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Industries Qatar

FOR IMMEDIATE RELEASE

Industries Qatar announces net profit of QR 204 million for the three months period ended 31 March 2020

- *The liquidity position continues to remain robust, despite the macroeconomic slowdown, with cash and bank balances across the Group amounted to QR 10.9 billion*
- *Financial performance continued to be impacted due to challenging macroeconomic environment with weaker crude prices and the unprecedented spread of COVID-19 pandemic*
- *Several measures in place to safeguard assets, people, operations, shareholder interest, and to optimize operating costs and CAPEX to address the current risks and volatilities*
- *The Group operating facilities maintain efficiency with average reliability factor at 98% amid focus on preventive maintenance*
- *Earnings per share (EPS) of QR 0.03 for the three month period ended 31 March 2020, as compared to QR 0.11 for the same period last year*

Doha, Qatar; April 21, 2020: Industries Qatar ("IQ" or "the Group"; QE Ticker: IQCD), one of the region's industrial giants with holdings in petrochemical, fertilizer and steel producers, today reported a net profit of QR 204 million for the three months period ended 31 March 2020, with a total Group revenue of QR 3.0 billion.

Business performance and macroeconomic backdrop
IQ's business performance during first quarter of 2020 continued to reflect the challenging macroeconomic conditions which prevailed in 2019, which was marked by weaker global demand and lower global GDP growth. The negative macroeconomic environment was further augmented during the period, due to the unprecedented decline in the crude oil prices, together with the spread of COVID-19 pandemic.

This led to increased pressure on the prices of IQ's product portfolio in various markets, which negatively affected the overall performance. The Group was able to withstand such extreme external pressures via leveraging its competitive advantages including its relatively low cost operating base, long-term access to feedstock, a stronger balance sheet with a diversified product range including an efficient and flexible production facilities, and a dedicated sales and marketing team, who were able to sell the products in various geographies, and thereby limiting the impact of such extreme pressures. In the current distressed situation, the sales and marketing team, provide an assurance to the Group by ensuring the contracts are effectively and efficiently secured and proved to be logistically viable by successfully ensuring the sales volumes remained intact.

The Group's operations remained resilient with production across the Group remaining stable. Total production for the current period reached 4.0 million MT, marginally up on the last year's same period. The Group's operating facilities maintained efficiency and the average reliability factor reached 98%, amid focus on preventive maintenance. These preventive maintenance programs are essential to ensure HSE standards, plant life, quality assurance and reliability to maintain long-term operational efficiency targets leading towards optimum plant performance. There were no plant stoppages due to any demand related reasons, nor, were there any changes to the planned maintenance timelines, amid COVID-19 spread, and all the facilities successfully completed their respective planned turnarounds within the budgeted timeline.

Commenting on the financial and operational performance for the first quarter of 2020, **H.E. Eng. Saad Sherida Al-Kaabi, Chairman of the Board of Directors and Managing Director**, said: *"Despite difficult times for businesses globally, our operations remained resilient and responded effectively to the challenges posed by the current turbulent business conditions. The Group companies established crisis management committees to monitor the fluctuating business conditions and threats posed by the spread of COVID-19, with specific focus on protecting its employees, assets and operations. Our marketing partner, is closely monitoring the situation in our key markets, as the pandemic evolve, and acting prudently to minimize the disruptions to marketing, warehousing and logistics. The Group's competitive advantages together with our flexibility in operations and diversified portfolios, remained critical to the Group's response to these external challenges and aided to balance out our performance. Cost efficiency and operational excellence is now needed more than ever, and IQ is already well positioned given the cost efficiency programs it has undergone in the recent years. Going forward, we are putting stricter measures to optimize operating and capital expenditure across the Group which will ensure our resilience and adjust ourselves to the evolving market dynamics."*

Financial performance and financial position

For the three months period ended 31 March 2020, the Group recorded a net profit of QR 204 million as compared to QR 674 million, down by 70%, with reported total revenues of QR 3.0 billion (assuming proportionate consolidation), down by 13%, as compared to QR 3.5 billion for the same period last year. The Group recorded an Earnings per share (EPS) of QR 0.03 for the three months period ended 31 March 2020, as compared to QR 0.11 for the same period last year.

Financial performance during the first quarter of 2020 was severely impacted by several external factors including the global pandemic situation, significant weaker oil prices and a general decline in demand owing to slowdown in GDP growth and industrial activity. These adverse conditions directly translated into declining commodity prices and caused product prices to fall. Average selling prices declined by 2%, which contributed to a decrease of QR 262 million in the

Group's net profits for the three month period ended 31 March 2020, as compared to same period last year.

Group's sales volumes reached 1.9 million MT for the period ended 31 March 2020, declining by 18% compared to the same period of last year. The decline was mainly attributed to the changes in sales & operating agreement of Qafco trains 1-4, where sales volumes relating to Qafco trains 1-4 has not been recognized in IQ books. IQ's marketing partner, Muntajat, was able to minimize the impact of the general slowdown via creating several arbitraging opportunities, including successful identification of new markets to divert the additional volumes, and working closely with logistics partners, customers and other government agencies to ensure there is no interruption to production and sales.

Compared to the fourth quarter of 2019, the Group revenue declined by 13%, while net profit declined by 62%, owing to the deteriorating macro-economic conditions carried forward from the last year and the unprecedented dual headwinds of COVID-19 and oil price imbalance. Although, the selling prices improved by 13%, most notably due to recovery in steel prices from Q4-19. Impact of COVID-19 and the present oil price crisis is partially felt in the prices, most notably in the fuel additives within petrochemicals segment. Sales volumes declined by 29% mainly due to the changes in sales & operating agreement of Qafco trains 1-4. Production volumes was not impacted by COVID-19, the decline of 7% compared to the fourth quarter of 2019, was attributed to lower operating days, due to maintenance shutdowns specially in steel segment and fuel additives facilities.

In general, the full effects of COVID-19 outbreak has not been fully realized until 31 March 2020, as the effects of pandemic began to realize in commodity markets starting from February 2020. In addition, the product prices have not yet factored in fully, the prevailing depressed oil prices till 31 March 2020.

The Group's financial position continue to remain robust, with the liquidity position at the end of the period 31 March 2020 reaching QR 8.9 billion in cash and bank balances, after accounting for a QR 2.4 billion dividend payment for 2019. Group's net cash and bank balance including proportionate share of joint ventures reached QR 10.9 billion as at 31 March 2020. Currently, the Group is free from any debt obligations.

Group's total assets and total equity reached QR 33.4 billion and QR 32.0 billion, respectively, as at 31 March 2020.

During the period, the Group generated positive operating cash flows[1] of QR 1.1 billion (with a free cash flow of QR 922 million). IQ's ability to generate positive operating cash flows amid such distressed market conditions is a testament to Group's efficient cash flow generation capabilities, effective cost structure and robust working capital management, which could safeguard the Group against any unexpected adversities.

[1] Based on proportionately consolidated financial statements

Operational highlights by segment

Petrochemicals:
Performance of petrochemicals segment remained under pressure, with net profit declined by 60% compared to last year and reached QR 123 million. This reduction was primarily driven by weaker products prices, following the low crude price environment and weaker economic activities in key markets, together with lower sales volumes on account of planned maintenance in one of the polyethylene facilities.

Blended product prices in the Petrochemicals segment declined by 14%. Sales volumes fell marginally by 1%, compared to the same period last year, on the back of weaker demand on muted economic activities, partially offset by improved production, which led to a decline in revenue by 15% within the segment, to reach QR 951 million[2] for the current period.

Production volumes improved 4% from last year, as the segment had higher number of planned and unplanned maintenance shutdowns during 2019.

Fertilizers:
Fertilizer segment reported net profit of QR 148 million, a decline of 29% compared to last year. Selling prices were down on last year by 15% partly due to present unfavorable market conditions and the prices in 2019 were aided by supply side restrictions. Sales volumes, however down notably by 40% due to the change in the sales and operating agreement for Qafco trains 1-4.

The gas sale and purchase agreement for Qafco's trains 1-4 was expired in December 2019. A new agreement for gas sale and purchase is under discussion between Qafco and Qatar Petroleum. During this period, Qatar Petroleum discussed the purchase of 25% stake from Yara, which caused the delays in finalizing the new gas sale and purchase agreement for Qafco trains 1-4.

In the interim, as a short term measure, to ensure the business continuity of Qafco, and until the final gas supply agreement is reached between Qafco and Qatar Petroleum, a sales and operating arrangement was concluded, where Qafco would act as a producing agent, and the gas feedstock will be supplied by Qatar Petroleum, and the same supplier would off-take volumes for a processing fees plus margin. The new sales and purchase agreement, once concluded, is expected to be in line with the previous arrangements.

Going forward, IQ's interest in Qafco will not be impacted by QP's acquisition of Yara's 25% stake or the new agreement which in process of being finalized.

The combined effect of lower volumes and prices had resulted in overall revenue declined by 29% as compared to the same period last year.

Production remained relatively stable, with overall production up by 6%, as compared to the same period last year. The segment experienced minimal interruptions in terms both planned and unplanned maintenance shutdowns in the current period.

[2] Based on proportionately consolidated financial statements

Steel:

The steel segment reported net loss of QR 88 million, compared to a net profit of QR 62 million for the same period of 2019. This reduction was mainly driven by the effect of lower selling prices, which declined by 3%, together with an increase in operating costs, as the segment disposed off some of the expensive inventories carried forward from the previous periods. Sales volumes, however improved on last year by 6%.

Local demand for steel softened as many large infrastructure projects in Qatar neared or reached completion, together with the muted construction activities due to the measures in place to curtail the spread of COVID-19 pandemic. Nevertheless, near- to medium-term prospects for the Steel segment domestically remained encouraging. Similarly, demand for steel was limited in the international markets amid increased competition from low quality, lower-cost emerging market producers, along with the effects of COVID-19 in the international markets.

Optimization initiatives

Given the current difficult market and macroeconomic outlook, the Group has embarked on several well thought optimization initiatives to sail through the tough times including:

1. Starting from the second quarter of 2020, the Group has decided to temporarily resize the capacity of domestic operations within the Steel segment to 0.8 million MT of rebar with an intent to cater local sector demand only, as compared to the international demand, amid higher competition and declining margins internationally.

   The Group will review the domestic and international demand persistently and will revert back to its normal capacity, if the need arise. This initiative would support the Group with improving segment's margins, provide better flexibility, with a more financially viable netbacks available in the local market as compared to the international market.

2. The Group is reviewing its operating expenditures, across all segments, to identify the operating expenses which are not critical in the current circumstances, in order to further optimize its cost of operations. Similarly, the Group is reviewing its capital expenditure programs to assess whether those expenditures can be either avoided or delayed, without affecting the quality, safety, environmental aspects and reliability of the operations. This would provide the Group, with a broader access to free cash flows, which could be diverted towards better investment avenues and can be utilized as a buffer for any unwarranted adversities.

Earnings Call

IQ will host an IR Earnings call with investors to discuss the results, business outlook and other matters on 23 April 2020 at 12.30 pm Doha Time. The IR presentation that accompany the conference call will be posted on the publications page of the IQ website.

-Ends-

About Industries Qatar (IQ)

Industries Qatar Q.P.S.C. was incorporated as a Qatari joint stock company on April 19, 2003. The business operations of the company comprise the direct holding of shares in the following subsidiary and joint venture companies: (i) Qatar Steel Company Q.P.S.C. ("QS"), a wholly-owned subsidiary, engaged in the manufacture and sale of steel billets and reinforcing bars; (ii) Qatar Petrochemical Company Limited QSC ("QAPCO"), a joint venture owned 80% by IQ, engaged in the production of ethylene, low-density polyethylene ("LDPE"), linear low-density polyethylene ("LLDPE") and sulphur; (iii) Qatar Fertiliser Company SAQ ("QAFCO"), a joint venture owned 75% by IQ, engaged in the manufacture of ammonia and urea; and (iv) Qatar Fuel Additives Company Limited QSC ("QAFAC"), a joint venture owned 50% by IQ, engaged in the production of methanol and methyl-tertiary-butyl-ether ("MTBE").

The operations of the subsidiary and joint ventures remain independently managed by their respective management teams.

For more information about the earnings announcement, email iq@qp.com.qa or visit www.iq.com.qa

DISCLAIMER

The companies in which Industries Qatar Q.P.S.C. directly and indirectly owns investments are separate entities. In this press release, "IQ" and "the Group" are sometimes used for convenience in reference to Industries Qatar Q.P.S.C.

This presentation may contain forward-looking statements concerning the financial condition, results of operations and businesses of Industries Qatar Q.P.S.C. All statements other than statements of historical fact are deemed to be forward-looking statements, being statements of future expectations that are based on current expectations and assumptions, and involve known and unknown risks and uncertainties that could cause actual results, operations and business performance or events impacting the group to differ materially from those expressed or as may be inferred from these statements.

There are a number of factors that could affect the realization of these forward-looking statements such as: (a) price fluctuations in crude oil and natural gas, (b) changes in demand or market conditions for the group's products, (c) loss of market share and industry competition, (d) environmental risks and natural disasters, (e) changes in legislative, fiscal and regulatory conditions, (f) changes in economic and financial market conditions and (g) political risks. As such, results could differ substantially from those stated, or as may be inferred from the forward-looking statements contained herein. All forward-looking statements contained in this report are made as of the date of this document.

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GENERAL NOTES

Industries Qatar's accounting year follows the calendar year. No adjustment has been made for leap years. Values expressed in US $'s have been translated at the rate of US $1 = QR 3.64.

Amounts relating to income statement, including revenue, net profits, production, sales volumes, have been computed and reported for the purpose of this press release on proportionate basis, based on the share of ownership of IQ in its respective joint ventures. Specifically, Petrochemical segment's revenue is computed by taking the Group share of revenue in Qapco and Qafac. Qapco's revenue is computed by taking the share of revenue in its joint ventures namely Qatofin, QVC and QPPC. This revenue may differ from the revenues reported in the consolidated financial statements.

DEFINITIONS

Adjusted Free Cash Flow: Cash Flow From Operations - Total CAPEX - Dividends • **CAGR:** 5-Year Compound Annual Growth Rate • **Cash Realization Ratio:** Cash Flow From Operations / Net Profit x 100 • **Debt to Equity:** (Current Debt + Long-Term Debt) / Equity x 100 • **Dividend Yield:** Total Cash Dividend / Closing Market Capitalization x 100 • **DRI:** Direct Reduced Iron • **EBITDA:** Earnings Before Interest, Tax, Depreciation and Amortization calculated as (Net Profit + Interest Expense + Depreciation + Amortization) • **EPS:** Earnings per Share (Net Profit / Number of Ordinary Shares outstanding at the year-end) • **Free Cash Flow:** Cash Flow From Operations - Total CAPEX • **HBI:** Hot Briquetted Iron • **LDPE:** Low Density Poly Ethylene • **LLDPE:** Linear Low Density Poly Ethylene • **mmBTU:** Million British Thermal Units • **MT PA:** Metric Tons Per Annum • **MTBE:** Methyl Tertiary Butyl Ether • **Payout Ratio:** Total Cash Dividend / Net Profit x 100 • **P/E:** Price to Earnings (Closing market capitalization / Net Profit) • **Utilization:** Production Volume / Rated Capacity x 100