Industries Qatar Q.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

ERNST & YOUNG

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

Report on the Financial Statements

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 balance sheet as at 31 December 2008 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Group as of 31 December 2007 were audited by another auditor; whose report dated 20 February 2008 expressed an unqualified audit opinion on those statements.

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 15.81 billion and QR 8.75 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.

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

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 financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 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: 25 February 2009
Doha

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Doha
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CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008

	Notes	***2008*** ***QR'000***	*2007* *QR'000*
Sales	3	**14,743,056**	9,325,932
Cost of sales		**(7,412,548)**	(4,394,626)
GROSS PROFIT		**7,330,508**	4,931,306
Share of results from associates	13	**269,529**	52,254
Other income	4	**125,673**	292,130
Income from investments	5	**319,383**	244,730
Selling expenses		**(201,038)**	(137,580)
General and administrative expenses	6	**(391,785)**	(318,341)
Impairment loss on available-for-sales investments	14	**(31,451)**	-
Finance costs		**(143,693)**	(79,933)
PROFIT FOR THE YEAR	7	**7,277,126**	4,984,566
Attributable to:			
Equity holders of the parent		**7,275,554**	4,983,259
Minority interest		**1,572**	1,307
		7,277,126	4,984,566
BASIC AND DILUTED EARNINGS PER SHARE (Expressed as QR per share)	8	**13.23**	9.06

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

CONSOLIDATED BALANCE SHEET
At 31 December 2008

	Notes	***2008 QR'000***	*2007 QR'000*
ASSETS			
Non-current assets			
Property, plant and equipment	9	**6,137,619**	6,364,035
Projects under development	10	**5,186,479**	2,275,768
Investment property	11	**124,347**	148,032
Intangible assets	12	**71,707**	72,313
Investment in associates	13	**1,487,160**	1,171,186
Available-for-sale investments	14	**247,773**	452,594
Catalysts		**118,981**	104,473
		13,374,066	10,588,401
Current assets			
Inventories	15	**2,520,907**	1,373,226
Accounts receivable and prepayments	16	**1,297,557**	1,266,743
Due from related parties	26	**566,119**	639,107
Held for trading investments	17	**125,051**	102,868
Other financial assets	18	**120,755**	-
Cash and short term deposits	19	**9,445,207**	6,171,427
		14,075,596	9,553,371
TOTAL ASSETS		**27,449,662**	20,141,772
EQUITY AND LIABILITIES			
Equity			
Share capital	20	**5,500,000**	5,000,000
Legal reserve	21	**141,832**	141,309
Cumulative changes in fair value		**141,213**	309,585
Hedging reserve	18	**(634,665)**	(103,412)
Retained earnings		**8,694,589**	5,819,558
Proposed dividends / Bonus issue	22	**4,400,000**	2,500,000
Equity attributable to the parent		**18,242,969**	13,667,040
Minority interest		**11,493**	11,046
Total equity		**18,254,462**	13,678,086
Non-current liabilities			
Interest bearing loans and borrowings	23	**3,369,025**	2,357,967
Employees' end of service benefits	24	**177,080**	153,740
Other financial liability	18	**589,668**	103,412
		4,135,773	2,615,119

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

CONSOLIDATED BALANCE SHEET (continued)
At 31 December 2008

	Notes	2008 QR'000	2007 QR'000
Current liabilities			
Accounts payable and accruals	25	**1,367,321**	2,019,065
Due to related parties	26	**858,279**	745,683
Other financial liability	18	**165,751**	-
Interest bearing loans and borrowings	23	**2,668,076**	1,083,819
		5,059,427	3,848,567
Total liabilities		**9,195,200**	6,463,686
TOTAL EQUITY AND LIABILITIES		**27,449,662**	20,141,772

Abdulla 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 CASH FLOW STATEMENT
For the year ended 31 December 2008

	Notes	***2008 QR'000***	*2007 QR'000*
OPERATING ACTIVITIES			
Profit for the year		**7,277,126**	4,984,566
Adjustments for:			
Depreciation and amortisation		**460,984**	399,430
Provision for employees' end of service benefits	24	**58,832**	64,917
Provision/Write off for obsolete inventory		**334,772**	-
(Gain) /loss on disposals of investments		**13,472**	(114,963)
Loss / (gain) on revaluation of investment property	4	**23,685**	(29,606)
Income from associates		**(269,529)**	(52,254)
Loss on disposal of property, plant and equipment		**3,887**	1,107
Impairment loss on available-for-sales investments		**31,451**	-
Finance costs		**143,693**	79,933
		8,078,373	5,333,130
Working capital changes:			
Inventories		**(1,482,453)**	(231,385)
Accounts receivable and prepayments and due from related parties		**42,174**	(212,591)
Accounts payable and accruals and due to related parties		**(539,470)**	1,295,136
Cash from operations		**6,098,624**	6,184,290
Interest paid		**(143,693)**	(79,933)
Employees' end of service benefits paid	24	**(35,492)**	(29,905)
Net cash from operating activities		**5,919,439**	6,074,452
INVESTING ACTIVITIES			
Proceeds from disposals of property, plant and equipment		**110**	87
Purchase of property, plant and equipment		**(221,665)**	(462,563)
Net movement in catalysts and other assets		**(31,088)**	(69,023)
Acquisition of investments in associates		**(48,188)**	(761,074)
Net movement in projects under development		**(2,910,710)**	(2,067,684)
Purchase of investments		**(113,780)**	(255,010)
Proceeds from disposal of investments		**83,123**	311,404
Movement in intangible assets		**606**	(606)
Dividends received from associates		**1,743**	2,600
Net movement in deposits maturing after 90 days		**(1,001,640)**	(1,007,781)
Net cash used in investing activities		**(4,241,489)**	(4,309,650)
FINANCING ACTIVITIES			
Net movement in loans		**2,595,315**	1,274,705
Dividends paid		**(2,000,000)**	(2,500,000)
Dividend paid to minority shareholders		**(1,125)**	(2,250)
Net cash from (used in) financing activities		**594,190**	(1,227,545)
INCREASE IN CASH AND CASH EQUIVALENTS		**2,272,140**	537,257
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**3,664,087**	3,126,830
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	19	**5,936,227**	3,664,087

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the year ended 31 December 2008

	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*	*Minority 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
Net movement on available-for-sale Investments	-	-	(168,372)	-	-	-	(168,372)	-	(168,372)
Net movement in fair value of cash flows hedges	-	-	-	(531,253)	-	-	(531,253)	-	(531,253)
Total income and expense for the year recognised directly in equity	-	-	(168,372)	(531,253)	-	-	(699,625)	-	(699,625)
Profit for the year	-	-	-	-	7,275,554	-	7,275,554	1,572	7,277,126
Total income and expense 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 minority shareholders	-	-	-	-	-	-	-	(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.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2008

	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*	*Minority interest QR'000*	*Total QR'000*
Balance at 1 January 2007	5,000,000	104,813	132,204	(37,623)	3,372,795	2,500,000	11,072,189	11,989	11,084,178
Net gain on available-for-sale Investments	-	-	177,381	-	-	-	177,381	-	177,381
Net movement in fair value of cash flows hedges	-	-	-	(65,789)	-	-	(65,789)	-	(65,789)
Total income and expense for the year recognised directly in equity	-	-	177,381	(65,789)	-	-	111,592	-	111,592
Profit for the year	-	-	-	-	4,983,259	-	4,983,259	1,307	4,984,566
Total income and expense for the year	-	-	177,381	(65,789)	4,983,259	-	5,094,851	1,307	5,096,158
Transfer to legal reserve	-	36,496	-	-	(36,496)	-	-	-	
Dividends paid	-	-	-	-	-	(2,500,000)	(2,500,000)	-	(2,500,000)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(2,250)	(2,250)
Dividends / Bonus shares proposed	-	-	-	-	(2,500,000)	2,500,000	-	-	
Balance at 31 December 2007	5,000,000	141,309	309,585	(103,412)	5,819,558	2,500,000	13,667,040	11,046	13,678,086

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 Doha Securities Market. The Company's registered office is situated in Doha, State of Qatar.

IQ, its subsidiaries and joint venture companies (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 of Industries Qatar Q.S.C. is as follows:

Entity Name	**Country of incorporation**	**Relationship**	**Ownership interest**	
			2008	2007
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%	-

- **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) (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 on August 2005, is a joint venture between QAPCO (63%), TOTAL Petrochemicals - France (TPF) 36% and 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 Qatar Petroleum. 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 AS (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.

1 CORPORATE INFORMATION (continued)

- **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.,** 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 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 2008 were authorised for issue by Chairman and the Vice Chairman on 25 February 2009.

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 2008.

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 unrealized gains and losses resulting from intra-group transactions are eliminated in full.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
Minority interests represents the portion of profit or loss and net assets that is not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

Changes in accounting policies
The accounting policies adopted are consistent with those of the previous financial year.

IASB Standards and Interpretations issued but not adopted
The following IASB Standard have been revised and issued but is not yet mandatory, and has not yet been adopted by the Group:

IAS 23 Borrowing Costs (Revised)
The application of the revised IAS 23 will be effective for the year, beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a 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 adoption of this revised standard is not expected to have any material impact on the financial statements of the Group.

IAS 1 Presentation of Financial Statement (Revised)
The application of revised IAS 1, which will be effective for the year ending 31 December 2009, will result in amendments to the presentation of the consolidated financial statements.

IFRS 8 Operating Segments
IFRS 8 Operating Segments was issued in November 2006 and is effective for financial years beginning on or after 1 January 2009. IFRS 8 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The Group has determined that the operating segments disclosed in IFRS 8 will be the same as the business segments disclosed under IAS 14. The impact of this standard on the other segment disclosures is still to be determined. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2009.

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.

Interest income
Revenue 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.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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	5-10 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 income statement 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 income statement in the year the asset is derecognised.

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

Projects under development
Projects under development represent costs incurred by the Group on developing new projects. These costs will be converted to investments once the project materialises. Costs incurred on projects that do not materialize 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.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

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

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 are recognised in the consolidated income statement.

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 balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. The income statement 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 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 balance sheet 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 income statement.

Interest in a joint venture
The Group has interests in joint ventures which are jointly controlled entity, 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. 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.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition

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 balance sheet at fair value with gains or losses recognised in the income statement.

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 income statement, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the income statement. 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.

Impairment of financial assets

The Group assesses at each balance sheet 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments
For available-for-sale financial investments, the Group assesses at each balance sheet 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 income statement – is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in equity.

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 price expected to be received.

Cash and cash equivalents
For the purpose of the 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 value 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 income statement. 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or unrecognised firm commitment (except for foreign currency risk); or

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

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

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

Fair value hedges
The change in the fair value of a hedging derivative is recognised in the income statement. 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 income statement.

Amounts taken to equity are transferred to the income statement 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. Installments 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 income statement when the liabilities are derecognized as well as through amortization process.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income statement on a straight-line basis over the lease term.

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 income statement.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 balance sheet date. All differences are taken to the income statement. 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 balance sheet date and their income statements 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 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 balance sheet date.

3 SALES

	2008 ***QR'000***	*2007* *QR'000*
Petrochemicals	**2,981,527**	2,153,188
Fuel additives	**1,402,288**	1,003,738
Steel	**5,769,580**	2,734,324
Fertilisers	**4,589,661**	3,434,682
	14,743,056	9,325,932

4 OTHER INCOME

	2008 ***QR'000***	*2007* *QR'000*
(Loss) / gain on foreign exchange	**(22,087)**	36,419
Net movement in fair value of investment property	**(23,685)**	29,606
Net gain on disposal of available for sale securities	**4,291**	83,768
Gain on disposal of held for trading securities	**19,939**	3,201
(Loss) / gain from change in fair value of held for trading securities	**(37,702)**	27,992
Other income	**184,917**	111,144
	125,673	292,130

5 INCOME FROM INVESTMENTS

	2008	*2007*
	QR'000	*QR'000*
Dividend income	**13,742**	14,785
Interest on bank deposits	**305,641**	229,945
	319,383	244,730

6 GENERAL AND ADMINISTRATIVE EXPENSES

	2008	*2007*
	QR'000	*QR'000*
Staff costs	**202,398**	158,354
Depreciation (Note 9)	**38,795**	36,987
Repairs and maintenance	**23,273**	10,651
External services	**12,784**	5,977
Public relations and gifts	**11,355**	8,013
Travel and conveyance	**9,815**	8,675
Provision for obsolete and slow moving spare parts	**6,915**	16,157
QP annual charges	**6,831**	4,800
Spares and equipment	**5,584**	4,391
Insurance, rents and fees	**5,043**	5,028
Board of Directors fees and expenses	**4,874**	5,311
Communication expenses	**4,470**	3,455
Other expenses	**59,648**	50,542
	391,785	318,341

7 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	2008	*2007*
	QR'000	*QR'000*
Staff costs	**931,114**	709,037
Depreciation on property, plant and equipment	**444,083**	391,007
Amortisation of catalysts and other non-current assets	**16,901**	8,424
Operating lease rentals	**51,750**	24,103
(Decrease)/increase in fair value of investment property	**(23,685)**	29,606

8 BASIC AND DILUTED EARNINGS PER SHARE

Basic earning per share are calculated by dividing the profit attributable to the equity holder of the parent for the period by weighted average number of shares outstanding during the year as follows:

	2008	*2007*
Profit attributable to the equity holders of the parent for the year (QR'000)	**7,275,554**	4,983,259
Weighted average number of shares outstanding during the period (in thousands)	**550,000**	550,000
Basis and diluted earning per share (expressed in QR per share)	**13.23**	9.06

During the year 2008, the Company issued bonus shares for the year 2007. Accordingly, the previously reported earnings per share as at 31 December 2007 have been restated for the effects of this transaction. 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:

	2008	*2007*
Qualifying shares at beginning of the period (in thousands)	**500,000**	500,000
Effect of bonus shares issued (in thousands)	**50,000**	50,000
Weighted average number of shares outstanding (in thousands)	**550,000**	550,000

9 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 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**

9 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 2007	1,541,582	9,439,457	46,109	40,285	13,036	50,008	3,057,172	14,187,649
Additions	1,672	191,545	986	3,396	161	791	264,012	462,563
Transfers	261,441	1,835,986	11,368	1,534	90	6,721	(2,208,824)	(91,684)
Retirement and disposals	(687)	(2,001)	(693)	(166)	-	(356)	-	(3,903)
At 31 December 2007	1,804,008	11,464,987	57,770	45,049	13,287	57,164	1,112,360	14,554,625
Depreciation:								
At 1 January 2007	962,517	6,742,496	18,966	30,522	11,247	36,545	-	7,802,293
Depreciation charge for the year	40,012	337,436	4,065	2,812	116	6,566	-	391,007
Relating to disposals	(229)	(1,273)	(693)	(166)	-	(349)	-	(2,710)
At 31 December 2007	1,002,300	7,078,659	22,338	33,168	11,363	42,762	-	8,190,590
Net carrying amount:								
At 31 December 2007	801,708	4,386,328	35,432	11,881	1,924	14,402	1,112,360	6,364,035

9 PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(i) Certain of the buildings and plants located at Messaied, Qatar amounting to QR 1,673 million (2007: QR 1,653 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 an net book value of QR 9.1 million (2007: QR 9.8 million), are constructed on a leased land from Jebel Ali Free Zone Authority for an initial period of 15 years from August 2003.

(iii) Fully depreciated assets as at 31 December 2008 amounted to QR 6,985 million (31 December 2007: QR 6,722 million).

(iv) Included in property, plant and equipment is an amount of QR 54.10 million (2007 : QR 93.8 million) representing capitalised borrowing costs.

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

	2008 ***QR'000***	*2007* *QR'000*
Cost of sales	**404,618**	353,379
Selling expenses	**670**	641
General and administrative expenses	**38,795**	36,987
	444,083	391,007

10 PROJECTS UNDER DEVELOPMENT

	2008 ***QR'000***	*2007* *QR'000*
Qatofin LLDPE plant facilities	**915,342**	515,748
Ras Laffan Olefin Company - plant and facilities	**824,450**	664,357
QAFCO-5 Project	**2,745,815**	864,531
Qatar Melamine Project	**348,098**	86,045
QAFAC II project	**58,240**	58,240
New Bar Mill Project at Dubai Plant (Qatar Steel)	**218,650**	85,997
	5,110,595	2,274,918
Properties under development:		
IQ Tower	**27,597**	850
Fereej Project	**48,287**	-
	5,186,479	2,275,768

Notes:

(i) Project under development include an amount of QR 78.05 million (2007: QR 75.52 million) representing total borrowing costs capitalized during the year.

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

11 INVESTMENT PROPERTY

	2008	2007
	QR'000	*QR'000*
At fair value:		
At 1 January	**148,032**	118,426
Net (loss) / gain from fair value adjustments (Note 4)	**(23,685)**	29,606
At 31 December	**124,347**	148,032

The fair value of the Group's investment property at 31 December 2008 has been arrived at on the basis of a valuation carried by an independent valuer that is not related to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

12 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.

13 INVESTMENTS IN ASSOCIATES

The Group has the following investments in associates:

	Effective ownership	*Country of incorporation*	***2008 QR'000***	*2007 QR'000*
Qatar Metal Coating Company Q.S.C.	50.00%	Qatar	**19,491**	16,086
United Stainless Steel Company	25.00%	Bahrain	**70,392**	76,001
Gulf Industrial Investment Company	25.00%	Bahrain	**962,414**	768,445
Qatar Vinyl Company Ltd. (Q.S.C)	25.52%	Qatar	**379,735**	299,756
Qatar Plastic Products Company W.L.L	26.66%	Qatar	**11,430**	10,898
Gulf United Steel Company (Foulath) B.S.C.Closed	25.00%	Bahrain	**43,698**	-
			1,487,160	1,171,186

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 during the prior year. 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 US$ 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.

13 INVESTMENTS IN ASSOCIATES (continued)

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

(v) Qatar Plastic production Company W.L.L. (QPPC) is engaged in he 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) which is engaged in the manufacture of iron ore pellets, through payment of US$ 3.25 million, equivalent to QR 11.8 million. In addition a shareholder loan for an amount of US$ 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.

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

	2008 QR'000	*2007 QR'000*
Share of associates' balance sheets:		
Current assets	**695,308**	426,454
Non-current assets	**975,911**	760,601
Current liabilities	**(188,663)**	(141,947)
Non-current liabilities	**(680,860)**	(559,386)
Share in net assets	**801,696**	485,722
Add: Goodwill on acquisition	**684,804**	684,804
Add: Pre-acquisition equity adjustment	**660**	660
Group share of net assets of associates	**1,487,160**	1,171,186
Share of associates revenue & profit		
Revenue	**1,037,610**	684,753
Net share of result of associates	**269,529**	52,254

14 AVAILABLE- FOR- SALE INVESTMENTS

	2008 QR'000	*2007 QR'000*
Quoted shares	**245,593**	450,414
Unquoted shares	**2,180**	2,180
	247,773	452,594

Notes:

(i) A total of 54,999 shares of Qatar Shipping Company Q.S.C. having a market value of QR 2.06 million as at 31 December 2008 are restricted due to Directorship held by the Group (2007: 50,000 shares having a market value of QR 3.3 million.).

(ii) Impairment loss amounting to QR 31.45 million was charged to income statement of the current year due to significant decline in the fair value of the related investments below their cost as at 31 December 2008 (2007: Nil)

15 INVENTORIES

	2008 QR'000	2007 QR'000
Fuel additives	**21,889**	31,106
Steel	**358,067**	213,030
Fertilisers	**30,177**	43,365
Petrochemicals	**40,934**	42,893
Work-in-progress	**689,659**	87,375
Raw materials	**791,283**	391,923
Goods in transit	**72,973**	77,654
Maintenance parts and supplies	**612,361**	574,342
	2,617,343	1,461,688
Less: Provision for obsolescence	**(96,436)**	(88,462)
	2,520,907	1,373,226

Finished goods inventory amounting to QR 200 million and work in progress inventory amounting to QR 129 million have been written off during the year being the difference between net realisable value and the cost.

16 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2008 QR'000	2007 QR'000
Trade accounts receivables	**969,164**	936,812
Other receivables and prepayments	**270,925**	303,822
Loans to employees	**58,428**	27,229
	1,298,517	1,267,863
Less: Provision for doubtful debts	**(960)**	(1,120)
	1,297,557	1,266,743

As at 31 December 2008, trade accounts receivables at nominal value of QR 0.96 million (2007: QR 1.1 million) were impaired. Movements in the allowance for impairment of receivables were as follows:

	2008 QR'000	2007 QR'000
At 1 January	**1,120**	6,080
Amounts written off	**-**	(976)
Unused amounts reversed	**(160)**	(3,984)
At 31 December	**960**	1,120

16 ACCOUNTS RECEIVABLE AND PREPAYMENTS (continued)

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

			Past due but not impaired				
	Total QR'000	*Neither past due nor impaired QR'000*	*< 30 days QR'000*	*30 – 60 days QR'000*	*60 – 90 days QR'000*	*90– 180 days QR'000*	*>180 days QR'000*
2008	**968,204**	**899,500**	**50,741**	**6,452**	**27**	**567**	**10,917**
2007	935,692	773,200	122,334	20,013	18,295	1,054	796

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.

17 HELD FOR TRADING INVESTMENTS

	2008* *QR'000	*2007* *QR'000*
At 1 January	**102,868**	27,061
Additions	**110,432**	53,144
Disposals	**(50,547)**	(5,328)
Movement in fair value (Note 4)	**(37,702)**	27,991
At 31 December	**125,051**	**102,868**

18 OTHER FINANCIAL ASSETS AND LIABILITIES

	2008* *QR'000	*2007* *QR'000*
Other financial assets		
Derivatives:		
Forward foreign exchange contract collar – Current	**120,755**	-
Other financial liabilities		
Derivatives:		
Interest rate swaps – 1	**289,811**	-
Interest rate swaps – 2	**198,195**	80,978
Interest rate swaps – 3	**101,662**	22,434
Forward foreign exchange contract collar	**165,751**	-
	755,419	103,412

Presented in the balance sheet as follows:

Non current portion	**589,668**	103,412
Current portion	**165,751**	-
	755,419	103,412

18 OTHER FINANCIAL ASSETS AND LIABILITIES (continued)

The maturity profile of the derivatives was as follows:

At 31 December 2008	*Positive fair value QR'000*	*Negative fair value QR'000*	*Notional amount QR'000*	*< 1 year QR'000*	*1 – 5 years QR'000*	*More than 5 years QR'000*
Interest rate swaps	-	**589,668**	**10,004,400**	**1,386,946**	**5,531,564**	**3,085,890**
Forward foreign exchange contract with collar	**120,755**	**165,751**	**2,202,000**	**1,943,000**	**259,000**	-
	120,755	**755,419**	**12,206,400**	**3,329,946**	**5,790,564**	**3,085,890**

Interest rate swaps - 1:
As at 31 December 2008 the 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 23). As at 31 December 2008, the Group's share of measurement of the fair values of the hedges resulted in a negative amount of QR 290 million (2007: QR Nil) which has been recognized 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 4 included in note 23 below. The term loan and interest rate swaps have the same critical terms.

At 31 December 2008, the measurement of the fair values of the hedges resulted in a negative amount of QR 198.1 million (2007 : QR 80.9 million) which have been recognised in the equity as changes in fair values and as derivative liabilities.

Interest rate swaps - 3:
At 31 December 2008, Qatofin had interest rate swap agreements in place with two banks with a notional amount of USD 345 million (2007 : USD 259 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 101.6 million as at 31 December 2008 (2007: QR 22.4 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 2008, the measurement of the fair values of the collar resulted in a positive amount of QR 120.7 million and negative amount of QR 165.7 million (2007: QR Nil) which has been recognized in the equity as changes in fair values and as derivative assets and liabilities.

19 CASH AND CASH EQUIVALENTS

	2008 **QR'000**	2007 QR'000
Bank balances and cash	**9,445,207**	6,171,427

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

	2008 **QR'000**	2007 QR'000
Bank balances and cash	**9,445,207**	6,171,427
Less: Fixed deposits maturing after 90 days	**(3,508,980)**	(2,507,340)
	5,936,227	3,664,087

Included in bank balances and cash are time deposits denominated in United States Dollars, Euros and Saudi Riyals equivalent to QR 3,698 million (2007: QR 1,672 million). In addition, bank balances and cash include current and call deposits of QR 1,203 million (2007: QR 931 million) and term deposits of QR 7,987 million (2007: QR 5,240 million) held with commercial banks in Qatar. The term deposits are denominated mainly in Qatari Riyals and are short term in nature, with an average effective interest rates of 4.1 % (2007: 5.10%).

20 SHARE CAPITAL

	2008 **QR'000**	2007 QR'000
Authorised, issued and paid-up:		
550,000,000 shares of QR 10 each		
(2007 : 500,000,000 shares of QR 10 each)	**5,500,000**	5,000,000

During the year, 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.

21 LEGAL RESERVE

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 balance sheet represents the sum of the subsidiaries and share of group companies' legal reserve, included for consolidation purposes.

22 DIVIDEND PAID AND PROPOSED

The Board of Directors has proposed a final dividend distribution of QR 8 per share for the year ended 31 December 2008 (2007: QR 4 per share). The dividends for 2007 amounting to QR 2 billion were approved by the shareholders at the Annual General Meeting held on 18 March 2008 and was subsequently paid during 2008. The proposed final dividend for 2008 will be submitted for formal approval at the Annual General Meeting.

23 INTEREST BEARING LOANS AND BORROWINGS

	Interest rate	*Entity*	*Currency*	*Maturity date*	***2008 QR'000***	*2007 QR'000*
Loan 1	LIBOR plus 2%	Qatar Steel	US$	2009	**123,709**	123,709
Loan 2	LIBOR plus 2%	Qatar Steel	US$	2009	**764,715**	764,715
Loan 3	LIBOR plus 0.9%	Qatar Steel	US$	2014	**127,851**	94,975
Loan 4	LIBOR plus applicable margin	Qatar Steel	US$	2016	**1,760,665**	1,427,468
Loan 5	Fixed 3.21625%	Qatar Steel	US$	2009	**182,075**	-
Loan 6	Fixed 4.4375%	Qatar Steel	US$	2009	**255,213**	-
Loan 7	LIBOR plus 0.5%	QAFAC	US$	2011	**192,010**	260,806
Loan 8	LIBOR plus applicable margin	QAFCO	US$		**1,335,206**	-
Syndicated loan	LIBOR plus applicable margin	QATOFIN	US$	2020	**1,167,666**	770,113
Other short term loans		Qatar Steel			**127,991**	-
					6,037,101	3,441,786
Less : repayments due within one year					**(2,668,076)**	(1,083,819)
Total non-current portion					**3,369,025**	2,357,967

Term loan 1:

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 one year at an interest of LIBOR plus 2%.

Term loan 2:

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 installment due on 28 December 2008 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%.

Term loan 3:

This is a US Dollar denominated loan obtained by the subsidiary of Qatar Steel to finance machinery purchase and carries interest of 0.90% over US Dollar LIBOR. The total facility amount is USD 35 million. Drawn down as at 31 December 2008 amounted to USD 26 million. The loan is repayable over 11 semi-annual instalment commencing 31 December 2008. The subsidiary is currently under negotiation with the bank to reschedule the loan repayment.

Term loan 4:

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 date of the balance sheet.

23 INTEREST BEARING LOANS AND BORROWINGS (continued)

Loan 5:

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 is repayable in one bullet payment of USD 50 million (QR 182 million on 17 June 2009.

Term loan 6:

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 is repayable in one bullet payment of USD 70.1 million (QR 255.2 million) on 10 June 2009.

Term loan 7:

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 8:

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 installments commencing 4 years after the date of the first drawdown.

The 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 Group.

Syndicated Loan:

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 installment 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 judgements which may at any time be received or receivable by Qatofin.

Other short term loans

These are unsecured trust receipt facilities availed by the subsidiaries for working capital purposes. These are payable in full in 2009 and carries interest ranging from 3.04% - 7.25%.

24 EMPLOYEES' END OF SERVICE BENEFITS

	2008 QR'000	*2007 QR'000*
Balance as at 1 January	**153,740**	118,728
Provision during the year	**58,832**	64,917
End of service benefits paid	**(35,492)**	(29,905)
Balance as at 31 December	**177,080**	153,740

25 ACCOUNTS PAYABLE AND ACCRUALS

	2008 QR'000	*2007 QR'000*
Trade payables	**616,754**	1,392,312
Accrued expenses and other payables	**750,567**	626,753
	1,367,321	2,019,065

Notes:

Included in accrued expenses and other payables is an amount of 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 in the absence of details.

26 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 income statement are as follows:

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**

Year ended 31 December 2007	*Sales QR'000*	*Purchases QR'000*	*Selling and other expenses QR'000*	*Lease rental payments QR'000*	*Other income QR'000*
Major shareholders	508,396	1,068,036	16,902	24,525	1,736
Associates	471,901	270,613	209	-	15,605
Other related parties	2,426,688	23,938	76,740	-	8,461
	3,406,985	1,362,587	93,851	24,525	25,802

Related party balances:
Due from related parties

	2008 QR'000	*2007 QR'000*
Major shareholders	**138,186**	59,813
Joint ventures	**7,550**	2,136
Associates	**111,318**	101,308
Other related parties	**309,065**	475,850
	566,119	639,107

26 RELATED PARTY DISCLOSURES (continued)

Due to related parties

	2008 ***QR'000***	*2007* *QR'000*
Major shareholders	**742,134**	617,674
Joint ventures	**4,004**	2,700
Associates	**1,402**	56,589
Other related parties	**110,739**	68,720
	858,279	745,683

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 2008, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2007: 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.

Compensation of key management personnel

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

	2008 ***QR'000***	*2007* *QR'000*
Short term benefits	**25,055**	22,642
Qatari employees' pension fund contribution	**1,289**	1,300
	26,344	23,942

27 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.

	2008 QR'000	*2007 QR'000*
Assets:		
Current assets	**8,290,000**	6,450,304
Non current assets	**8,918,797**	6,211,688
	17,208,797	12,661,992
Liabilities:		
Current liabilities	**1,900,079**	2,002,693
Non-current liabilities	**3,120,058**	1,083,378
	5,020,137	3,086,071

Revenues:	***2008 QR'000***	*2007 QR'000*
Sales	**8,973,476**	5,891,250
Other income	**305,528**	333,367
	9,279,004	6,224,617

Expenses:	***2008 QR'000***	*2007 QR'000*
Cost of sales	**2,633,519**	1,869,497
Interest and finance charges	**7,842**	17,425
Selling expenses	**164,476**	113,974
General and administrative expenses	**297,233**	239,333
	3,103,070	2,240,229

28 COMMITMENTS

	2008 **QR'000**	2007 QR'000
Capital expenditure commitments:		
Estimated capital expenditure contracted for at the balance sheet date but not provided for:		
Property, plant and equipment	**8,394,013**	9,213,925

(a) On 5 December 2004, Qatar Steel signed an agreement for the design, engineering, construction, commissioning and testing of the direct reduction plant. The value of the contract is USD 267.4 million. The project was completed in December 2007.

(b) On 21 April 2005, Qatar Steel signed an agreement for the design, engineering, construction, commissioning and testing of a steel melt shop. The value of the contract is EUR 101.6 million. The project was completed in December 2008.

(c) On 12 April 2005, Qatar Steel signed an agreement for the engineering, procurement and construction of a new bar rolling mill. The value of the contract is USD 33.8 million plus EUR 29.4 million. The project was completed in September 2007

(d) On 21 November 2005, Qatar Steel Dubai Steel FZE, signed an agreement for the engineering, procurement, supervision, start-up and commissioning and training in connection with the rolling mill described in (c) above and the re-heating furnace. The value of the contract and the estimated future capital expenditure on this project is EUR 5.1 million and USD 2.8 million equivalent to QR. 22 million and QR. 10 million respectively.

(e) The Board of Directors of QAPCO has authorised capital commitments of QR 1,441 million (Group share : QR 1,153 million).

(f) Included in the total commitments, is the group share of Qatofin capital commitment amounting to QR 585 million.

(g) On 2 December 2007, QAFCO signed an agreement with Hyndai Construction & Engineering Co. Ltd. and Snamprojetti SpA 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 3,515,467,000 (Group share USD 2,636,600,250).

(h) 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 318,068,357 (Group share : USD 238,551,268). QAFCO will own 60% of the shares of the Qatar Melamine Company.

(i) 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 98,014,105 (Group share : USD 73,510,579).

(j) Fereej Real Estate Company has signed an agreement with HBK Contracting for the construction of a commercial property at a total cost of QR 326 million (Group's share QR 111 million). The project is expected to be completed in January 2010.

(k) The Board of Directors of Industries Qatar has approved a commitment of QR 68 million for the detailed design of IQ Tower.

28 COMMITMENTS (continued)

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:

	2008 ***QR'000***	*2007* *QR'000*
Within one year	**28,368**	9,218
After one year but not more than five years	**55,685**	37,333
More than five years	**205,103**	208,653
Total operating lease expenditure contracted for at the balance sheet date	**289,156**	255,204

29 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 Company 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 operating 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 CJVA.

30 CONTINGENCIES

At 31 December 2008, 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 561 million (31 December 2007 : QR 869 million.).

The Group's contingency liabilities are as follows:

	2008 ***QR'000***	*2007* *QR'000*
Letter of credit	**218,859**	679,903
Bank guarantees	**190,230**	189,189
Performance bonds	**-**	50
	409,089	869,142

30 CONTINGENCIES (continued)

Legal claims
Qatar Steel had taken land on lease from Qatar Petroleum, which was used for dumping process waste. A contract was awarded by QP to a subcontractor to remove the waste without involving Qatar Steel. The subcontractor was prevented by Qatar Steel from undertaking the contract as the management believed that Qatar Steel was the rightful owner of the waste, which had a commercial value. The subcontractor have commenced legal proceedings against Qatar Steel for an amount QR 152 million. Qatar Steel in turn has also filed a counter claim against the subcontractor for an amount of QR 152 million. The case is currently under the Appeals court. No provision have been made in the financial statements as the management, based on legal advise, is confident that no sums of money will be ultimately payable in respect of these legal claim.

31 SEGMENTAL REPORTING

The following table present revenue and profit information regarding the Group's business segments for the year ended 31 December 2008 and 2007 respectively:

	Petrochemicals QR'000	*Fertilizers QR'000*	*Steel QR'000*	*Total QR'000*
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
Year ended 31 December 2007				
Total revenue	3,156,926	2,734,324	3,434,682	9,325,932
Results:				
Segment results	2,072,554	1,911,834	857,898	4,842,286
Unallocated income				162,484
Unallocated expense				(20,204)
Profit for the year				4,984,566

The following table present segmental assets regarding the Group's business segments for the year ended 31 December 2008 and 31 December 2007 respectively:

	Petrochemicals QR'000	*Fertilizers QR'000*	*Steel QR'000*	*Adjustments QR'000*	*Total QR'000*
Segment assets:					
At 31 December 2008	**7,913,243**	**9,169,329**	**9,085,252**	**1,281,838**	**27,449,662**
At 31 December 2007	6,691,602	5,970,066	6,571,083	909,021	20,141,772

31 SEGMENTAL REPORTING (continued)

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.

32 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 paties 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 2008 and 2007 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 optimizing 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 18. 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 income statement (due to call deposits), Property, plant and equipment (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 income statement, 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 2008. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

32 FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

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

	Net effect on		
	Profit +25bps QR'000	*Property, plant and equipment +25bps QR'000*	*Equity +25 bps QR'000*
At 31 December 2007			
Variable rate instruments			
Call deposits	2,113	-	-
Interest bearing loans and borrowings	(6,679)	(2,005)	-
Interest rate swaps	-	-	(258)
	(4,566)	(2,005)	(258)

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.

	2008 QR	*2007 QR*
Bank balances (excluding cash)	**9,189,662**	6,171,100
Accounts receivable and other assets	**1,191,344**	989,146
Amounts due from related parties	**566,119**	639,107
Other financial assets	**120,755**	-
	11,067,880	7,799,353

32 FINANCIAL RISK MANAGEMENT (continued)

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 2008	***Less than one year QR'000***	***1 to 5 year 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**
	4,952,591	**1,983,133**	**2,669,114**	**9,604,838**

At 31 December 2007	*Less than one year QR'000*	*1 to 5 year QR'000*	*> 5 years QR'000*	*Total QR'000*
Accounts payables and accruals	2,019,065	-	-	2,019,065
Interest bearing loans and borrowings	1,135,980	1,152,008	1,484,326	3,772,314
Due to related parties	745,683	-	-	745,683
	3,900,728	1,152,008	1,484,326	6,537,062

Currency risk

Currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

As the Qatari Riyal is pegged to the US Dollars, the balances in US Dollars are not considered to represent significant currency risk.

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Qatari Riyal currency rate against the GBP and Euro, with all other variables held constant, on the income statement (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 income statement QR'000*
2008		
GBP	**+5%**	**93**
Euro	**+5%**	**15,083**
2007		
GBP	+5%	22
Euro	+5%	2,635

32 FINANCIAL RISK MANAGEMENT (continued)

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 balance sheet date, the exposure to unlisted securities at cost was QR. 2.1 million (2007: QR 2.1 Million).

At the balance sheet date, the exposure to listed equity securities at fair value was QR 370.64 million (2007: QR 553.28 Million) which includes both available for sale investments and held for trading investments. An increase or decrease of 10% on the Doha Securities Market index would have an impact of approximately QR 12.51 million on the income statement in respect of held for trading investments. In respect of available for sale investments a decrease of 10% on the Doha Securities Market index would have an impact of approximately QR24.77 million on the income statement 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 2008 and 31 December 2007.

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.

	2008	*2007*
	QR'000	*QR'000*
Interest bearing loans and borrowings	**6,037,101**	3,441,786
Accounts payable and accruals	**1,367,321**	2,019,065
Due to related parties	**858,279**	745,683
Other financial liabilities	**755,419**	103,412
	9,018,120	6,309,946
Less: Cash and short term deposits	**(5,936,227)**	(3,664,087)
Net debt	**3,081,893**	2,645,859
Equity	**18,242,969**	13,667,040
Cumulative changes in fair value	**(141,213)**	(309,585)
Hedging reserve	**634,665**	103,412
	18,736,421	13,460,867
Capital and net debt	**21,818,315**	16,106,726
Gearing ratio	**14.13%**	16.42%

33 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivatives. Financial assets consist of available for sale investments, held for trading investments, cash and bank balances, due from related parties and receivables. Financial liabilities consist of interest bearing loans and borrowings, payables, due to related parties and accrued expenses. Derivatives consist of interest rate swaps.

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

34 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. At the balance a sheet date the Group has recognised QR 31 million as impairment of available-for-sales investments.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet 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 balance sheet date, gross trade accounts receivable were QR 969 million (2007: QR 937 million), and the provision for doubtful debts was QR 1 million (2007: 1 million) Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

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 realizable value.

At the balance sheet date, gross inventories were QR 2,617 million (2007: QR 1,462 million), with provisions for old and obsolete spare parts of QR 96,000 (2007: 88,000). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the income statement. During the year the Group has charged QR 329 million to cost of sales being for reduction in the market values of inventory from its cost value.

34 SIGNIFICANT ACCOUNTING JUDGEMENTS OR ESTIMATES (continued)

Estimates and assumptions (continued)

Revaluation of investment properties
The Group carries its investment properties at fair value, with changes in fair values being recognised in the income statement. The Group engaged independent valuation specialists to determine fair value as at 31 December 2008. 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 estimates.

35 COMPARATIVE AMOUNTS

Certain projects under development which was previously included under capital work-in-progress in property, plant and equipment have been reclassified and shown separately as project under development during the current year. Comparative amounts totalling to QR 2.13 billion have been reclassified accordingly.

These changes have been made to improve the quality of the information presented and does not effect the previously reported profit or shareholders' equity.