | 59,078 | 40,934 |
| Work-in-progress | 122,591 | 689,659 |
| Raw materials | 272,490 | 791,283 |
| Goods in transit | 117,370 | 72,973 |
| Maintenance parts and supplies | 625,688 | 612,361 |
| | 1,477,373 | 2,617,343 |
| Less: Provision for obsolescence | (100,425) | (96,436) |
| | 1,376,948 | 2,520,907 |

During the previous year, finished goods inventory and work in progress inventory amounting to QR 200 million and QR 129 million, respectively, have been written off being the difference between net realisable value and the cost.

## 17. ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Trade accounts receivables | 1,062,545 | 969,164 |
| Other receivables and prepayments | 410,515 | 270,925 |
| Loans to employees | 56,724 | 58,428 |
| | 1,529,784 | 1,298,517 |
| Less: Provision for doubtful debts | (2,744) | (960) |
| | 1,527,040 | 1,297,557 |

## 17. ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

As at 31 December 2009, trade accounts receivables at nominal value of QR 2.74 million (2008: QR 0.96 million) were impaired. Movements in the allowance for impairment of receivables were as follows:

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| At 1 January | 960 | 1,120 |
| Charge for the year | 1,784 | - |
| Unused amounts reversed | - | (160) |
| At 31 December | 2,744 | 960 |

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

| | Total QR'000 | Neither past due nor impaired QR'000 | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | | | < 30 days QR'000 | 31 – 60 days QR'000 | 61 – 90 days QR'000 | 91– 180 days QR'000 | >180 days QR'000 |
| 2009 | 1,059,801 | 796,542 | 130,436 | 60,341 | 60,968 | 4,998 | 6,516 |
| 2008 | 968,204 | 899,500 | 50,741 | 6,452 | 27 | 567 | 10,917 |

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.

## 18. HELD FOR TRADING INVESTMENTS

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| At 1 January | 125,051 | 102,868 |
| Additions | - | 110,432 |
| Disposals | (1,030) | (50,547) |
| Movement in fair value (Note 4) | 4,484 | (37,702) |
| At 31 December | 128,505 | 125,051 |

## 19. OTHER FINANCIAL ASSETS AND LIABILITIES

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| **Other financial assets** | | |
| *Derivatives:* | | |
| Forward foreign exchange contract collar – Current | **2,277** | 120,755 |
| **Other financial liabilities** | | |
| *Derivatives:* | | |
| Interest rate swaps – 1 | **97,483** | 289,811 |
| Interest rate swaps – 2 | **129,703** | 198,195 |
| Interest rate swaps – 3 | **59,908** | 101,662 |
| Forward foreign exchange contract collar | **941** | 165,751 |
| | **288,035** | 755,419 |
| Presented in the consolidated statement of financial position as follows: | | |
| Non-current portion | **259,932** | 589,668 |
| Current portion | **28,103** | 165,751 |
| | **288,035** | 755,419 |

*Interest rate swaps - 1:*

As at 31 December 2009, Qatar Fertiliser Company Q.S.C.C 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 2009, the Group's share of measurement of the fair values of the hedges resulted in a negative amount of QR 97.5 million (2008: QR 290 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 2009, the measurement of the fair values of the hedges resulted in a negative amount of QR 129.7 million (2008: QR 198.1 million) which have been recognised in the equity as changes in fair values and as derivative liabilities.

## 19. OTHER FINANCIAL ASSETS AND LIABILITIES (continued)

*Interest rate swaps - 3:*

At 31 December 2009, Qatofin had interest rate swap agreements in place with two banks with a notional amount of USD 373 million (2008 : USD 345 million) whereby it receives a variable rate equal to LIBOR on the notional amount and pays a fixed rate of interest of 5.0175% and 4.995%. The swaps are used to hedge the exposure to changes in the cash flow of its variable rate syndicated loan. The loan and interest rate swaps have the same critical terms. The group share in the fair value of these interest rate swaps amounting to QR 59.9 million as at 31 December 2009 (2008: QR 101.6 million) has been shown as a separate component of equity and as derivative liabilities.

*Forward foreign exchange contract with collar:*

Collar are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price. As at 31 December 2009, the measurement of the fair values of the collar resulted in a positive amount of QR 2.3 million and negative amount of QR 0.9 million (2008: positive amount of QR 120.7 million and negative amount of QR 165.7 million) which has been recognised in the equity as changes in fair values and as derivative assets and liabilities.

*Spot forward currency contract:*

The Group has signed a spot forward currency contract to sell USD 100 million and buy Qatari Riyals at the spot rate of QR 3.6475.

The fair values of above derivative financial instrument as on 31 December 2009 amounted to QR 212,101 (2008: QR Nil) which has been included in the consolidated statement of income as the transaction do not qualify for hedge accounting and resultant asset has been disclosed as other receivables.

## 20. CASH AND CASH EQUIVALENTS

| | 2009<br>QR'000 | 2008<br>QR'000 |
|---|---|---|
| Bank balances and cash | 5,833,786 | 9,445,207 |

For the purpose of consolidated statement of cash flows, cash and bank balances are classified as follows:

| | **2009** | 2008 |
|---|---|---|
| | **QR'000** | QR'000 |
| Bank balances and cash | **5,833,786** | 9,445,207 |
| Less: Fixed deposits maturing after 90 days | **(993,555)** | (3,508,980) |
| | **4,840,231** | 5,936,227 |

Included in bank balances and cash are time deposits denominated in United States Dollars and Euros equivalent to QR 9 million (2008: QR 3,698 million). In addition, bank balances and cash include current and call deposits of QR 1,468 million (2008: QR 1,203 million) and term deposits of QR 4,367 million (2008: QR 7,987 million), respectively, held with commercial banks in Qatar. The term deposits are denominated mainly in Qatari Riyals and are short term in nature, with average effective interest rates of 6% (2008: 4.1%).

## 21. SHARE CAPITAL

| | **2009** | 2008 |
|---|---|---|
| | **QR'000** | QR'000 |
| Authorised, issued and paid-up: | | |
| 550,000,000 shares of QR 10 each | **5,500,000** | 5,500,000 |

In 2008, the authorised, issued and fully paid-up capital was increased by QR 500,000,000 by way of issue of 50,000,000 bonus shares of QR 10 each.

## 22. LEGAL RESERVES

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

Since the Articles of Association of the Company does not provide for legal reserve, the legal reserve detailed on the face of the 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 dividend distribution of QR 5 per share for the year ended 31 December 2009 (2008: QR 8 per share). The dividends for 2008 amounting to QR 4.4 billion were approved by the shareholders at the Annual General Meeting held on 20 April 2009 and was subsequently paid during 2009. The proposed final dividend will be submitted for formal approval at the Annual General Meeting.

## 24. INTEREST BEARING LOANS AND BORROWINGS

| | *Interest rate* | *Entity* | *Currency* | *Maturity date* | ***2009 QR'000*** | *2008 QR'000* |
|---|---|---|---|---|---|---|
| Loan 1 | LIBOR plus applicable margin | QAFCO | USD | 2017 | **2,695,551** | 1,335,206 |
| Loan 2 | LIBOR plus applicable margin | Qatar Steel | USD | 2016 | **1,642,701** | 1,760,665 |
| Loan 3 | LIBOR plus 0.5% | QAFAC | USD | 2011 | **118,846** | 192,010 |
| Loan 4 | LIBOR plus 3.0% | Qatar Steel | USD | 2014 | **92,983** | 127,851 |
| Loan 5 | QCB rate plus 2.45% | Fereej | QR | 2014 | **33,775** | - |
| Loan 6 | LIBOR plus 2% | Qatar Steel | USD | 2009 | **-** | 123,709 |
| Loan 7 | LIBOR plus 2% | Qatar Steel | USD | 2009 | **-** | 764,715 |
| Loan 8 | Fixed 3.21625% | Qatar Steel | USD | 2009 | **-** | 182,075 |
| Loan 9 | Fixed 4.4375% | Qatar Steel | USD | 2009 | **-** | 255,213 |
| Syndicated loan | LIBOR plus applicable margin | QATOFIN | USD | 2020 | **1,379,893** | 1,167,666 |
| Other short term loans | | Qatar Steel | | | **34,702** | 127,991 |
| | | | | | **5,998,451** | 6,037,101 |
| Less: repayments due within one year | | | | | **(306,724)** | (2,668,076) |
| Total non-current portion | | | | | **5,691,727** | 3,369,025 |

***Term 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 is currently under construction. 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 the QAFCO.

*Term loan 2:*

This is a US Dollar denominated facility consisting of a term loan facility of USD 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 cost, 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. The balance disclosed above represents the draw downs made by Qatar Steel up to the reporting date.

*Term loan 3:*

This represents a clean corporate loan facility amounting to USD 212 million for which a facility agreement was signed with a local bank on 8 August 2005 to refinance the outstanding balance of the previous loan. This loan carries interest at LIBOR plus margin of 0.5% per annum and is repayable in 11 semi-annual instalments commencing from 9 March 2006.

*Term loan 4:*

This is a US Dollar denominated loan obtained by the subsidiary of Qatar Steel to finance machinery purchase and carries interest of 3% over US Dollar LIBOR. The total facility amount is USD 35 million. The loan is repayable over 11 semi-annual instalments commencing 31 December 2008.

*Term loan 5:*

During the year, Fereej entered into an Ijarah agreement with a commercial bank in Qatar for an amount of QR 100 million. The facility is repayable in 5 annual instalments of QR 20 million starting from 2010 and carries profit rate at Qatar Central Bank rate plus 2.45%. The facility is secured by a first charge over an investment property with a carrying value of QR 195.5 million (see Note 12).

*Term loan 6:*

This unsecured subordinated loan was taken by Qatar Steel and carries interest at LIBOR plus 0.65% per annum. The loan was repayable in annual instalments of USD 20 million (QR 72.8 million) and USD 34 million (QR 123.7 million) due in 2007 and 2008, respectively, however, payment was rolled over to further period of six months at an interest of LIBOR plus 2%. The term loan was fully paid during the current year.

*Term loan 7:*

This unsecured subordinated loan was taken by Qatar Steel on 24 May 2007, and carries interest at LIBOR plus 1% per annum. The loan was repayable in full in one instalment due on 28 December 2008

## 24. INTEREST BEARING LOANS AND BORROWINGS (continued)

amounting to USD 210 million (QR 764.7 million). However, payment was rolled over to further period of six months at an interest of LIBOR plus 2%. The term loan was fully paid during the year.

***Term loan 8:***

This unsecured subordinated short term loan was taken by Qatar Steel and is denominated in US Dollars. This loan carries interest at 3.21625% per annum. The loan has been fully paid in one bullet payment of USD 50 million (QR 182 million) on 17 June 2009.

***Term loan 9:***

This loan represents a facility against trust receipts and is short term, subordinated and unsecured. It carries interest at 4.4375% per annum. This loan has been fully paid in one bullet payment of USD 70.1 million (QR 255.2 million) on 10 June 2009.

***Syndicated Loan:***

(i) QATOFIN, a joint venture of QAPCO, entered into an agreement with a consortium of banks led by Societe Generale as the Bank Facility Agent for an amount of USD 760 million to finance the construction of the Qatofin Plant. The loan currently carries interest at LIBOR plus an applicable margin of 0.50%. The loan is repayable in semi-annual instalments with the last instalment scheduled on 30 June 2020.

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

(ii) During the year, QAPCO entered into a multiple draw down Murabaha facility for an amount up to USD 200 million. The effective date of drawdown is 1 March 2010. The facility carries a profit rate of 5.5% per annum and is repayable on 29 February 2013

***Other short term loans***

These are unsecured overdraft facilities availed by the subsidiaries of Qatar Steel for working capital purposes.

## 25. EMPLOYEES' END OF SERVICE BENEFITS

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Balance as at 1 January | **177,080** | 153,740 |
| Provision during the year | **42,189** | 58,832 |
| End of service benefits paid | **(39,711)** | (35,492) |
| Balance as at 31 December | **179,558** | 177,080 |

## 26. ACCOUNTS PAYABLE AND ACCRUALS

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Trade payables | **364,781** | 616,754 |
| Provision for social and sports activities contribution | **125,082** | - |
| Accrued expenses and other payables | **626,944** | 750,567 |
| | **1,116,807** | 1,367,321 |

Included in accrued expenses and other payables is an amount of QR 34.3 million (2008: QR 200 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.

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

| ***Year ended 31 December 2009*** | *Sales QR'000* | *Purchases QR'000* | *Selling and other expenses QR'000* | *Lease rental payments QR'000* | *Other income QR'000* |
|---|---|---|---|---|---|
| Major shareholders | 123,442 | 1,453,514 | 24,949 | 11,521 | 1,819 |
| Associates | 441,280 | 359,190 | - | - | 38,566 |
| Other related parties | 1,830,148 | 95,062 | 123,938 | 17,686 | 12,639 |
| | **2,394,870** | **1,907,766** | **148,887** | **29,207** | **53,024** |

## 27. RELATED PARTY DISCLOSURES (continued)

**Related party transactions (continued)**

| *Year ended 31 December 2008* | *Sales QR'000* | *Purchases QR'000* | *Selling and other expenses QR'000* | *Lease rental payments QR'000* | *Other income QR'000* |
|---|---|---|---|---|---|
| Major shareholders | 805,246 | 1,711,100 | 19,127 | 23,695 | 4,450 |
| Associates | 714,659 | 416,070 | 40 | - | 27,482 |
| Other related parties | 3,722,371 | 13,532 | 136,904 | - | 10,776 |
| | 5,242,276 | 2,140,702 | 156,071 | 23,695 | 42,708 |

**Related party balances:**

*Due from related parties*

| | ***2009 QR'000*** | *2008 QR'000* |
|---|---|---|
| Major shareholders | **34,326** | 138,186 |
| Joint ventures | **34,464** | 7,550 |
| Associates | **103,385** | 111,318 |
| Other related parties | **319,567** | 309,065 |
| | **491,742** | 566,119 |

*Due to related parties*

| | ***2009 QR'000*** | *2008 QR'000* |
|---|---|---|
| Major shareholders | **343,864** | 742,134 |
| Joint ventures | **8,316** | 4,004 |
| Associates | **45,240** | 1,402 |
| Other related parties | **80,925** | 110,739 |
| | **478,345** | 858,279 |

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 2009, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2008: 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.

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

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Short term benefits | **27,039** | 25,055 |
| Qatari employees' pension fund contribution | **735** | 1,289 |
| | **27,774** | 26,344 |

## 28. INTERESTS 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.

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| **Assets:** | | |
| Current assets | **4,944,528** | 8,290,000 |
| Non current assets | **13,453,047** | 8,918,797 |
| | **18,397,575** | 17,208,797 |
| **Liabilities:** | | |
| Current liabilities | **1,171,260** | 1,900,079 |
| Non-current liabilities | **4,340,108** | 3,120,058 |
| | **5,511,368** | 5,020,137 |

| **Revenues:** | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Sales | **5,669,307** | 8,973,476 |
| Other income | **404,507** | 305,528 |
| | **6,073,814** | 9,279,004 |

| **Expenses:** | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| Direct costs | **2,378,058** | 2,633,519 |
| Interest and finance charges | **5,839** | 7,842 |
| Selling expenses | **110,806** | 164,476 |
| General and administrative expenses | **341,290** | 297,233 |
| | **2,835,993** | 3,103,070 |

## 29. COMMITMENTS

| | 2009 QR'000 | 2008 QR'000 |
|---|---|---|
| **Capital expenditure commitments:** | | |
| Estimated capital expenditure contracted for at the reporting date but not provided for: | | |
| Property, plant and equipment | **7,560,648** | 8,394,013 |

(a) Qatar Steel has entered into open purchase order commitments for the supply of miscellaneous capital items amounting to QR 159.86 million.

(b) As of 31 December 2009, the Board of Directors of QAPCO has authorised capital commitments of QR 99 million (2008: QR 1,411 million) and the Group share is QR 80 million (2008: QR 1,153 million).

(c) 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 QR 1,234.5 million.

(d) Included in the total commitments, is the group share of Qatofin capital commitment amounting to QR 94.2 million (2008: QR 468 million).

(e) On 2 December 2007, QAFCO signed an agreement with Hyndai Construction & Engineering Co. Ltd. and Snamprojetti S.P.A. for building a new Urea and 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).

(f) On 9 October 2009, QAFCO signed an agreement with Hyndai Construction & Engineering Co. Ltd. and Snamprojetti S.P.A. for building a new Urea plant. The value of the contract is USD 620 million (Group share: USD 465 million).

(g) QAFCO has signed an agreement with Qatar Intermediate Industries Holding Company Ltd. to establish a separate legal entity namely "Qatar Melamine Company" for constructing facilities to produce Melamine. The value of the contract is USD 348.8 million (2008: USD 318.1 million) and the Group share is USD 261.6 million (USD 238.6 million). QAFCO will own 60% of the shares of the Qatar Melamine Company.

(h) QAFCO has signed an agreement with Urea Casale S.A. for building new Urea-1 revamp project. The value of the contract including variation order is USD 95,153,395 (Group share: USD 71,365,046).

(i) The Board of Directors of Fareej Real Estate have approved a commitment of QR 37.4 million for capital expenditure of which Group's share amounted to QR 12.7 million.

(j) As of 31 December 2008, the Board of Directors of Industries Qatar has approved a commitment of QR 68 million for the detailed design of IQ Tower. Total commitment as of 31 December 2009 is QR 53 million.

(k) As of 31 December 2008, the Board of Directors of QAFAC have approved a commitment of US Doillar 2 million for various capital expenditures. The Group's share amounted to US$ 1 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:

| | ***2009 QR'000*** | *2008 QR'000* |
|---|---|---|
| Within one year | **48,245** | 28,368 |
| After one year but not more than five years | **77,005** | 55,685 |
| More than five years | **275,762** | 205,103 |
| Total operating lease expenditure contracted for at the reporting date | **401,012** | 289,156 |

## 30. SIGNIFICANT UNDERTAKINGS

The shareholders (excluding Industries Qatar) of QAFAC and Qatar Petroleum have agreed to off -take 100% of the product produced by the Fuel Additives plant and available for export under the terms of the Off -take Agreements signed on 14 April 1997 and amended and restated subsequently on 9 August 2002. In accordance with Board Resolution No. 6 of 2008 dated 19 May 2008, the above mentioned offtake agreements would remain valid until 31 December 2008. Thereafter, all responsibility for the sale and marketing of products will be handled by the QAFAC which has negotiated various Sale and Purchase Agreements on commercial terms with individual buyers including existing shareholders or their parent companies, effective from 1 January 2009.

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.

## 31. CONTINGENCIES

At 31 December 2009, 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 298.6 million (31 December 2008 : QR 409 million.).

The Group's contingency liabilities are as follows:

| | ***2009 QR'000*** | *2008 QR'000* |
|---|---|---|
| Letters of credit | **109,794** | 218,859 |
| Bank guarantees | **188,772** | 190,230 |
| Legal cases | **47,339** | - |
| | **345,905** | 409,089 |

## 32. SEGMENTAL REPORTING

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

- The petrochemical segments, which produces and sells ethylene, polyethylene, MTBE, methanol and other petrochemical products
- The fertilizer segment, which produces and sells urea, ammonia and other by products
- The steel segment, which produces and sells steel pellets, bars, billets and others
- The real estate segment which is involved in the real estate investment, property management and property rentals.

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 2009 and 2008 respectively:

| | *Petrochemicals QR'000* | *Fertilisers QR'000* | *Steel QR'000* | *Real estate QR'000* | *Total QR'000* |
|---|---|---|---|---|---|
| **Year ended 31 December 2009** | | | | | |
| Total revenue | 3,187,241 | 2,479,950 | 3,987,360 | 2,116 | 9,656,667 |
| Results: | | | | | |
| Segment results | 1,964,919 | 1,272,024 | 1,777,644 | 880 | 5,015,467 |
| Unallocated income | | | | | 58,562 |
| Unallocated expense | | | | | (195,822) |
| Profit for the year | | | | | 4,878,207 |
| Year ended 31 December 2008 | | | | | |
| Total revenue | 4,383,815 | 4,589,661 | 5,769,580 | - | 14,743,056 |
| Results: | | | | | |
| Segment results | 2,742,707 | 3,514,592 | 1,019,967 | - | 7,277,266 |
| Unallocated income | | | | | 14,136 |
| Unallocated expense | | | | | (14,276) |
| Profit for the year | | | | | 7,277,126 |

# 32. SEGMENTAL REPORTING (continued)

The following table present segmental assets regarding the Group's business segments for the year ended 31 December 2009 and 31 December 2008 respectively:

| | *Petrochemicals QR'000* | *Fertilisers QR'000* | *Steel QR'000* | *Real estate QR'000* | *Adjustments QR'000* | *Total QR'000* |
|---|---|---|---|---|---|---|
| **Segment assets:** | | | | | | |
| **At 31 December 2009** | **7,887,068** | **10,341,656** | **8,137,969** | **220,080** | **534,516** | **27,121,289** |
| At 31 December 2008 | 7,913,243 | 9,169,329 | 9,085,252 | 121,102 | 1,160,736 | 27,449,662 |

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.

# 33. 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 2009 and 2008 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.

**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 19. 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 2009. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

## 33. FINANCIAL RISK MANAGEMENT (continued)

### Interest rate risk (continued)

| | Net effect on | | |
|---|---|---|---|
| | *Profit +25bps QR'000* | *Property, plant and equipment +25bps QR'000* | *Equity +25bps QR'000* |
| *At 31 December 2009* | | | |
| *Variable rate instruments* | | | |
| Call deposits | 5,036 | - | - |
| Interest bearing loans and borrowings | (9,615) | 3,413 | - |
| Derivatives | (82) | - | (7,549) |
| | (4,661) | 3,413 | (7,549) |

| | Net effect on | | |
|---|---|---|---|
| | *Profit +25bps QR'000* | *Property, plant and equipment +25bps QR'000* | *Equity +25bps QR'000* |
| *At 31 December 2008* | | | |
| *Variable rate instruments* | | | |
| Call deposits | 2,324 | - | - |
| Interest bearing loans and borrowings | (8,836) | (6,506) | - |
| Derivatives | - | - | (1,586) |
| | (6,512) | (6,506) | (1,586) |

### 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.

| | *2009* *QR* | *2008* *QR* |
|---|---|---|
| Bank balances (excluding cash) | **5,833,256** | 9,189,662 |
| Accounts receivable and other assets | **1,414,816** | 1,191,344 |
| Amounts due from related parties | **491,742** | 566,119 |
| Other financial assets | **2,277** | 120,755 |
| | **7,742,091** | 11,067,880 |

**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.

| ***At 31 December 2009*** | *Less than one year* *QR'000* | *1 to 5 years* *QR'000* | *> 5 years* *QR'000* | *Total* *QR'000* |
|---|---|---|---|---|
| Accounts payables and accruals | **1,025,675** | **91,132** | **-** | **1,116,807** |
| Interest bearing loans and borrowings | **420,069** | **1,960,995** | **4,410,531** | **6,791,595** |
| Due to related parties | **473,593** | **4,752** | **-** | **478,345** |
| Other financial liabilities | **28,103** | **259,932** | **-** | **288,035** |
| | **1,947,440** | **2,316,811** | **4,410,531** | **8,674,782** |
| *At 31 December 2008* | *Less than one year* *QR'000* | *1 to 5 years* *QR'000* | *> 5 years* *QR'000* | *Total* *QR'000* |
| Accounts payables and accruals | 1,367,321 | - | - | 1,367,321 |
| Interest bearing loans and borrowings | 2,726,991 | 1,983,133 | 2,669,114 | 7,379,238 |
| Due to related parties | 858,279 | - | - | 858,279 |
| Other financial liabilities | 165,751 | 589,668 | - | 755,419 |
| | 5,118,342 | 2,572,801 | 2,669,114 | 10,360,257 |

**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

# 33. FINANCIAL RISK MANAGEMENT (continued)

**Currency risk (continued)**

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.

| | *Changes in currency rate to the Qatari Riyal* | *Effect on consolidated statement of income* |
|---|---|---|
| | | *QR'000* |
| ***2009*** | | |
| **GBP** | +5% | 57 |
| **Euro** | +5% | 2,973 |
| *2008* | | |
| GBP | +5% | 93 |
| Euro | +5% | 15,083 |

**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 QR. 2.1 million (2008: QR 2.1 million).

At the reporting date, the exposure to listed equity securities at fair value was QR 414.96 million (2008: QR 370.64 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 12.85 million (2008: QR 12.51 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 28.65 million (2008: QR24.56) 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 2009 and 31 December 2008.

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.

| | *2009 QR'000* | *2008 QR'000* |
|---|---|---|
| Interest bearing loans and borrowings | **5,998,451** | 6,037,101 |
| Accounts payable and accruals | **1,116,807** | 1,367,321 |
| Due to related parties | **478,345** | 858,279 |
| Other financial liabilities | **288,035** | 755,419 |
| | **7,881,638** | 9,018,120 |
| Less: Cash and short term deposits | **(4,840,231)** | (5,936,227) |
| Net debt | **3,041,407** | 3,081,893 |
| Equity | **19,047,258** | 18,242,969 |
| Cumulative changes in fair value | **(142,262)** | (141,213) |
| Hedging reserve | **307,165** | 634,665 |
| | **19,212,161** | 18,736,421 |
| **Capital and net debt** | **22,253,568** | 21,818,314 |
| **Gearing ratio** | **13.67%** | 14.13% |

## 34. 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.

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2009 QR'000 | 2008 QR'000 | 2009 QR'000 | 2008 QR'000 |
| **Financial assets** | | | | |
| Available-for-sale investments | 288,630 | 247,773 | 288,630 | 247,773 |
| Accounts receivable and prepayments | 1,527,040 | 1,297,557 | 1,527,040 | 1,297,557 |
| Due from related parties | 491,742 | 566,119 | 491,742 | 566,119 |
| Held for trading investments | 128,505 | 125,051 | 128,505 | 125,051 |
| Other financial assets: | | | | |
| Forward foreign currency collar | 2,277 | 120,755 | 2,277 | 120,755 |
| Bank balances and cash | 5,833,786 | 9,445,207 | 5,833,786 | 9,445,207 |
| **Total** | 8,271,980 | 11,802,462 | 8,271,980 | 11,802,462 |
| **Financial liabilities** | | | | |
| Interest bearing loans and borrowings | 5,998,451 | 6,037,101 | 5,998,451 | 6,037,101 |
| Accounts payable and accruals | 1,116,807 | 1,367,321 | 1,116,807 | 1,367,321 |
| Due to related parties | 478,345 | 858,279 | 478,345 | 858,279 |
| Other financial liabilities: | | | | |
| Interest rate swaps | 287,094 | 589,668 | 287,094 | 589,668 |
| Forward foreign currency collar | 941 | 165,751 | 941 | 165,751 |
| **Total** | 7,881,638 | 9,018,120 | 7,881,638 | 9,018,120 |

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, foreign exchange forward contracts and commodity forward contracts. 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, interest rate curves and forward rate curves of the underlying commodity.

**Fair value hierarchy**

At 31 December 2009, 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.

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

| ***At 31 December 2009*** | *Total QR'000* | *Level 1 QR'000* | *Level 2 QR'000* | *Level 3 QR'000* |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Available-for-sale investments | 286,450 | 286,450 | - | - |
| Held for trading investments | 128,505 | 128,505 | - | - |
| Other financial assets: | | | | |
| Forward foreign currency collar | 2,277 | - | 2,277 | - |
| **Liabilities measured at fair value** | | | | |
| Other financial liabilities: | | | | |
| Interest rate swaps | 287,094 | - | 287,094 | - |
| Forward foreign currency collar | 941 | - | 941 | - |

During the reporting period ending 31 December 2009, 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.

# 35. 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 not recognised any impairment of available-for-sale investments (2008: QR 31 million).

**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 1,062 million (2008: QR 969 million), and the provision for doubtful debts was QR 2.7 million (2008: 1 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 1,477 million (2008: QR 2,617 million), with provisions for old and obsolete inventories of QR 100.4 million (2008: 96.4 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 2009. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

*Impairment of non-financial assets*

The Group's impairment test for goodwill and intangible assets with indefinite useful lives is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

*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 estimate