Industries Qatar

ANNUAL REPORT 2008

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In the name of Allah, the Most Merciful, the Most Compassionate.

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

H.H. Sheikh Tamim Bin Hamad Al-Thani
The Heir Apparent

01

A highly experienced team

BOARD OF DIRECTORS

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

H.E. ABDULLAH BIN HAMAD AL-ATTIYAH
Deputy Premier
Minister of Energy & Industry
Chairman and Managing Director

H.E. YOUSIF HUSSAIN KAMAL
Minister of Economy & Finance
Vice-Chairman, Board of Directors

DR. IBRAHIM AL-IBRAHIM
Economic Advisor, Diwan
Member, Board of Directors

MR. ABDULLAH HUSSAIN SALATT
Senior Advisor to the Deputy Premier and
Minister of Energy & Industry
Member, Board of Directors

MR. FAISAL MOHAMMED AL-SUWAIDI
Chairman and Chief Executive Officer,
QatarGas Operating Company
Member, Board of Directors

MR. HAMAD RASHID AL-MOHANNADI
Managing Director (CEO),
RasGas Company
Member, Board of Directors

MR. FAHAD HAMAD AL-MOHANNADI
General Manager,
Qatar Electricity and Water Company
Member, Board of Directors

02

CHAIRMAN'S MESSAGE

On behalf of Industries Qatar and my colleagues on the Board of Directors, I am pleased to welcome you to the 6th Annual General Assembly Meeting. The past financial year proved a critical turning point in the health of the global economy and marked the beginning of what is expected to be the worst global financial crisis since 1929. By the end of 2008, IQ had recorded yet another year of record sales and profit growth - the fifth year of unbroken double-digit growth that has resulted in sales of QR 14.7 billion and profits of QR 7.3 billion. However, in the last quarter of 2008, the group witnessed a contraction in demand as the global downturn started to have a significant impact on key markets. While the expected global recession is expected to deepen in advanced economies in 2009, with further falls in domestic spending expected due to tightening credit and heightened job insecurity, emerging economies are still expected to grow, albeit at a reduced rate to prior years.

Although the group's outlook for 2009 is one of cautious optimism, growth expectations must still be tempered.

IQ expects further reductions in demand across all markets within the petrochemical and fertiliser segments due to the economic downturn and industry-wide over-supply resulting from several new facilities being commissioned and launched in the Middle East and Asia. This downward pressure on growth will probably be further exacerbated by significant price volatility of key petrochemical raw materials, and increasing protectionism in key markets constraining export opportunities.

In the steel segment, revenue in 2009 will be more modest as the annualisation of the three new facilities (second DR plant, electric arc furnaces and new deformed bar rolling mill) that opened in 2007 occurred during 2008, and the expected normalisation of steel prices from the exceptionally high prices experienced in the early parts of the year under review. Local and regional demand however, may remain buoyant as GCC governments continue with several key infrastructural projects, but IQ is aware that large regional property developers may cancel or postpone several landmark real estate developments.

I am confident that IQ is well-placed to weather the prevailing economic crisis. The group maintains several competitive advantages, most notably the close proximity to, and secured availability of, high quality feed stocks, internationally-recognised brands, like Lotrène, marketed through an extensive global sales and marketing network, a highly diversified, well-dispersed and loyal customer base, high liquidity levels and a relatively low-cost operating structure.

Supporting our positive expectations, the coming year will witness:

- The launch of Ras Laffan Olefins Company and Qatofin.
- The launch of new products like melamine, linear low density polyethylene (LLDPE) and high density polyethylene (HDPE).
- The upgrading of existing products to higher specifications like Qatar Steel's rebar which will be re-launched in the new year as a BS4449/2005 grade rebar.
- Further reductions in the group's reliance on sales and marketing intermediaries, thereby reducing transactional costs and improving sales margins.
- Increased expansion into new markets as the group companies seek to maintain production levels in the face of falling demand in traditional markets.
- The opening of new marketing offices, self-operated and liaison offices, as well as warehouses, in strategically important markets.

Despite the imminent challenges of the coming year, it is essential that Industries Qatar and our esteemed shareholders maintain a clear and unswerving focus on the core objectives of the group, "to maximise the group's capital value for the benefit of our shareholders in a sustainable manner through gains in efficiency and investment".

IQ has come a long way since 2003 when revenue was just QR 2.8 billion and profits QR 1.1 billion; the group has now generated 6 times more profits and is 3 times larger. Industries Qatar is in a financially-sound position and is well-equipped for the upcoming financial turbulence.

In closing, I would like to thank H.H. Sheikh Hamad bin Khalifa Al-Thani, the Emir, for his support, guidance and vision, the respective senior management teams for their leadership and our staff for their dedication and hard work.

The future for Industries Qatar is bright.

Thank you.

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

03

INTERVIEW WITH THE CEO OF FEREEJ

Excerpts from an interview with Mr. Ahmed Al-Mulla, the Chief Executive Officer of Fereej Real Estate Company. Fereej was incorporated in 2008 as a joint venture between Industries Qatar (34%), Qatar Real Estate Investment Company (33%) and Al-Koot Insurance And Re-Insurance Company (33%). The company's activities are focused on investing in residential and commercial buildings, and the provision of facilities management and construction project management services.

How would you characterise the performance of the local property market in 2008?

On the face of it, the global commercial property market downturned in the latter part of 2008. But, we believe that this correction, a consequence of world-wide economic and financial turmoil, will generally continue in the short-term to impact property prices and rental yields in Qatar. However, given the financial stability and strength of the Qatari economy, the impact will be less. We continue to have a positive outlook within Qatar; a sound business strategy and risk management is pre-requisite.

How do you expect the global economic recession and credit crunch to affect the Qatari commercial property market and your 2009 financial performance?

In 2009, we expect more commercial office space to come onto the market thus increasing competition in the lease / rental market. Despite this, we believe that demand for 'Grade A' strategically located quality office space will continue to outstrip supply, as the influx of foreign companies into Qatar continues. There is, however, less competition in the facilities management market as this is still in the emergence phase and we expect new entrants and or mergers within existing players within this specific segment.

From an operational point of view, we do not expect the global recession to materially affect demand for our services, as contract prices are fixed and already reflected in our financial evaluation, or actual versus budgeted capital expenditure. In terms of the availability and cost of long and short-term debt, our comparative cost of debt (with respect to the latter part of 2008) has increased. We are carefully managing our debt to asset ratio to ensure that this does not materially impact on our financial performance.

In summary, we have a product / service diversification strategy, which mitigates risk against significant market changes and we continue to carefully manage our balance sheet for efficiency and liquidity. We envisage a continuation of our growth strategy, with an emphasis on non-capital intensive products and services.

With respect to any ongoing capital investment projects, what is the latest status?

The construction of 'Grade A' showrooms and office space, comprising 2 basements + ground + mezzanine + seven floors in the Airport Road area of Doha, is on schedule for completion by mid-January, 2010. The construction has been contracted to HBK, with QDC providing project supervision.

Will there be any significant new capital investment projects launched in 2009?

We also expect to complete the purchase of a 'Grade A' commercial tower in the Old Slata area of Doha. We will be investing QR 0.2 billion and we expect to put in place bank financing at an attractive rate. There are several other projects currently under consideration in Messaieed and the Industrial Area.

The recent economic challenges have increased the spotlight on cash management. How would you describe your liquidity, credit worthiness and levels of credit risk?

In 2008, we had no long-term debt. Furthermore, as of the year end, we had in excess of QR 0.2 billion in Cash and Cash Equivalents, which covered our Current Liabilities for the year by almost 50 times. We have no exposure to credit risk and our credit worthiness is reflected in the strength and status of our joint venture partners.

Do you have a corporate social responsibility policy? If not, are there any plans to create one?

Yes, in a draft format. We expect to have it finalised during the coming financial year.

Which senior management positions were filled during the year?

During the year we recruited a Chief Financial Officer. Several other key senior posts are expected to be filled in 2009.

Do you have an employee reward and recognition policy? If not, do you intend to create one?

Yes, performance based rewards are incorporated in our 'Draft' HR policy.

I would like to take this opportunity to thank and show my appreciation to the current team who have delivered corporate strategies, business plans, policies and procedures, sound internal controls and 'clean' audited 2008 financial accounts. I believe that this is a substantial achievement for such a small team in a start-up business, especially as we continue to develop our products and services in conjunction with the above.

BOARD OF DIRECTORS **REPORT**

04 From strength to strength

INTRODUCTION

The Board of Directors is pleased to announce that IQ's overall performance for 2008 was the best since the group's inception in 2003. The Board's historical commitment to invest significantly in expanding capacity, diversify the range of products on offer and strengthen sales and marketing channels, allowed the group to successfully capitalise on the buoyant world economy and high petrochemical, fertiliser and steel prices experienced in the first half of 2008.

The encroaching global slowdown dampened growth towards the latter part of the year, but IQ is confident that its unique combination of experience, diversified portfolio of products, low cost operating base and financial strength will allow it to weather the upcoming financial turbulence.

FINANCIAL REVIEW

The financial results for 2008 serve to further emphasise IQ's position as the premier, blue chip Company in Qatar and in the league of the top shareholding companies in the Middle East. Total sales for the year were QR 14.7 billion, an increase of 58.1% on last year, with fertiliser and steel sales taking the lead. This growth was partly fueled by price inflation; but, past strategic decisions to invest very significant sums in plant expansions, process improvements and new facilities have been entirely vindicated as IQ was able to increase production volumes to match consumer demand.

By the end of 2008, the group recorded a net profit margin of 49.3%, an improvement on historical averages, with net profits for the year of QR 7.3 billion. All segments showed double-digit year-on-year growth.

Liquidity, a key measure under scrutiny due to the tightening of international credit markets, remains very robust with QR 5.92 billion of cash generated from operating activities during the year and a net cash and cash equivalents balance of QR 5.94 billion as at the year end. The acid test ratio, the relationship between current assets less inventory to current liabilities and a good indicator of a company's ability to meet short-term financial liabilities, was 2.3.

CAPITAL EXPENDITURE PROJECTS

IQ is well underway to transforming itself into a dynamic and customer-focused global company, fit for the challenges of the 21st century.

Since 2003, numerous capital expenditure projects have been completed - QAPCO's Ethylene Expansion II, QAFAC's de-bottlenecking exercise, QAFCO IV and phase 1 of Qatar Steel's plant expansion, to name a few, altogether costing IQ more than QR 4.2 billion. Existing and imminent projects are likely to increase that sum significantly. These projects will extend the range of products, to include LLDPE and melamine, and increase the volume of product available for sale.

CONCLUSION

Given the exceptional historical performance and the exciting future plans, the Board of Directors is pleased to recommend a total annual dividend distribution for the year ended December 31, 2008 of QR 4.4 billion - equating to a dividend payout of QR 8.00 per share and representing 80% of our share capital.

In closing, the Board of Directors would like to thank the Managing Director for his wisdom and wise leadership, and the senior management and staff of our subsidiary, joint ventures and associates for the hard work, commitment and dedication, shown throughout 2008. Their efforts and sacrifices have all borne fruit and are the reason why we can celebrate the outstanding accomplishments of 2008.

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

FINANCIAL **REVIEW**

05

Consistently delivering strong sales and profits

PROFIT AND LOSS STATEMENT

Due to strong sales growth of 58.1%, net profits for the year grew to QR 7.3 billion - representing an increase of 46.0%. This growth has been accompanied by improvements in operating efficiency and cost control, as the group's ratio of Net Profit : Sales, remains just below 50% (2004 to 2007 average: 45.9%).

Sales

Buoyed by record oil and natural gas prices and strong demand in the first half of 2008, in addition to increased capacity from recently launched expansions, the group's sales rose to QR 14.7 billion, with all segments experiencing sales growth.

Petrochemical: Petrochemical sales grew year-on-year to QR 4.4 billion, driven by QAPCO's Ethylene Plant II expansion, which was commissioned in late 2007, the completion of QAFAC's de-bottlenecking project in April 2007, and plant production records.
Despite the contraction in demand experienced in the latter part of 2008, growth is still expected in some regions, notably China, where the demand for polymers is linked to infrastructure rather than consumable products. During the year, QAPCO also introduced two new applications that relate to sophisticated coating and fluid packaging.

Fertiliser: The fertiliser segment also saw increased demand in the early part of 2008 from its traditional farming markets in the Americas, Asia and Oceania, as well as from the burgeoning Brazilian and American bio fuels sectors. Demand was further aided by unexpected and protracted plant shut-downs in Australia, North Africa, the Far East and the Mediterranean region. In response, QAFCO expanded into new European and Asian markets, most notably China, Turkey and Indonesia, and opened a new marketing office in Vietnam.

Steel: Despite announcing price caps and export bans, the unprecedented high levels of demand and soaring price inflation experienced by Qatar Steel during the early part of 2008 resulted in sales growing by more than 65%. However, demand contracted by the end of 2008 with prices falling to more historically consistent levels. Qatar Steel's performance was also assisted as 2008 was the first full operational year of the company's Expansion - Phase 1 project, which was commissioned in late 2007, and of United Stainless Steel Company.

Operating Costs

Due to increased production and raw material inflation, operating costs (consisting of cost of sales, selling expenses as well as general and administrative expenses) totaled QR 8.0 billion by the end of the year. However, the group's focus on cost control and production efficiency, coupled with economies of scale savings, resulted in operating costs, as a percent of sales, moving to 54.3%.

Net Profit

Overall group net profit increased to QR 7.3 billion, with QAFCO's net profits growing year-on-year by 83.9% and net profit % to sales an impressive 76.5%. The fertiliser segment continues to be the biggest contributor to group profitability, accounting for 48.3% of total net profits. The petrochemical segment grew by 29.3%, adding an additional QR 0.7 billion with average margins of more than 60%.

BALANCE SHEET

During the year, total assets grew to QR 27.4 billion, driven by the acquisition of Fereej Real Estate Company and the continuation of the capital works program, most notably Qatofin and long-term advances to contractors working on QAFCO V.
Due to this asset growth, the group's indebtedness increased, with the debt to equity ratio now at 33.1% (2007: 25.2%). The trade creditors balance has improved and creditor days now stands at 67 days (2007: 167 days).

STATEMENT OF CASH FLOWS

In keeping with prior years, the group continues to enjoy high levels of liquidity, essential under normal circumstances of exacting organic growth, but of paramount importance during periods of recession and tightening lines of credit. A total of QR 5.9 billion of cash and cash equivalents was generated from operating activities, and QR 2.3 billion from all activities.
As at the end of 2008, IQ's acid test ratio (the ratio of current assets less inventory to current liabilities) was a very commendable 2.3. This ratio indicates the group's ability to meet short-term commitments and, by extension, the success of the respective company management teams to balance between cash generation, on the one hand, and meeting financial obligations and investing for the future, on the other.

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CAPEX AND **PROJECTS**

06 Building for the future

Past and current projects and investments have significantly contributed to an almost trebling of non-current assets since 2003. By the end of 2012, it is expected that capital expenditure would have added almost QR 20 billion to IQ's balance sheet. This represents a significant investment for the future prosperity and growth of IQ.

PAST PROJECTS

Since 2003, the group has completed 4 significant capital expansion projects at a cost of QR 4.2 billion, and acquired 4 additional companies. This expenditure has increased the range of products being sold and the production capacity of existing facilities, thereby enabling IQ to produce consistent year-on-year sales and profit growth.

Stated in QR Bn	Completion Date	Total Cost	IQ Cost
QAPCO Ethylene Expansion (EPII)	Q3, 2007	0.9	0.7
QAFAC De-Bottlenecking	Q2, 2007	0.1	0.1
QAFCO IV	Q2, 2004	1.7	1.3
Qatar Steel Expansion - Phase I	Q3, 2007	2.1	2.1
		4.8	**4.2**

CURRENT PROJECTS

The group is currently involved in 7 major projects at a total cost to IQ of QR 14.1 billion. The largest of these, and one of the largest capital projects in Qatar, QAFCO V, is now expected to launch in the second quarter of 2011. IQ's share of project costs has been revised upwards to QR 9.6 billion. The other project, Qatar Melamine, is now expected to cost a total of QR 0.5 billion, with commercial production expected to start in the second quarter of 2010.

Of QAPCO's three projects, the Qatofin LLDPE plant is now expected to launch in the second quarter of 2009, with the associated Ras Laffan Olefins Cracker due in the third quarter. IQ's share of project costs is expected to decrease to QR 2.5 billion. QAPCO's other project, LDPE-3, is slightly behind schedule but within budget.

Stated in QR Bn	Completion Date	Total Cost	IQ Cost
Qatofin / RLOC	Q3, 2009	4.9	2.5
Qatofin / LLDPE Plant	Q2, 2009		
LDPE-3	Q1, 2012	1.6	1.3
QAFCO V	Q2, 2011	12.8	9.6
Qatar Melamine	Q2, 2010	1.2	0.5
Fereej Tower I	Q1, 2009	0.2	0.1
Fereej Tower II	Q1, 2010	0.3	0.1
		21.0	**14.1**

FUTURE PROJECTS

The most significant future project currently under consideration is the construction of an iconic tower in the West Bay area of Doha, to house the IQ head office. The IQ Tower is currently estimated to cost QR 0.7 billion and be completed in 2012. A detailed design contract was awarded to Ove Arup & Partners International in 2008.

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RISK
MANAGEMENT

07 IQ sees opportunities. not risks

IQ, like other global companies, is exposed to a wide-array of financial and operational risks. In these turbulent times, the group is confident that its formal risk management policies and procedures are adequate to safeguard its future prosperity.

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 group manages this risk as follows:

Currency Risk: The group has not entered into forward exchange contracts to hedge against the risk that the value of financial instruments will fluctuate due to foreign exchange rate changes as the group is of the opinion that foreign currency financial assets and liabilities denominated in other than the US dollar are non-material.

Interest Rate Risk: The group's interest rate risk exposure is limited to interest bearing financial liabilities not covered by interest rate swaps totaling QR 1.7 billion. This risk is mitigated by interest bearing financial assets of QR 0.9 billion; so, net interest-bearing financial liabilities, after excluding loans and borrowings covered by interest rate swaps, is QR 0.8 billion.

Equity Price Sensitivity: The group's exposure to equity price risk on available-for-sale and held for trading investments is managed through reviewing share volatility trends and regular market value reviews.

CREDIT RISK

The risk of a counterparty defaulting on its contractual obligations resulting in financial loss to the group is mitigated by the group's policy of spreading financial assets amongst financial institutions of good credit ratings and by extending favourable credit terms only to established, vetted trading partners.

LIQUIDITY RISK

The group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows by matching the maturity profiles of financial assets and liabilities.

CAPITAL RISK MANAGEMENT

The capital structure of the group consists of debt (current and non-current term loans) and equity (issued capital, reserves and retained earnings). The capital is managed to ensure the group will be able to continue as a going concern, while maximising the return to stakeholders through the optimisation of the debt to equity balance. The debt to equity ratio at the year end was 33.1% (2007: 25.2%).

OPERATIONAL RISK

The risk of loss due to inadequate or failed internal processes, people and systems, or due to external events, is mitigated through a wide array of tools including, but not limited to: internal control policies and procedures, insurance schemes, training programs, planned plant maintenance and in-built plant safety mechanisms.

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HUMAN RESOURCES **AND TRAINING**

08 We derive our strength from our people

IQ is the work place of choice for over 3,700 people; and it is from this eclectic pool of talented individuals, hailing from several different countries, that the group derives its leadership, innovation and energy. IQ sees this human resource as one of its competitive advantages and is therefore committed to recruiting high caliber people who share our vision and passion, especially Qatari nationals, fully developing them and rewarding outstanding achievements.

RECRUITMENT

During the year, a total of 539 people were recruited for a variety of positions, of which 47 were Qatari nationals and 39 were women. Recruitment is decentralized to each company within the group, and so the group companies individually participated in a number of career days, job fairs and other recruitment drives, both within Qatar and the wider Gulf region. All vacancies are advertised on the respective internet sites and applicants are able to apply online. The group's policy is not to discriminate against suitable candidates, irrespective of their religion, gender or nationality.

TRAINING

Keeping our people up to date with the latest developments, ensuring standards are communicated and equipping staff with knowledge essential to their jobs are some of the aims and objectives of the respective group companies' training departments. During 2008, in excess of 210,000 hours was spent on in-house, local and international courses and programs. This significant investment of time serves to underscore our commitment to ensuring our employees are appropriately qualified and equipped to perform their jobs to the highest standards.

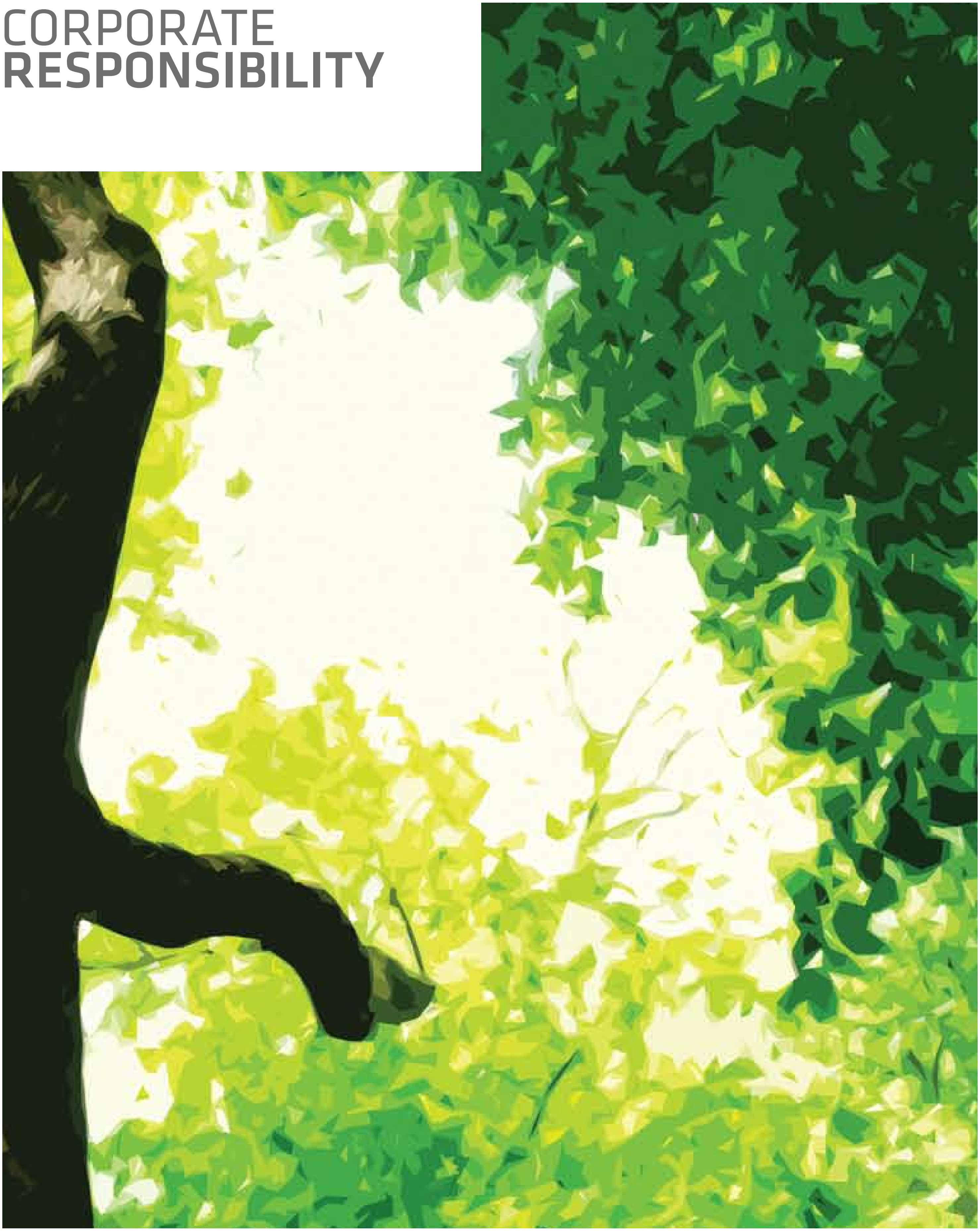
REWARD AND RECOGNITION

Essential to the group's policy of attracting and retaining talented individuals, as well as motivating staff, are the respective group companies' reward and recognition policies. Staff are rewarded in both financial and non-financial ways for long service, making an outstanding contribution to their department or for achieving significant financial, operational or health and safety landmarks.

QATARIZATION

All of the group companies have Qatarization policies, designed to attract, retain and develop quality Qatari graduates. By the end of 2008, the group employed a total of 559 Qatari nationals, representing 15% of the full-time work force.

CORPORATE **RESPONSIBILITY**



09 Our society, our environment

As the largest shareholding company in Qatar, IQ is indebted to the country and its natural and human resources; therefore, IQ takes its duty to act responsibly, in a socially-advantageous manner while ensuring the safety and well-being of its employees, very seriously. During 2008, all of the group companies were involved in a number of initiatives to promote social interaction, ensure a safe work environment and control the environmental impact of their industrial processes.

HEALTH AND SAFETY

The group places a very heavy emphasis on health and safety training and ensuring best practice becomes normal practice. A significant portion of training carried out during the year was health and safety related and covered topics as diverse as first aid, specialised fire fighting techniques, incident and accident reporting, hazard training and emergency response training.

This emphasis placed on training can be evidenced in the safety records of the group companies: QAPCO recorded zero man-days lost due to accidents and incidents, QAFAC achieved the target of one million safe work hours for employees and contractors in December, QAFCO noted 306 accident-free days while Qatar Steel noted 291 such accident-free days.

THE ENVIRONMENT

A number of initiatives were launched during the year to ensure the group companies were reducing their environmental impact, such as:

- QAPCO's EPII project resulted in reduced air pollution, especially of sulphur, due to better recovery and utilisation.
- QAFAC established a peripheral green belt, utilising effluent water.
- QAFCO is well on the way to utilising the new MIC Hazardous Waste Treatment Center in Mesaieed to treat their hazardous waste. The company also established a number of environmental projects to reduce air emissions, particularly of nitrogen oxide.
- Qatar Steel completed a number of projects that (i) separated slag and metal leading to the re-use of scrap metal and the selling of crushed slag, (ii) reduced oil consumption due to the introduction of hydraulic oil condition monitoring facilities and online cleaning, and (iii) recycled waste water thereby reducing waste water emissions by 450m^3 per day.

In addition to these projects, the companies were actively involved in numerous other environmentally-conscious events, like Qatar Petroleum's Environment Fair, beach clean-up drives and tree planting campaigns. Worthy of note is QAFCO's school environmental awareness program, which in 2008 included school visits and environmental camps. The third such campaign, held at Al-Nahdah Independent Girls Primary School in November, 2008, included the children planting over 100 saplings for their school and completing environmental awareness activity booklets.

SOCIAL EVENTS AND CORPORATE SPONSORSHIPS

Fundamental to the group's corporate social responsibility ethos, is its involvement in a wide range of socially-beneficial events, ranging from family days, public lectures, exhibitions, operating sports and social clubs, sponsorships of sports events like the QAFCO Open Tennis Championships and the Mesaieed Bike Fair 2008, and corporate donations to schools, charities and socially-active organisations.

10 2008 Highlights

GROWTH

"By the end of 2008, IQ had recorded yet another year of record sales and profit growth - the fifth year of unbroken double-digit growth ..."

H.E. Abdullah bin Hamad Al-Attiyah | Chairman and Managing Director

	2003	→	2008
Revenue	2.78		14.76
Net Profit	1.13		7.26
Net Profit Margin	41%		49%
Earnings Per Share	2.05		13.23
Return On Equity	18%		40%

STRENGTH

"Industries Qatar is in a financially-sound position and is well-equipped for the upcoming financial turbulence."

H.E. Abdullah bin Hamad Al-Attiyah | Chairman and Managing Director

	2003	→	2008
Total Assets	8.69	→	27.42
Total Equity	6.20	→	18.22
Cash & Short Term Deposits	2.55	→	9.45
Acid Test Ratio	5.80	→	2.29
Debt to Equity Ratio	32%	→	33%

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Petrochemical

Ethylene production of 800KT against 720KT design capacity

LDPE production close to record high

Highest yearly production of methanol

QAPCO Dubai integrated with head office through VPN

1 million man hours with no lost time incidents (QAFAC)

0 man days lost due to accidents (QAPCO)

Investment in human resources – 160,000 training hours

QAPCO re-certified on three ISO systems (ISO 9001, EMS 14001 & OHSAS 18001)

QAFAC re-certified on ISO EMS 14001

Fertiliser

Record urea exports

Production records for Ammonia 2 & Ammonia 3 trains

9th consecutive year with no lost time accidents at Urea 1

No lost time accidents reported in Urea 4 since commissioning

Investment in human resources – 16,110 training hours

Steel

30 years in operations

DRI/HBI Combo plant – achievement of 210 T per hour against design capacity of 187.5 T per hour

On-line customer portal established

Investment in human resources – 36,275 training hours

11 Auditors' Report

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.

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

25th February 2009
Doha

12 Consolidated Financial Statements

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	8	**13.23**	9.06

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

CONSOLIDATED BALANCE SHEET

As 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
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

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

Yousif Hussain Kamal
Minister of Economy and Finance
Vice-Chairman, Board of Directors

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**

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

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Notes to the Consolidated Financial Statements

At 31 December 2008

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 Estate Investment Company Q.S.C. (33%). The Company is engaged in real estate investment, properties management and property rental.

The consolidated financial statements of the Group for the year ended 31 December 2008 were authorised for issue by Chairman and the Vice Chairman on 25th February 2009.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

For the detailed note on basis of preparation and accounting policies please refer to the financial statements in IQ website:
www.industriesqatar.com.qa

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**	3,434,682
Fertilisers	**4,589,661**	2,734,324
	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 QR'000	2007 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 QR'000	2007 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 QR'000	2007 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 QR'000	2007 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:

	Total QR'000	Neither past due nor impaired QR'000	Past due but not impaired < 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

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**

18. OTHER FINANCIAL ASSETS AND LIABILITIES (continued)

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)
	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**

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

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	5,970,006	6,571,083	909,021	20,141,772

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	**Euity +25bps 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 +25bps 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.

32. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

	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

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

32. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

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

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

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Qatari Riyal currency rate against the GBP and Euro, with all other variables held constant, on the 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

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 QR 24.77 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.

32. FINANCIAL RISK MANAGEMENT (continued)

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 QR'000	2007 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 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: QR 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: QR 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.

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 were previously included under capital work-in-progress in property, plant and equipment have been reclassified and shown separately as projects 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.

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