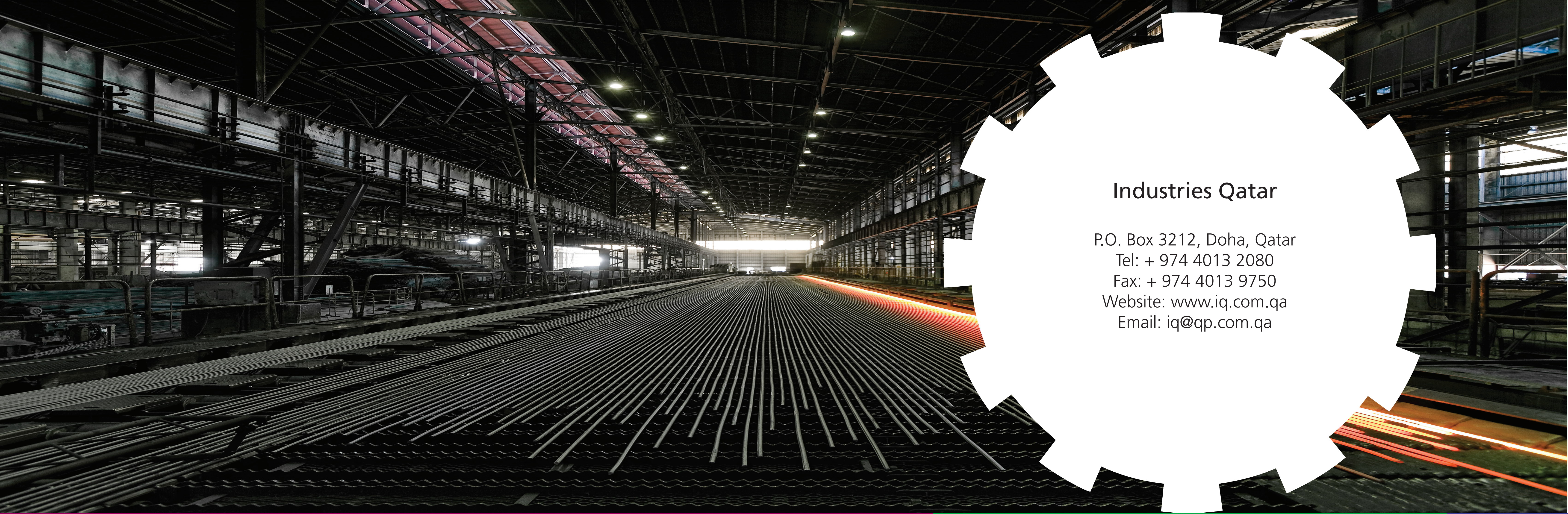
صناعات قطر

ANNUAL REPORT 2017



Industries Qatar

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صناعات قطر
Industries Qatar

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His Highness
Sheikh Tamim bin Hamad Al-Thani
The Emir of the State of Qatar

His Highness
Sheikh Hamad bin Khalifa Al-Thani
The Father Emir

ABOUT INDUSTRIES QATAR

About Industries Qatar Q.S.C.

Industries Qatar Q.P.S.C. (IQ) was incorporated as a Qatari joint stock company on April 19, 2003. The registered office is located at P.O. Box 3212, Doha, State of Qatar. Through the group companies, IQ operates in 3 distinct segments: petrochemicals, fertiliser and steel.

With effect from November 4, 2012, a wholly owned company of the government of the State of Qatar, Qatar Chemical and Petrochemical Marketing and Distribution Company Q.J.S.C. (trading as "Muntajat"), assumed the exclusive rights to purchase, market, distribute and sell the State of Qatar's production of chemical and petrochemical regulated products to the global market. Accordingly, Industries Qatar's activities related to the marketing, distribution and selling of all of the group's products, with the exception of the group's steel products, were migrated to Muntajat.

Head Office Functions & Management Structure

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

PETROCHEMICALS

Qatar Petrochemical Company Limited Q.S.P.C. ("QAPCO")

Incorporated in 1974 as a joint venture, the company is currently owned by IQ (80%) and Total Petrochemicals (France) (20%). QAPCO has two joint ventures, Qatofin Company Limited Q.S.C., and Qatar Vinyl Company Limited Q.S.C., and an associate, Qatar Plastic Products Company W.L.L.
QAPCO together with its joint venture entities is engaged in the production of poly-olefins, poly-ethylene and chlor-alkali products.
The current group share of QAPCO's normalized production and saleable capacities[1] (in MT'000/PA) of key products are:

Product	Production	Sales
Ethylene	999	116
LDPE	642	640
LLDPE	289	288
EDC / VCM	138	138
Caustic Soda	97	95

Key Products

Ethylene

Ethylene is used as a feedstock for a wide range of petrochemicals. A significant portion is used by QAPCO and Qatofin for the production of low density polyethylene (LDPE) and linear low density polyethylene (LLDPE), with the remainder sold to QVC for the production of a range of chlor-alkali products.

[1] Production and saleable capacities are subject to change due to capacity improvements and internal consumptions of intermediate products.

Low Density Polyethylene (LDPE), Linear Low Density Polyethylene (LLDPE)

LDPE and LLDPE are thermoplastics produced from ethylene monomer feed through the process of polymerization. Various grades of LDPE and LLDPE are produced which are suitable for a wide range of thermoplastics processing techniques with applications such as films, pipes, cables and wires and other moulded products.

Caustic Soda

Caustic soda is a colourless, viscous, corrosive liquid with a neutral odour. It is used in numerous industries including paper-making, water treatment, soaps and detergents, textiles and in the production of alumina.

Ethylene Dichloride ("EDC")

EDC is a colourless to yellowish liquid with a faint chloroform-type odour. It is used primarily in the production of vinyl chloride monomer ("VCM"). The majority of EDC produced is used for captive consumption for the production of VCM, with the remainder exported.

Vinyl Chloride Monomer ("VCM")

VCM is a colourless gas with a faint odour. VCM is used primarily in the production of polyvinyl chloride ("PVC") - a versatile plastic with a wide range of end-uses. Over 80% of global demand for PVC is in long-term durable applications for infrastructure development, such as pipes for water and sewer distribution to wire and cable, home siding, windows, doors and flooring.

Sulphur

High quality sulphur is generated as a by-product from the ethylene production process which is sold domestically, and subsequently exported by the domestic buyer .

Pyrolysis Gasoline

The limited quantities of pyrolysis gasoline produced by QAPCO are used by a local company as a feedstock.

Mixed LPG, C3 / C4

The minimal quantities of mixed LPG generated are supplied to the local NGL plants to produce propane and butane.

Qatar Fuel Additives Company Limited Q.S.P.C. ("QAFAC")

Incorporated in 1991 as a joint venture, the company is currently owned by IQ (50%), OPIC Middle East Corporation (20%), International Octane L.L.C (15%) and LCY Middle East Corporation (15%).
QAFAC is engaged in the production of methanol and Methyl-Tertiary-Butyl-Ether (MTBE).
The current group share of QAFAC's normalized production and saleable capacities (in MT'000/PA) of key products are:

Product	Production	Sales
Methanol	500	390
MTBE	305	305

Key Products

Methanol

A significant portion of Methanol produced is used as a feedstock to produce methyl-tertiary-butyl-ether (MTBE), with the remainder sold. Within the petrochemical industry, methanol is used as a raw material for the manufacturing of solvents, formaldehyde, methyl-halide, acetic acid, ethyl-alcohol, acetic anhydride, Dimethyl Ether (DME) and MTBE.

Methyl-Tertiary-Butyl-Ether (MTBE)

MTBE is used as a gasoline additive that provides clean burning fuel to reduce the tail gas pollution generated by motor vehicles, whilst eliminating the need for tetra-ethyl-lead blending.

FERTILISER

Qatar Fertiliser Company Q.S.C.C. ("Qafco")

Incorporated in 1969 as a joint venture, the company is currently owned by IQ (75%), and Yara Netherland B.V. (25%). Qafco has two subsidiaries, namely Gulf Formaldehyde Company S.A.Q. and Qatar Melamine Company Q.S.C.C.
Qafco together with its subsidiaries is engaged in the production of ammonia, urea, melamine and formaldehyde condensates.
IQ's share of Qafco's normalized production and saleable capacities (in MT'000/PA) of key products are:

Product	Production	Sales
Ammonia	2,850	375
Urea	4,410	4,410
Melamine	26.1	26.1
UFC	29.4	1.9

Key Products

Ammonia

A significant portion of the ammonia produced by Qafco is used internally as a feedstock for urea production. The remainder which is sold is commonly used as a feedstock for urea and ammonium phosphate production.

Urea

The majority of the urea produced by Qafco is in either the prilled or granular form. More than 90% of world (for Qafco, it is around 96%) industrial production of urea is used as a nitrogen-release fertiliser to increase crop yield.

Urea Formaldehyde Condensate (UFC-85)

UFC-85 is an anti-caking agent which is added to urea products to improve their strength. The majority of UFC-85 produced is used in Qafco's urea plants.

Melamine

The principal use of melamine is in the construction industry. Melamine is used in the production of high-pressure laminates which is used for a number of construction related activities. Melamine is also used in the production of kitchen utensils and plates.

STEEL

Qatar Steel Company Q.S.C.

Originally incorporated in 1974, Qatar Steel is fully-owned by IQ and has several investments in the steel industry including, three subsidiaries, Qatar Steel Company FZE, and Qatar Steel Industrial Investment Company S.P.C., and three associates, Foulath Holding B.S.C., Qatar Metals Coating Company W.L.L and SOLB Steel Company.
Qatar Steel is engaged in the production of intermediary steel products such as DRI / HBI and Billets and final steel products such as Rebar and Coil
IQ's share of Qatar Steel's normalized production and saleable capacities (in MT'000/PA) of Steel products are:

Product	Production	Sales
DRI / HBI*	2,350	Nil
Billets*	2,568	Nil
Rebar	1,800	1,800
Coils	240	240

*Excess quantities when available are sold in open market

Steel Products

Direct Reduced Iron (DRI) and Hot Briquetted Iron (HBI)

A significant portion of the DRI and HBI produced are used internally for the production of intermediate products, with the balance is sold. The main markets for DRI/HBI include the Middle East, India, and the Far East.

Steel Billets

Most of the steel billets produced are converted into steel re-bars by Qatar Steel, with the remainder exported to countries in the Gulf region and non GCC countries (predominantly in ASEAN countries).

Re-bars

Hot rolled deformed steel reinforced bars ("re-bars") are used extensively in the construction industry. The majority of the production is marketed in Qatar, with the remainder exported to neighbouring countries in the Gulf region and non GCC countries (predominantly in ASEAN countries).

Steel Coils

Re-bars in coils and wire rod in coils are used extensively in the construction industry as refabricated re-bars, binding wires, welded wire mesh and in the pre-cast industry. Wire rod in coil is also used in downstream industries for various applications such as nails, hangers, screws, wire nets, fencing, armour, cable and barbed wire. The facility is in UAE and majority of production is marketed in UAE and the region.

Our Marketing Agency:
QATAR CHEMICAL AND PETROCHEMICAL MARKETING AND DISTRIBUTION COMPANY (MUNTAJAT)
Qatar's gateway to the exports of chemicals, petrochemicals, fuel additive and fertiliser products

Muntajat Profile

Muntajat, (Qatar Chemical and Petrochemical Marketing and Distribution Company Q.J.S.C.) is a state-owned company established in 2012 to serve as the exclusive gateway to Qatar's exports of over 11.3 million metric tons of chemical and petrochemical products. We are rapidly driving the growth of the State of Qatar's downstream industry, capitalising on its unique competitive advantages and economies of scale, capturing new opportunities, expanding the reach of our trusted brand globally and providing world class customer service.

Muntajat offers a diversified portfolio of premium high quality polymer, fertiliser and chemical products from renowned producers in the industry to more than 2000 customers in 135 countries efficiently and reliably. We offer the full range of polyethylene products under the Muntajat owned brand: Lotrène®, a diversified selection of chemical products produced with state of the art technology and applying the highest environmental standards and a range of fertiliser products essential in the growth of crops contributing to feed millions around the world and to produce higher-yields.

Our global marketing network, Muntajat B.V. is headquartered in The Hague, Netherlands. With 18 offices around the world, a multinational team of acknowledged experts in the markets in which they operate, we are committed to continuously monitoring local conditions and trends to better serve customers' requirements and future needs. Muntajat B.V. has established itself as an "Only Representative" (OR) for REACh in Europe.

Our achievements and recognition are backed by more than 40 million tons of product valued at 22 billion USD marketed and distributed within almost 5 years through an advanced supply chain network, consistently delivering high quality and excellence in service, as recognized by our customers.

Muntajat has rapidly accumulated a number of key milestones on its extraordinary journey towards recognition today as a global leader within the chemical and petrochemical industry. We are strongly committed to continue delivering high quality products and excellence in customer service while expanding our reach and building on our strong partnering strategy with key players in the industry.

Muntajat's products are enriching people's everyday lives everywhere.

BOARD OF DIRECTORS

Eng. Saad Sherida Al-Kaabi
Chairman and Managing Director

Mr. Mohammed Nasser Al-Hajri
Vice Chairman

Mr. Abdulaziz Al-Mannai
Member

Dr. Mohammed Al-Mulla
Member

Mr. Ali Hassan Al-Muraikhi
Member

Mr. Khalid Sultan Al-Kuwari
Member

Mr. Abdulrahman Al-Suwaidi
Member

BOARD OF DIRECTORS

Through their extensive knowledge of the international petrochemical, fertilizer and steel industries and experience gained through cross directorships and senior operational positions, the Board of Directors has 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 region

CHAIRMAN'S MESSAGE

Eng. Saad Sherida Al-Kaabi

Chairman and Managing Director

Introduction

I am honored to welcome all of you to the 15th Annual General Assembly Meeting of Industries Qatar, one of the region's industrial giants and one of the largest and most successful listed entities in the State of Qatar.

I thank and congratulate my fellow Board members and the senior management of the group companies for their hard work and commitment to achieve commendable financial and operational results during a period that is surrounded by tough trading and operating conditions. I also thank our sales and marketing partner, "Muntajat" for their dedicated support during the year, and most specifically during the early stages of the land, sea and air blockade against the State of Qatar by its neighboring countries. Muntajat, through its strategic partnership with other oil and gas service providers, was able to react quickly and played a pivotal role in ensuring that the operations of the group remain robust. I am proud of our achievements which were possible purely due to our robust business continuity programs, untiring efforts of our senior management, and partners.

The overall performance of the group was noteworthy despite the challenges exerted by a number of exogenous factors including the regional geo-political instability, a general rise in the supply, muted demand in certain end markets, and an increase in the uncontrollable operating costs. Despite these challenges and setbacks, the group was able to post a solid financial and operational performance by maintaining its historically sound operational performance, and exceeding last year's financial performance. It pleases me to inform you that the financial and operational impact due to the previously mentioned blockade was negligible. The group's stringent business continuity programs ensured operations are minimally impacted while we were able to capture new markets to offset the volumes foregone due to the blockade. In addition, the opening of Hamad Port, which is located near the group's facilities in Mesaieed, has aided both the group and other oil and gas exporters to be more efficient in their distribution operations.

Operational and Financial Results

2017 was a year full of opportunities and challenges. Crude oil prices, which reached below $ 30 per barrel in early 2016, recovered and stabilized in 2017. This presented increased opportunities and created renewed optimism for the petrochemical segment within the group. As a result, the group was able to achieve growth in both revenue and net profit with revenue of QR 14.3 and net profit of QR 3.3 for 2017.

In terms of the key operational and financial highlights of 2017:

- The integration of Qapco and QVC was completed, and aims to improve the operational and financial performance of QVC, and bring additional benefits to the shareholders of both Qapco and QVC;

- The sales, marketing and distribution of the group's steel products are in the process of being migrated to Muntajat with a completion target of the second quarter of 2018. This arrangement will certainly improve the group's operational and financial performance through efficiency improvement, cost reduction, a better distribution model and other operational synergies. as Muntajat can apply their knowledge and know-how accumulated as the sole entity to market the State of Qatar's downstream products, and allow Qatar Steel to focus on its core business of producing high quality steel products;

- In April 2017, Qatar Petroleum and Qapco formalized the supply of additional ethane feedstock gas. This has aided Qapco to maintain its production at a consistent level thereby stabilizing its operational and financial performance;

- The group was able to maintain its production at around 17.2 million MT's. This is a notable achievement given that the group's production in early 2017 was affected due to some unplanned outages, in addition to the recurrent planned maintenance programs;

- Sales volumes remained relatively unchanged on last year which clearly pinpoint the group's ability to withstand the effects of external factors such as the blockade and weaker global demand. Product prices also marginally improved due to higher netbacks arising from a better distribution strategy and stabilization of crude oil prices. In line with stable price and volumes, the group's revenue[1] (including revenue from joint ventures) marginally improved on last year and reached QR 14.3 billion;

- Net profit of QR 3.3 billion (earnings per share of QR 5.48), was moderately higher compared to 2016. Marginally higher revenue, reduced controllable operating costs, finance costs and the reduced one-off items in the year under review have contributed for the improved financial performance;

- Cash across all group companies has reached QR 10.3 billion, which reflects the group's strong liquidity position, and the ability to generate sizeable cash flows even under tough conditions; and

- Total debt[2] (both short and long-term) across all group companies has now decreased to QR 0.5 billion, allowing the group to be virtually debt free, and provide greater financial flexibility to the group.

Competitive Advantages

From the date of incorporation to-date IQ has grown significantly in all facets of business. Production facilities, product ranges, geographical presence, operating asset base, cash position and the number of investee companies have grown exponentially over this period. This commendable growth in almost all key business areas was achieved by exploring a number of competitive advantages possessed by the group including assured supply of feedstock, competitively priced energy contracts, younger, efficient and well maintained facilities, a dedicated marketing channel to market the group's products, strategic partnerships with world renowned energy firms, strategically located facilities and most importantly a senior management team with a wealth of experience. These advantages have enabled the group to maintain a stronger profitability and liquidity position, an investment grade credit rating, and allowed IQ to position itself as one of the leading and most profitable entities in the region.

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[1] Group revenue refers to the revenue of Qatar Steel (100% owned subsidiary), and share of revenue from Qapco, Qafac and Qafco (joint ventures of the group).

[2] Total debt refers to the debt of Qatar Steel, and share of debt in the group's joint ventures.

Update on Cost and Operational Optimization

The cost and operational optimization efforts initiated in 2015 have proved to be a tremendous success for the group. We were able to continuously reduce our operating costs, and improve operational efficiency without compromising the quality and HSE requirements, which resulted in the group's ability to reduce its controllable operating costs. The group will continue to assess its business requirements including CAPEX, OPEX, and human capital to ensure that the group continues to maintain its competitive edge, and achieves its full potential.

Capital Expenditure and Business Development

The group is currently evaluating a wide spectrum of potential CAPEX opportunities in the areas of capacity expansions, reliability, efficiency, and HSE improvements. We believe such investments are essential to maintain our competitive position and add value to our shareholders. The group will evaluate each opportunity on its merits, and ensure the investment is in line with the group's long term strategic goals. We will keep our shareholders informed of any such capital investments as and when a decision is made.

With respect to the group's base case business strategy over the next five years (2018-2022), the group will continue to focus on market development by expanding its geographical footprint, and efficiency gains via the on-going cost optimization programs.

Proposed Dividend Distribution

From the group's incorporation in 2003 to-date, the group has distributed a total dividend of QR 41.9 billion or QR 75.5 per share, with an average payout ratio of approximately 61%. Moreover, 10% bonus shares were issued on two previous occasions. The historical payout ratio is a clear evidence of the Board's intention of paying an adequate dividend to shareholders while maintaining adequate liquidity for actual and potential investment requirements, debt obligations and unexpected adverse trading conditions.

In line with the above objectives, and taking the current and expected short to medium term economic environment into consideration, together with the requirements for any potential future investments, the Board of Directors proposes a total annual dividend distribution for the year ended December 31, 2017 of QR 3.0 billion, equivalent to a payout of QR 5 per share.

Conclusion

I am confident that the recent rebound in the prices of crude oil and downstream products will benefit the group companies and provide better opportunities to the group. I am sure my fellow Board members will work towards capturing these opportunities and support me in ensuring Industries Qatar achieves its strategic goals, and remains as one of the leading conglomerates in the region.

In conclusion, I would like to express my sincere gratitude to His Highness the Emir, Sheikh Tamim bin Hamad Al-Thani, for his vision and wise leadership, and the members of the Board of Directors, senior management and dedicated staff of our group companies for the valuable guidance and support.

Saad Sherida Al-Kaabi

Chairman of the Board of Directors

BOARD OF DIRECTORS' REPORT

The Board of Directors is pleased to present this 15th annual report on the financial and operational performance of Industries Qatar, the State of Qatar's premier blue chip group and one of the region's largest and most profitable listed companies.

Financial Results

The group was able to witness sound financial and operating results with stable production and sales volumes together with improved operating costs, and closed the year with net profit of QR 3.3 billion. These results are exemplary given the challenges encountered by the group during 2017.

Product prices across the group remained relatively stable throughout the year, and improved marginally over 2016. The low oil price environment which prevailed during 2016 has notably recovered in 2017 and aided a strong recovery in the polyethylene and fuel additive prices. Prices were also aided by the reduction in supply by the producers in the USA due to unplanned outages. Fertilizer prices remained low during most of 2017, but rebounded significantly in the last quarter of the year. The increase was driven by higher energy prices, lower exports by some key suppliers, and a higher demand in some large economies. Steel prices have remained stable throughout the year, driven by a general increase in raw materials and other related input costs.

Production and sales volumes remained stable despite having a few unplanned outages (in addition to the routine normal planned shutdowns), and the diplomatic dispute in the region. Historically, the group was able to sell around ~7% of its petrochemical and fertilizer volumes in these countries prior to the blockade. The blockade did not have any material effect on these volumes, as Muntajat, together with the operating companies have immediately switched these volumes to other destinations. Muntajat's strategic relationships with key oil and gas service providers such as the ports were a key factor in smoothly distributing the affected volumes. The steel segment's exposure to the region was in the range of 8% to 9% excluding the volumes sold in our subsidiary in the UAE. While the production and sales in the UAE remains somewhat similar, Qatar Steel has found a number of new markets in Asia and the Far-east to sell the remaining quantities previously sold in the other blockade countries. The group was able to achieve this successfully without a material increase in the operating expenditure.

Revenue

Reported revenue for the year ended December 31, 2017 was QR 4.6 billion, which remained almost flat, over the previous year. On a like-for-like basis, management reporting revenue[1] was QR 14.3 billion, a slight increase of ~3% versus 2016.

[1] Refers to the share of revenue in group's direct and indirect joint ventures and subsidiary.

Petrochemical Segment[2]

The petrochemical segment recorded revenue of QR 5.7 billion, a year-on-year increase of QR 0.2 billion, or ~3% over 2016. This increase was primarily driven by the higher polyethylene and fuel additive prices due to modest recovery in the oil prices, and supply shortages following the hurricane in the USA. The revenue increase was also driven by higher fuel additive volumes as the fuel additive business was on an unplanned shutdown during early 2016 resulting in lower production and sales volumes in 2016.

Fertilizer Segment

Revenue in the fertilizer segment amounted to QR 3.9 billion, an increase of QR 0.3 billion, or ~9%, against the same period of 2016. The increase was driven by both an increase in the sales volumes, and a decent recovery in the fertilizer product prices. Fertilizer prices bottomed up during first half of 2017, mainly due to concerns of over-supply, but recovered strongly in the later part of the year due to increased energy costs, reduced supplies from some large producing geographies, and higher demand from some other key consumer markets.

Steel Segment

The steel segment closed the year with revenue of QR 4.6 billion for the twelve months ended December 31, 2017, and remained flat versus the same period of 2016. The marginal reduction in the sales volumes were almost offset by a slight increase in the prices. Steel selling prices fluctuated within a narrow range driven by an increase in the raw materials and other input costs.

[2] Petrochemical segment's revenue is computed by taking the group share of revenue in Qapco and Qafac. Qapco's revenue is computed by taking the share of revenue in its joint ventures namely Qatofin, QVC and QPPC. This revenue may defer from the revenues reported under the note 28.1 (Segmental Revenue) of financial statements. Group share of revenue reported for the petrochemical segment under note 28.1 of the financial statement is QR 4.4 billion (2016 = QR 4.0 billion).

Profits and Margins

EBITDA[3] reported for the year ended December 31, 2017 was QR 3.7 billion, a modest increase of QR 0.5 billion, or ~14%, on the prior year. This favorable variance was driven by stronger financial performance of the group's joint ventures, reduced controllable operating expenditure, and the reduced major one-off items in the current year, as the group recognized a one-off expense primarily related to the impairment of ~QR 0.4 billion at the fertilizer joint venture in 2016.

Net profit for 2017 was QR 3.3 billion, an increase of QR 0.4 billion, or ~ 12%, against last year, with the favorable year-on-year variances attributable to the same reasons as the EBITDA variance.

Financial Position and Cash Flows

Total assets reported as at 31 December 2017 was QR 35.5 billion, a slight increase of QR 0.3 billion or 1% on last year. This increase was driven primarily by the increase in the non-current assets particularly the investment in joint ventures / associates, and an increase in the current assets due to higher inventory levels and receivables. The increase was partially offset by a slight decrease in the cash and bank balances. This decrease was mainly driven by a reduced investment cash inflows on account of dividends received from the group companies, and the payment of 2016 dividends of QR 2.4 billion, and repayment of loan instalments (QR 0.5 billion). Total debt as at 31 December 2017 stood at QR 0.2 billion. The group's strong financial position is demonstrated by a very low debt to equity ratio of only ~1% and a strong net cash (total cash and bank balance less total debt) of QR 7.6 billion.

Strategy and Future Plans

The base case business strategy of the group for the next five years will continue to focus on market development by expanding its geographical footprint, and efficiency gains via the on-going cost optimization programs. We will also selectively invest in other capital investment projects, which we believe will increase our competitive position, and add value to our esteemed shareholders. In addition, our efforts on optimization will continue until the group achieves its full potential.

[3] EBITDA = Net Profit + Depreciation + + Impairment Expense + Finance Charges

Proposed Dividend Distribution

The Board of Directors proposes a total annual dividend distribution for the year ended December 31, 2017 of QR 3.0 billion, equivalent to a payout of QR 5 per share and representing a payout ratio of 91.2%.

Conclusion

The Board of Directors expresses its gratitude to His Highness, Sheikh Tamim Bin Hamad Al-Thani, the Emir of the State of Qatar, for his wise guidance and strategic vision. Our gratitude is also extended to the Chairman of the Board of Directors, Mr. Saad Sherida Al-Kaabi, for his vision and leadership, and to the senior management of the group companies for their hard work, commitment and dedication during a challenging financial year.

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our opinion

In our opinion, the consolidated financial statements of Industries Qatar Q.S.C. (the "Company") and its subsidiaries (together the "Group") present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the State of Qatar. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

Key Audit Matters	Impairment of investments in associates and joint ventures

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the Key audit matter
Impairment of investments in associates and joint ventures	
The Group's investment in associates and joint ventures amounted to QR 1.43 billion and QR 18.8 billion, respectively, totalling QR 20.23 billion at 31 December 2017, representing 57% of total Group assets at that date. These investments are accounted for using the equity method, because of the Group's significant influence over, or joint control of, these entities that comes from its shareholdings (note 2.2.4). The Group assesses at each reporting date whether there is any objective evidence that an investment accounted for using the equity method is impaired. The decrease in sale prices in the market, reduced profitability and increasing cost pressures were considered to be possible indicators that an impairment may exist.	We obtained management's impairment model and discussed the critical assumptions used both with them and with the Board Audit Committee (BAC). The discussion focussed on the growth rates used to estimate future cash flows and the discount rates used. Additional levels of discussion were carried out when estimated cash flows were not based on Board approved business plans or the plans are not very recent. Our internal valuation experts reviewed the appropriateness of the model and the inputs selected to calculate the value in use. They independently recalculated the discount rates applied to the cash flows in the model based on their assessment

Key audit matter	How our audit addressed the Key audit matter
Therefore, according to IFRS and the Group's accounting policies, an impairment review of certain investments in associates and joint ventures was performed by management using a value in use model to estimate the investments' values assuming the investments continue to be held rather than sold. When deemed necessary, management performed a further impairment review at the level of subsidiaries, associates, and joint venture entities indirectly held by the Group through its associates and joint ventures. Based on the impairment review, the Group recognised an impairment loss of QR 101 million for one of its associates in the year ended 31 December 2017. The many assumptions used in the model to estimate future profits attributable to the Group are derived from a combination of analysts' forecasts and management's best estimates and are highly judgemental. These are difficult to substantiate and require management to form a view on future growth in the steel, petrochemicals, and fertilisers segments of activities, and the Qatar and other GCC countries where the Group mainly operates. Refer to Note 3 for more details about critical accounting estimates and assumptions used. We focused on this area because of the materiality of investments in associates and joint ventures, and an impairment, if it exists, could have a material impact on the financial statements. We also focused on this area due to the significant judgments involved in performing the impairment test as set out above.	of the Group's specific financing and capital costs. We tested the inputs used in the determination of the assumptions for the calculation of the value in use to third-party sources, where available, including using external data from analysts' reports. We tested the mathematical accuracy of hthe model. We also reviewed disclosures in the financial statements made in relation to impairment testing for compliance with accounting standards.

Other information

The management is responsible for the other information. The other information comprises Board of Directors' Report (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the complete annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the complete annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and with the requirements of the Qatar Commercial Companies Law number 11 of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the Qatar Commercial Companies Law number 11 of 2015, we report that:

- We have obtained all the information we considered necessary for the purposes of our audit;

- The Company has carried out a physical verification of inventories at the year-end in accordance with observed principles;

- The Company has maintained proper books of account and the consolidated financial statements are in agreement therewith; and

- Nothing has come to our attention, which causes us to believe that the Company has breached any of the provisions of the Qatar Commercial Companies Law number 11 of 2015, or of its Articles of Association, which would materially affect the reported results of its operations or its consolidated financial position as at 31 December 2017.

For and on behalf of PricewaterhouseCoopers – Qatar Branch
Qatar Financial Market Authority registration number 120155

Mohamed Elmoataz
Auditor's registration number 281
Doha, State of Qatar
12 February 2018

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2017

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	As at 31 December	
	2017	2016
ASSETS		
Non-current assets		
Property, plant and equipment	**3,520,369**	3,670,978
Investments in associates	**1,438,788**	1,451,409
Investments in joint ventures	**18,848,000**	18,342,580
Available-for-sale investments	**533,890**	674,295
	24,341,047	24,139,262
Current assets		
Inventories	**1,444,233**	1,243,570
Trade and other receivables	**1,903,439**	1,727,900
Financial assets at fair value through profit or loss	**3,585**	3,585
Cash and cash equivalents	**747,627**	1,098,144
Fixed deposits	**7,041,075**	6,973,371
	11,139,959	11,046,570
Total assets	**35,481,006**	35,185,832
EQUITY AND LIABILITIES		
EQUITY		
Share capital	**6,050,000**	6,050,000
Legal reserve	**94,863**	74,999
Fair value reserve	**232,941**	373,346
Hedging reserve	**(747)**	(54,142)
Retained earnings	**27,861,591**	27,069,762
Net equity	**34,238,648**	33,513,965

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at December 31, 2017

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	As at 31 December	
	2017	2016
LIABILITIES		
Non-current liabilities		
Borrowings	**-**	225,758
Employees' benefit obligations	**199,095**	214,983
	199,095	440,741
Current liabilities		
Borrowings	**225,758**	450,571
Trade and other payables	**817,505**	780,555
	1,043,263	1,231,126
Total liabilities	**1,242,358**	1,671,867
Total equity and liabilities	**35,481,006**	35,185,832

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 12 February 2018 and signed on their behalf by:

Saad Sherida Al Kaabi
Chairman and Managing Director

Mohammed Nasser Al Hajri
Vice Chairman

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2017

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	Year ended 31 December	
	2017	2016
Revenues	**4,628,483**	4,674,300
Cost of sales	**(3,918,924)**	(3,529,365)
Gross profit	**709,559**	1,144,935
General and administrative expenses	**(199,196)**	(230,625)
Selling and distribution expenses	**(57,826)**	(38,658)
Share of net results of investment in joint ventures	**2,606,615**	1,716,339
Share of net results of investment in associates	**27,943**	48,660
Impairment of investment in associates	**(101,261)**	-
Income from investments	**254,610**	226,355
Finance cost	**(10,034)**	(13,135)
Other income	**84,992**	101,119
Profit for the year	**3,315,402**	2,954,990
Earnings per share		
Basic and diluted earnings per share (QR per share)	**5.48**	4.88

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2017

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	Year ended 31 December	
	2017	2016
Profit for the year	**3,315,402**	2,954,990
Other comprehensive (loss)/income		
Items that may be reclassified subsequently to profit or loss		
Available for sale financial investments		
Net movement in cumulative changes in fair value	**(140,405)**	2,539
	(140,405)	2,539
Cash flow hedges		
Share of other comprehensive income of investment in joint ventures	**51,018**	66,164
Share of other comprehensive income of investment in associates	**2,377**	11,488
	53,395	77,652
Other comprehensive (loss)/income for the year	**(87,010)**	80,191
Total comprehensive income for the year	**3,228,392**	3,035,181

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	Share capital	Legal reserve	Fair value reserve	Hedging reserve	Retained earnings (Restated)	Total
Balance at 1 January 2016 (as previously stated)	6,050,000	74,999	370,807	(131,794)	27,260,592	33,624,604
Prior year adjustment	-	-	-	-	(49,063)	(49,063)
Restated balance at 1 January 2016	6,050,000	74,999	370,807	(131,794)	27,211,529	33,575,541
Profit for the year	-	-	-	-	2,954,990	2,954,990
Other comprehensive income for the year	-	-	2,539	77,652	-	80,191
Total comprehensive income for the year	-	-	2,539	77,652	2,954,990	3,035,181
Dividends declared for 2015	-	-	-	-	(3,025,000)	(3,025,000)
Social fund contribution	-	-	-	-	(71,757)	(71,757)
Balance at 31 December 2016	6,050,000	74,999	373,346	(54,142)	27,069,762	33,513,965
Balance at 1 January 2017	**6,050,000**	**74,999**	**373,346**	**(54,142)**	**27,069,762**	**33,513,965**
Profit for the year	**-**	**-**	**-**	**-**	**3,315,402**	**3,315,402**
Other comprehensive loss for the year	**-**	**-**	**(140,405)**	**53,395**	**-**	**(87,010)**
Total comprehensive income for the year	**-**	**-**	**(140,405)**	**53,395**	**3,315,402**	**3,228,392**
Dividends declared for 2016	**-**	**-**	**-**	**-**	**(2,420,000)**	**(2,420,000)**
Social fund contribution	**-**	**-**	**-**	**-**	**(83,709)**	**(83,709)**
Transfer to legal reserve	**-**	**19,864**	**-**	**-**	**(19,864)**	**-**
Balance at 31 December 2017	**6,050,000**	**94,863**	**232,941**	**(747)**	**27,861,591**	**34,238,648**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2017

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	Year ended 31 December 2017	2016
Cash flows from operating activities		
Profit for the year	**3,315,402**	2,954,990
Adjustments for:		
Depreciation and amortisation	**225,422**	225,353
Provision for employees' end of service benefits	**33,000**	38,479
Share of net results from investment in joint ventures	**(2,606,615)**	(1,716,339)
Share of net results from investment in associates	**(27,943)**	(48,660)
Loss on disposal of property, plant and equipment	**11,195**	15,832
Dividend received on available-for-sale investments	**(23,730)**	(25,521)
Finance costs	**10,034**	13,135
Interest income	**(230,880)**	(200,834)
Impairment of property, plant and equipment	**-**	64,594
Impairment of investment in associate	**101,261**	-
Loss on disposal of available-for-sale investments	**-**	8,209
Operating cash flows before changes in working capital	**807,146**	1,329,238

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31, 2017

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	Year ended 31 December	
	2017	2016
Changes in working capital		
Inventories	**(200,663)**	192,150
Trade and other receivable	**(60,008)**	26,851
Trade and other payable	**42,325**	(24,315)
Cash generated from operations	**588,800**	1,523,924
Payment of employees' end of service benefits	**(48,888)**	(30,966)
Social fund contribution	**(71,757)**	(111,412)
Net cash generated from operating activities	**468,155**	1,381,546
Cash flows from investing activities		
Proceeds from disposals of property, plant and equipment	**112**	2,380
Additions to property, plant and equipment	**(86,120)**	(150,981)
Dividend received from investment in associates	**40,000**	5,000
Proceeds from disposal of available-for-sale investments	**-**	2,729
Dividend received on available-for-sale investments	**23,730**	25,521
Dividends received from investment in joint ventures	**2,062,933**	3,086,811
Additional investment in Foulath Holding B.S.C.	**(98,320)**	-
Movement in fixed deposits	**(67,704)**	(1,047,557)
Interest income received	**204,630**	191,315
Net cash generated from investing activities	**2,079,261**	2,115,218

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31, 2017

(All amounts are expressed in thousands of Qatari Riyals unless otherwise stated)

	Year ended 31 December	
	2017	2016
Cash flows from financing activities		
Repayment of borrowings	**(450,571)**	(450,570)
Finance costs paid	**(10,034)**	(13,135)
Movement in unclaimed dividend bank accounts	**17,328**	5,194
Dividends paid to equity holders	**(2,437,328)**	(3,030,194)
Net cash used in financing activities	**(2,880,605)**	(3,488,705)
Net (decrease) increase in cash and cash equivalents	**(333,189)**	8,059
Cash and cash equivalents at beginning of year	**964,323**	956,264
Cash and cash equivalents at end of year	**631,134**	964,323

The notes to the consolidated financial statements are integral part of the consolidated financial statements. For more information, please visit IQ's website : www.iq.com.qa