صناعات قطر
Industries Qatar

Annual Report
2005

صناعات قطر
Industries Qatar

Industries Qatar Q.S.C. ("IQ" or "the Company") was incorporated as a Qatari joint stock company on April 19, 2003 for a 50-year term, by Resolution Number 33 of 2003 of the State of Qatar's Ministry of Economy and Commerce, pursuant to its Memorandum and Articles of Association and Law Number 5 of 2002 concerning Commercial Companies.

The business operations of the Company comprise the direct holding of shares in the following subsidiary and joint venture companies,

- Qatar Steel Company Q.S.C. ("QASCO"): Originally incorporated in 1974 as a joint venture between the State of Qatar, Kobe Steel and Tokyo Boeki, it was subsequently wholly-acquired by IQ in 2003. QASCO has one wholly-owned subsidiary, QASCO Dubai Steel FZE, and two associates, Qatar Metal Coating Company W.L.L. and United Stainless Steel Company. QASCO is engaged in the manufacture and sale of steel billets and reinforcing bars.

- Qatar Petrochemical Company Limited Q.S.C. ("QAPCO"): Incorporated in 1974 as a joint venture, it is currently owned by IQ (80%) and TOTAL Petrochemicals (France) [20%]. QAPCO has a partly-owned subsidiary, Qatofin Company Limited Q.S.C., and three associated companies, Qatar Vinyl Company Limited Q.S.C., Qatar Plastic Products Company W.L.L. and Ras Laffan Olefins Cracker Company. QAPCO is engaged in the production and sale of ethylene, low-density polyethylene (LDPE) and sulphur.

- Qatar Fertiliser Company S.A.Q. ("QAFCO"): Incorporated in 1969 as a joint venture, it is currently owned by IQ (75%), Fertilizer Holdings A.S. (20%) and Yara Netherland B.V. (5%). QAFCO has a 70% interest in Gulf Formaldehyde Company. The company is engaged in the manufacture and sale of ammonia and urea.

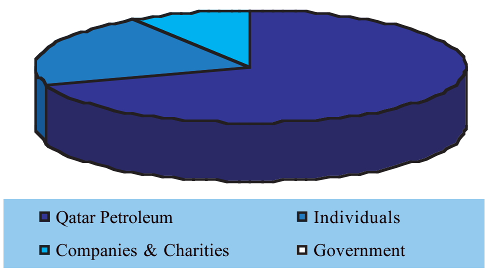
- Qatar Fuel Additives Company Limited Q.S.C. ("QAFAC"): Incorporated in 1991 as a joint venture, it is currently owned by IQ (50%), OPIC Middle East Corporation (20%), International Octane Limited (15%) and LCY Investments Corporation (15%). The company is engaged in the production and export of methanol and methyl-tertiary-butyl-ether (MTBE).

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

The IQ shareholding distribution as at December 31, 2005 was as follows:

Shareholding Distribution (December 31, 2005)

Shareholder	Shares Held	%
Qatar Petroleum	350,000,000	70%
Individuals	103,836,266	21%
Companies & Charities	45,558,616	9%
Government	605,118	0%
Total	**500,000,000**	**100%**



IN THE NAME OF

ALLAH

THE MOST

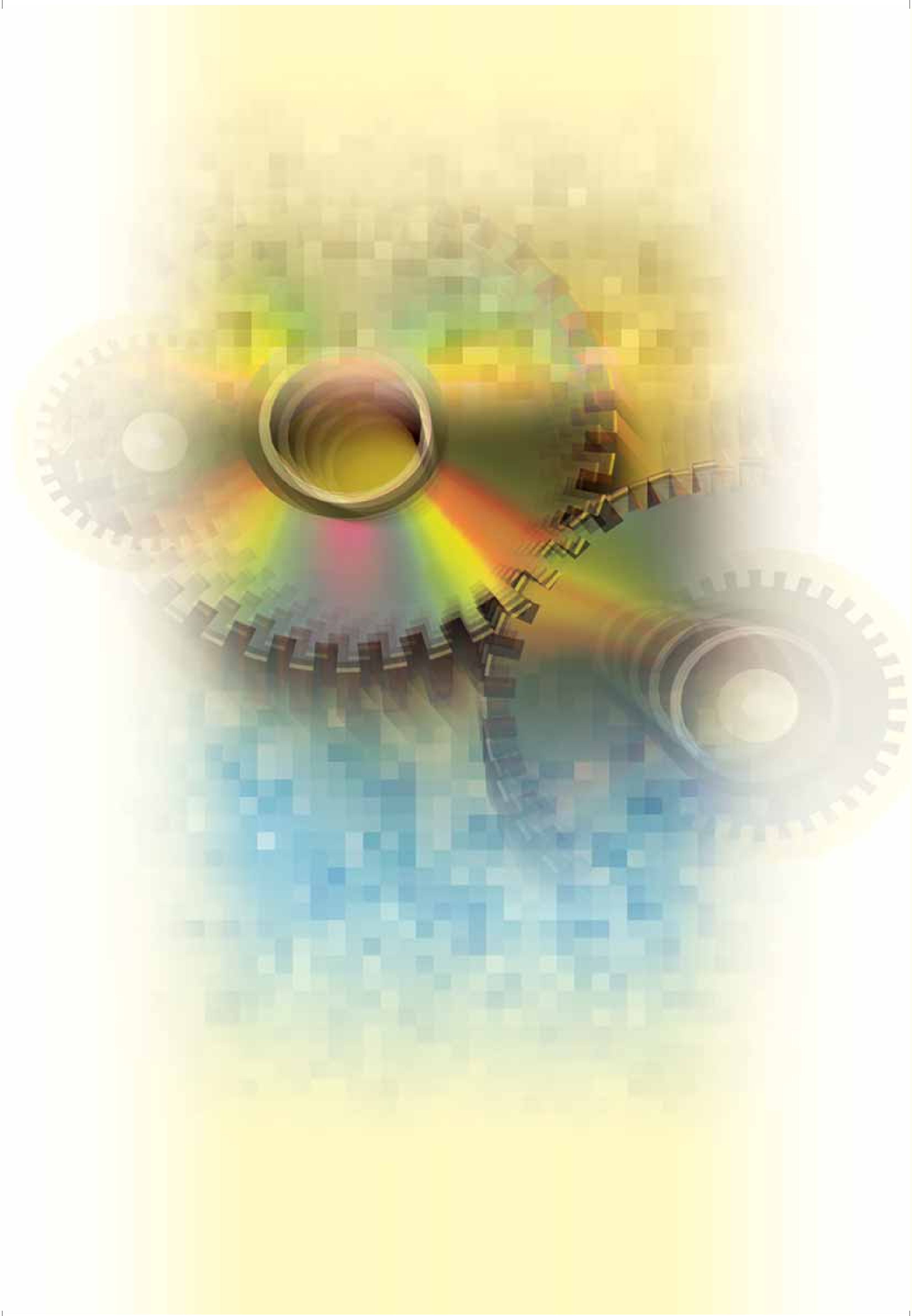
MERCIFUL

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



Contents

BOARD OF DIRECTORS

H.E. Abdullah Bin Hamad Al-Attiyah
Second Deputy Prime Minister
Minister of Energy and Industry
Chairman and Managing Director

H.E. Yousef Hussain Kamal
Minister of Finance
Vice-Chairman

BOARD OF DIRECTORS

Mr. Abdullah Hussain Salatt
Member
Senior Advisor, Office of the Minister of Energy and Industry

Dr. Ibrahim Al-Ibrahim
Member
Economic Expert, H.H. The Emir's Office

Mr. Faisal Mohammed Al-Suwaidi
Member
Vice-Chairman and Managing Director, Qatargas

Mr. Hamad Rashid Al-Mohannadi
Member
Vice-Chairman and General Manager, QAPCO

Mr. Fahad Hamad Al-Mohannadi
Member
General Manager, QEWC

CHAIRMAN'S MESSAGE

1. INTRODUCTION

As-salam alaykum wa rahmatullah wa barakatuh,

On behalf of IQ and my colleagues on the Board of Directors, I am pleased to welcome you to the 3rd Annual General Assembly Meeting of the Company.

The financial year ended December 31, 2005 will be remembered as the second full operating year and yet another successful year for Industries Qatar Q.S.C. (IQ). The company has grown from strength to strength and is well on its way to establishing itself as one of the region's premier joint stock companies.

The Group companies have benefited immensely from the far-sighted economic diversification and investment programs of H.H. the Emir that have resulted in Qatar possessing one of the fastest growing economies in the world. I am proud to say that IQ has made a meaningful contribution to the economic development of Qatar that has led to gross domestic product growth of 20.8% in 2005 (as compared to an expected 3.6% for the United States and 1.4% for the Euro Zone) and exports expected to have grown to a record QR 85 billion. Trading conditions have been extremely favourable for the Group companies as world trade grew by an estimated 7.3% in 2005, oil prices reached record highs and local inflation remained within manageable levels (8.8%).

2. SUMMARY RESULTS

In this environment, and by all key performance indicators, whether financial or operational, IQ has performed exceptionally well as the Group companies continued to build on the significant achievements of prior years and benefit from the buoyant world economy:

- **Sales:** Strong year-on-year sales growth of 25%
- **Net Profit:** Excellent profit conversion, as profits grew by 28.8%
- **Capital Expenditure:** Sustained investments, increased total assets to QR 12.2 billion
- **Earnings Per Share:** Growth to QR 6.43 per share

These results should be viewed in light of our strong prior year results. Net profits, for example, were QR 1.1 billion in the first operating period (nine months from April 19, 2003 to December 31, 2003), grew to QR 2.5 billion in 2004 and culminated in QR 3.2 billion in 2005. Each of the Group companies contributed to these outstanding results.

3. OUR STRATEGIC VISION

Despite these phenomenal results, we have not lost focus of our strategic vision: to increase the company's capital value for the benefit of our shareholders through gains in efficiency and investments. Our key financial indicators all remain positive. We are continuously investing in our human resources, thereby ensuring we have the best management teams, world-class staff training and development programs and internationally-recognised policies and procedures. In this way, we will consistently derive optimal performances from our people.

Our Strategic Vision:
Increasing shareholder returns through Efficiency and Investment.

However, capital investment remains the central pillar supporting our strategic plan as we believe success can only be achieved through organic growth and capital acquisitions. Over the next five years, IQ expects to invest in excess of QR 14.3 billion in new plants and facilities - of which 46% will be in Existing Projects and the remainder split between Imminent (28%) and Future Projects (26%).

Together with our strategic partners, we are involved in a number of major projects that should greatly increase our production capacity, introduce new product lines and streamline our production processes. By their completion in the next 5 years, they should result in the doubling of IQ's total assets. Some of the most exciting projects include:

- **Qatofin,** a new petrochemical project between QAPCO, TOTAL Petrochemicals (France) and Qatar Petroleum for the production of linear low-density polyethylene (LLDPE).
- **QASCO Plant Expansion (Phase I),** which should result in their annual production levels significantly increasing.
- **QAFAC II,** a project to expand methanol production and add ammonia to the product range.
- **QAFCO V,** which aims to build on QAFCO IV, thereby further increasing production capacity.

4. CONCLUSION

The impact suitably selected investments can have on our financial results can be seen in the success story of two of our recently completed projects:

QASCO Dubai Steel FZE: Established in 1992 by Gulf and Indian business partners, QASCO Dubai Steel sustained losses and financial problems until acquired by QASCO in late 2003 at the cost of QR 48 million. Within one year, QASCO was able to restructure the company and convert its prior year net losses into a net profit of QR 40 million - a return of more than 80%.

QAFCO IV: Completed in 2004, QAFCO IV boosted QAFCO's production train annual production capacity of ammonia by more than 50% and of urea by 75%. IQ's share of QAFCO's net profits in 2005 almost doubled to QR 1.3 billion.

However, we have not allowed our success to distract us from our social responsibility. We remain dedicated to the protection, preservation and conservation of our environment, and are committed to complying with international environmental, health and safety practices. We consider this responsibility a trust from God and, therefore, an integral part of our strategic vision.

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, 2005 of QR1.75 billion - equating to a dividend payout of QR 3.50 per share and representing 35% of our share capital.

The Board of Directors and I would like to take this opportunity to extend our appreciation and thanks to the shareholders, who have shown their loyalty and continued support to the company. We would also like to acknowledge and thank the management teams and all of the staff involved, for their hard work and dedication.

In conclusion, we would like to show our appreciation to H.H. the Emir, for his support and strategic vision, which has made IQ such an immense success.

Thank you. Was-salam alaykum.

Abdullah bin Hamad Al-Attiyah
Second Deputy Prime Minister
Minister of Energy and Industry
Chairman and Managing Director

[Further information can be found at www.industriesqatar.com.qa]

BOARD OF DIRECTORS REPORT

1. INTRODUCTION

The Board of Directors is pleased to present the Annual Report for Industries Qatar Q.S.C. (IQ) for the financial year ended December 31, 2005. In line with expectations, 2005 was an even more successful year than 2004 - both financially and operationally.

This success has been assisted by the business environment created under the leadership of H.H. the Emir: a growing economy, pro-investment economic policies, a stable government committed to wealth-creation and distribution, a large and skilled workforce, readily available raw materials and established infrastructure, being some of the contributory factors.

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

2. FINANCIAL REVIEW

On all financial key performance indicators, the Group's performance in 2005 was remarkable - increased sales were converted to higher profits, operating costs and working capital levels were controlled and significant investments in new facilities and plants increased total assets.

2.1 Profit And Loss Account

Sales

With 2005 year-on-year growth of 25%, the Group companies' accumulated revenue since incorporation has now reached a staggering QR 14.7 billion. While certainly benefiting from generally high product prices, these exceptional results were also due to a number of other factors:

- **Demand**

  Despite the historically high prices, local, regional and international demand for the Group's products remained strong. The resilient world economy contributed significantly, as growth in the global construction industry boosted steel sales, and increases in GDP, most notably in China, impacted on demand for polyethylene and other petrochemicals. The demand for plastics also increased due to their use in humanitarian aid packages required after the major natural disasters of 2005.

  Some competitor markets also reduced supply, thereby increasing demand. Most notable were the shut-downs of numerous crackers in South-East Asia and China, which assisted QAPCO, and the gradual reduction in North American methanol production, to the benefit of QAFAC.

- **Sales And Marketing**

  The Group companies expanded into new markets, reduced reliance on traditional markets and undertook aggressive marketing strategies to further improve market prominence.

  During the year, QAFCO signed agreements to increase their share of the Australian and New Zealand urea markets to over 40%. The company also managed to penetrate a number of new markets, like Korea, Sudan and Yemen. QAFAC, in response to changes in US regulations on MTBE use in the gasoline pool, continued to reduce its reliance on this market by focusing on new emerging markets. A number of new sales offices were established by QAPCO, thereby expanding their global network.

The Group companies also showcased their products and improved their marketing presence by participating in numerous international fairs; QASCO, for example, was involved in 4 such regional events in the second half of 2005.

- **Production / Sales Volumes**

Increased production levels, effective maintenance schedules, design modifications and feedstock supply improvements, also contributed to the year-on-year sales growth.

QAFAC posted numerous production records during the year and their plant was able to safely exceed design capacity. Overall capacity increased through the completion of QAFCO IV in late 2004, which increased IQ's fertiliser production capacity by more than 50%. Technical improvements in the LDPE plants, increasing and optimizing plant loading and improvements in the feed gas supply, also contributed to QAPCO achieving production records during the year.

Table 2.1a	Sector Stated in QR billions	2003 (9 months)	2004	2005	Total
Sales Revenue	Petrochemicals	1.1	2.1	2.6	5.8
By Industry	Fertilisers	0.8	1.4	2.2	4.4
	Steel	0.9	1.8	1.8	4.5
	Total	**2.8**	**5.3**	**6.6**	**14.7**
	Growth		**89%**	**25%**	

Looking to the future, the completion of QASCO's PC Strands Project towards the end of 2006 should diversify IQ's steel segmental sales and positively affect revenue. The other IQ projects slated for completion post-2006, should also resolve any capacity constraint issues currently being experienced.

In addition, the signing of long-term marketing deals, like those signed by QAFCO, the establishment of international marketing offices and the continued global economic recovery, should all help to further secure additional sales growth.

Operating Costs

Despite the large year-on-year sales growth, Operating Costs (consisting of cost of sales, selling expenses as well as general and administrative costs) as a percent of sales, improved on the creditable performance of last year, by 2% to 53%. This result clearly indicates that the Group is benefiting from economies of scale as the additional sales generated are from a relatively smaller cost base. Furthermore, the Group's focus on operating efficiency through cost control, investing in staff training, good work practices and effective planned maintenance schedules, are also contributing factors.

The following should be noted when further analysing operating costs:

- **Cost Of Sales**

The majority of petrochemical raw materials used by the Group are provided directly from source by the state-owned Qatar Petroleum at mostly competitive rates. However, the Group is still subject to fundamental oil price fluctuations. Despite this, cost of sales, as a percent of sales, only marginally increased from 46%, in 2004, to 47% in 2005.

General And Administration

The year-on-year change was due mostly to last year's goodwill write-off.

Table 2.1b Operating Costs By Industry	Sector Stated in QR billions	2003 (9 months)	2004	2005	Total
	Petrochemicals	0.6	1.0	1.2	2.8
	Fertilisers	0.4	0.7	0.9	2.0
	Steel	0.7	1.1	1.4	3.2
	Other	-	0.1	-	0.1
	Total	**1.7**	**2.9**	**3.5**	**8.1**
	As Percent of Sales	**61%**	**55%**	**53%**	

With the completion of more projects in the short- to medium-term, the depreciation charge, salaries and payroll benefits and other general and administrative expenses, are all expected to increase. However, these increases are expected to be compensated by the corresponding revenue improvements.

Net Profit

Profits showed excellent year-on-year growth, reaching QR 3.2 billion, an increase of 28.8%. This should be considered in light of the annual sales growth, which was 25% - further highlighting the improvements in operating costs mentioned above.

The fertiliser segment of the Group's business requires special mention - QAFCO's investment in QAFCO IV has resulted in IQ's share of its profits almost doubling to QR 1.3 billion and its contribution to Group profits increasing to 42%. The petrochemicals segment also grew by a strong 20%, buoyed by the high oil prices.

Figure 2.1a

Net Profit By Year

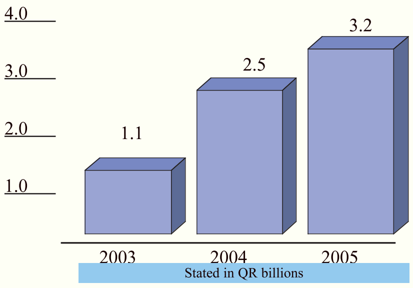
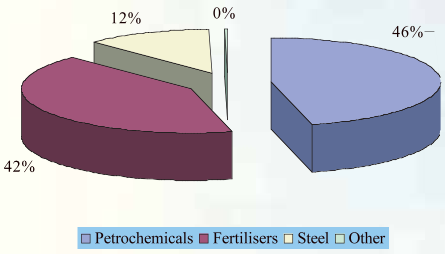


Figure 2.1b

Net Profit By Industry



The latest global economic forecasts predict that we are currently in a period of high oil prices, moderate inflation and sustained economic growth: these factors should all assist in increasing sales in the coming years. Furthermore, the Group companies' proximity to petrochemical production sites and generally favourable feedstock agreements with Qatar Petroleum, along with the companies all maintaining their excellent profit conversion performances, should allow IQ to further improve profits in the medium term.

2.2 Balance Sheet / Cash Flow Statement

Non-Current Assets

The ambitious expansion plans already started, like Qatofin, QAPCO's Ethylene Plant Expansion II and QASCO's Plant Expansion (Phase I), have increased the year-end balance of major capital expenditure (CAPEX) [consisting of capital work in progress (CWIP) and projects under development (PUD)] in 2005 to QR 1.2 billion. IQ's total investment in projects over the next 5 years is budgeted to exceed QR 14.3 billion:

Table 2.2	Category Stated in QR billions	Total Project Costs Estimated	IQ's Contribution Estimated
Summary	Existing Projects	10.7	6.6
CAPEX	Imminent Projects	4.9	4.0
	Future Projects	11.7	3.7
	Total Investment	**27.3**	**14.3**

These substantial future investments are expected to result in total assets doubling by 2010.

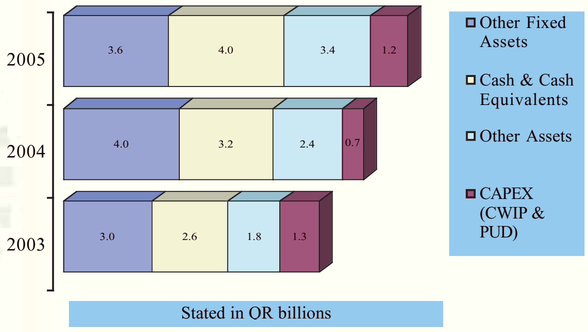
Working Capital / Liquidity

The Group's working capital (current assets less current liabilities) increased by QR 0.8 billion. Given the increase in sales, the modest increase noted in accounts receivable, inventories and accounts payable was expected (net of QR 0.4 billion). However, the increase in non-cash current assets has not affected the Group's liquidity position, as cash and cash equivalents also improved (QR 0.8 billion).

Figure 2.2

Total Assets

By Year



3. OPERATIONAL REVIEW

Operationally, 2005 was also a success. We have previously mentioned the successes in Sales And Marketing, Production and Maintenance; here, we would like to briefly mention the other major functional areas:

3.1 Health, Safety and the Environment (HSE)

The Group companies all stringently followed their respective HSE policies. In the case of QAPCO, application and adherence to their policy has resulted in a significant reduction in the number of man-hours lost and accidents: in 2000, a total of 18 man-days were lost, whereas in 2005, only 1 was lost. Similarly, QAFCO only experienced 5 lost-time accidents during 2005, a result that can be attributed to the large number of employees (125 employees in 2005) who attended both theoretical and practical HSE training courses. QAPCO also achieved OHSAS 18001 certification during 2005.

On the environmental front, QAPCO successfully upgraded their waste water treatment system and are currently revamping their sulphur recovery unit to reduce environmental sulphur emissions.

3.2 Human Resources

In line with government requirements, all of the Group companies have implemented Qatarisation plans. Despite challenges in retaining hired nationals, the companies all remain committed to their stated goals. Of note are QAFCO and QAPCO's targets of 50% Qatarisation by 2010. Latest results show QAFAC at 9%, QASCO at 13%, QAFCO at 19% and QAPCO at 28%. Total Group headcount stands at 3,099 full-time directly-hired employees (excluding trainees).

Table 3.2

Group Headcount (Excluding Trainees) By Nationality And Industry

Nationality	2004		2005	
Number of employees	National	Total	National	Total
Petrochemicals	205	774	198	778
Fertilisers	176	716	141	734
Steel	220	1,570	207	1,586
Other	1	1	1	1
Total Headcount	**602**	**3,061**	**547**	**3,099**

In order to update employees' skills and keep abreast of the latest technological developments, the Group companies have invested heavily in training days for both technical and non-technical staff. QAFCO, for example, conducted 259 training programs, 90 of which were overseas; while QASCO spent a total of 1,350 man-days in local and overseas training courses.

3.3 Quality Assurance / Quality Control

The commitment to quality can be evidenced by the fact QASCO and QAPCO are already ISO 9001 (QMS) and ISO 14001 (EMS) certified. QAFCO, on the other hand, was ISO 9001 (QMS) certified 10 years ago. During 2005, QAFAC achieved ISO 14001 (EMS) certification and is also working towards ISO 9001 (QMS) certification.

4. STRATEGIC VISION

IQ is committed to increasing the Group's Capital Value for the benefit of our Shareholders in a sustainable manner through Gains in Efficiency and Investment.

4.1 Efficiency

Using standard financial indicators to assess the effectiveness by which invested funds are generating returns, we are pleased to inform shareholders that despite the twin pressures of generating profitable sales along with selecting suitable investments, the Group has performed exceptionally well.

Funds not generating returns, in the form of working capital, remain within acceptable levels. Operating margins (Gross Margin and Profit Margin) have remained high. Funding the capital projects has resulted in a modest increase in debt; but, as internally-generated cash flows were also being utilised, the Debt : Total Assets ratio has improved. Finally, both the Return On Capital Employed and Earnings Per Share have increased, in line with the greater profits generated this year.

Table 4.1	Key Performance Indicator	2003 (9 months)	2004	2005
Efficiency KPI's	Working Capital (stated in QR billions)	3.3	4.0	4.8
	Gross Profit Margin	47%	54%	53%
	Net Profit Margin	41%	47%	49%
	Debt : Total Assets	23%	16%	14%
	Return On Capital Employed	14%	27%	30%
	Earnings Per Share	2.26	4.99	6.43

4.2 Investment

Selecting capital investments that compliment and strengthen our existing facilities, foster strategic business partnerships and generate positive returns, is of primary importance to the Board of Directors. The current capital investment program involves all of the Group companies and should be completed in 2010. In the short- to medium-term, IQ is budgeted to spend in excess of QR 14.3 billion in new plants and facilities - of which 46% is in Existing Projects and the remainder split between Imminent (28%) and Future Projects (26%).

Shareholders should be aware that this capital investment list is based on our latest information on expected expenditure and completion dates.

Table 4.2	Project Name Stated in QR billions	Partners	Total Cost	IQ Share	Completion Date
Existing Projects	**EXISTING PROJECTS**				
	Qatofin	IQ (51%), TOTAL (49%)	4.5	2.3	Q4, 2008
	QASCO Plant Expansion (Phase I)	IQ (100%)	2.1	2.1	Q2, 2007
	QAFAC II	IQ (50%), Others (50%)	3.0	1.5	Q1, 2010
	QAPCO Ethylene Expansion	IQ (80%), TOTAL (20%)	0.8	0.6	Q2, 2007
	United Stainless Steel Company	IQ (25%), Others (75%)	0.3	0.1	Q2, 2007
	QAFAC De-Bottlenecking	IQ (50%), Others (50%)	0.0	0.0	Q2, 2007
	Category Total		**10.7**	**6.6**	

Table 4.2 Contined	Project Name Stated in QR billions	Partners	Total Cost	IQ Share	Completion Date
Imminent Projects	**IMMINENT PROJECTS**				
	QAFCO V	IQ (75%), Yara (25%)	2.6	2.0	Q1, 2010
	QASCO Steel Melt Shop Furnace	IQ (100%)	0.8	0.8	H2, 2009
	QAPCO LDPE-3	IQ (80%), TOTAL (20%)	0.9	0.7	Q2, 2010
	Qatar Melamine (QAFCO)	IQ (75%), Yara (25%)	0.5	0.4	Q4, 2008
	QASCO PC Strands	IQ (100%)	0.1	0.1	Q4, 2006
	Category Total		**4.9**	**4.0**	
Future Projects	**FUTURE PROJECTS**				
	QASCO Plant Expansion (Phase II)	IQ (100%)	3.1	3.1	2010
	Other Projects	-	8.6	0.6	-
	Category Total		**11.7**	**3.7**	
	Total Expenditure		**27.3**	**14.3**	

5. CONCLUSION

The Board of Directors has identified a number of possible challenges for 2006, the most critical being: high oil prices inducing a global slow-down, petrochemical derivative prices remaining steady due to over-supply and liquidity constraints due to the ambitious capital investment program.

However, it is our belief that IQ is particularly well-suited to withstand these challenges; one of our strategic advantages is our proximity to our feedstock sources and the excellent business relationship between IQ and Qatar Petroleum. A second strategic advantage is IQ's investment in a cross-section of companies from the petrochemical and steel industries - an investment in IQ is, in itself, an investment in a diversified portfolio of companies. Investors are thereby hedging themselves against specific challenges in any one aspect of the petrochemical industry. Thirdly, we are privileged to have investment partners who have excellent business and technical credentials.

Fourthly, we believe that the decentralised decision-making structure used in Industries Qatar allows our companies to develop localised expertise and react quickly to counteract threats and seize opportunities. This degree of autonomy, coupled with the fact that we consistently employ world-class staff and management, gives us confidence that we have the experience and knowledge necessary to successfully face off any challenges that may come our way.

In closing, we would like to thank the Managing Director for his wisdom and wise-leadership, and the General Managers and staff of our subsidiary, joint ventures and associates for the hard work, commitment and dedication, shown throughout 2005. Their efforts and sacrifices have all borne fruit and are the reason why we can celebrate the outstanding accomplishments of 2005.

[Further information can be found at www.industriesqatar.com.qa]

FOCUS ON THE GROUP COMPANIES

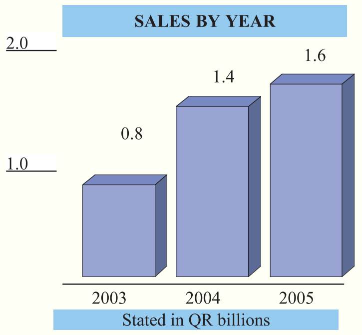
Record Sales And Profits For QAPCO

BACKGROUND

In line with the industrialisation plan of the State of Qatar, Qatar Petrochemical Company Q.S.C. (QAPCO) was established with the aim of utilising the associated and non-associated ethane gas from petroleum production. QAPCO is one of the leading producers of ethylene and variable grade low-density polyethylene (LDPE) [under the brand name "Lotrene"] in the Middle East, with sulphur being its by-product. The LDPE is marketed in over 75 countries, with the main markets being the Middle East, Far East, Africa and the Indian sub-continent. A substantial part of the ethylene produced is used in the LDPE production process, with the remainder being supplied to QAPCO's associate, Qatar Vinyl Company Limited Q.S.C., to meet its feed requirements.

FINANCIAL & OPERATIONAL REVIEW

2005 will be remembered as an exceptional year for QAPCO for many reasons: record annual production levels were achieved for LDPE (415 KT) and ethylene (544 KT), the two LDPE plants were able to significantly and safely exceed design capacity (104%), LDPE average sales prices were at an all-time high while ethylene and sulphur average sales prices were up on last year (10% and 12% respectively).

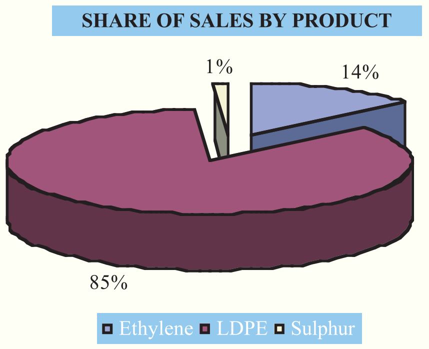


Not surprisingly, IQ's share of QAPCO sales and net profit were also records: they increased year-on-year by 13% (to QR 1.6 billion) and 9% (to QR 1.1 billion) respectively, with a net profit margin of 67%.

The high prices experienced were due to a number of factors: (i) high oil prices leading to high derivative prices, including ethylene; (ii) closure of several competitors' crackers in South-East Asia and China; (iii) severe supply disruption caused by natural disasters in the US and the Far East; and (iv) market shortages following bulk purchasing by the European Union of plastic products for use in disaster emergency relief aid packages.

High points were also noted by the sales and marketing team as QAPCO's international sales, marketing and distribution network was extended in 2005 with the opening of 3 offices (in Bangladesh, Lebanon and Taiwan), to complement their existing 12 offices, and 1 new warehouse (in Egypt) to add to their present one in Syria.

On the HSE side, 2005 saw the company achieve OHSAS 18001 certification and the re-certification of their Quality Management System (as per ISO 9001) for another 3 years.



The year also witnessed the upgrading of their waste water treatment system in line with environmental standards issued by the Supreme Council for Environment and Natural Reserves (SCENR), and the execution of environmentally-protective changes to the sulphur recovery unit. The changes being considered are the installation of an incinerator to reduce atmospheric sulphur emissions and the reduction of air pollution levels by finding an economically viable alternative to incinerating gasoline.

EXISTING & IMMINENT PROJECTS

QAPCO is currently involved in a number of projects which should increase the current production levels of ethylene and introduce a new product, linear low-density polyethylene (LLDPE). These projects represent 25% of IQ's major CAPEX plans:

- **Ethylene Expansion:** QAPCO is currently undertaking this project with the aim of achieving greater operational economies of scale. At a cost to IQ of QR 0.6 billion, the existing ethylene design capacity is expected to increase by 37% by Q2, 2007.
- **Qatofin:** This is a project between QAPCO, TOTAL Petrochemicals (France) and Qatar Petroleum, for the construction of an ethane cracker at Ras Laffan (as explained below) and a new LLDPE plant in Mesaieed. The total project cost to IQ is estimated at QR 2.3 billion and expected to be completed in Q4, 2008. The EPC contract was awarded in December, 2005.

Category Stated in QR billions	Total Project Costs Estimated	IQ's Contribution Estimated
Existing Projects	5.3	2.9
Imminent Projects	0.9	0.7
Future Projects	-	-
Total Investment	**6.2**	**3.6**

- **Ras Laffan Olefins Cracker Company:** QAPCO is indirectly involved in this project through Qatofin. The EPC contract to build the ethane cracker was awarded in August, 2005. The facility will be built at Ras Laffan with the ethylene being piped to the LLDPE plant.

The company is also considering a 3rd LDPE plant with a total cost to IQ of QR 0.7 billion.

[Further information can be found at www.qapco.com]

FOCUS ON THE GROUP COMPANIES

QAFCO

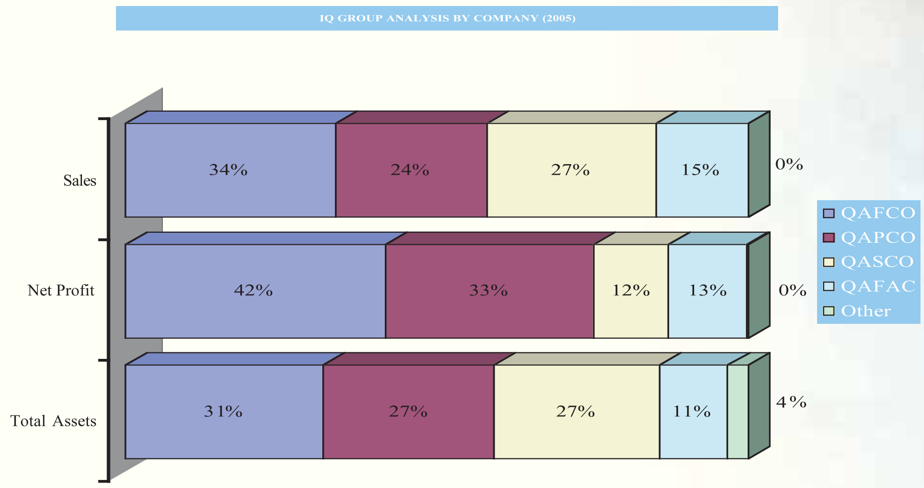
QAFCO Now IQ's Largest Single Company

BACKGROUND

Through its facilities in Mesaieed, Qatar Fertiliser Company S.A.Q. (QAFCO) is a world-class producer and exporter of ammonia, urea and urea formaldehyde. With the completion of the QAFCO IV plant in 2004, QAFCO became the world's largest single-site manufacturer of ammonia and urea. Ammonia is largely sold in India and Jordan, urea in the US, South-East Asia and Australia, and the excess urea formaldehyde produced by its joint venture, Gulf Formaldehyde Company, in neighbouring countries.

FINANCIAL & OPERATION REVIEW

2005 marked the year that QAFCO supplanted QAPCO as IQ's single largest company, in terms of *sales, profits and total assets,* contributing QR 2.2 billion to total Group sales (equivalent to 34% of IQ sales), QR 1.3 billion to Group profits (representing 42% of IQ profits) and accounting for QR 3.8 billion of Group total assets (equal to 31% of IQ total assets). This remarkable performance was based on strategic decisions made in prior years to invest in QAFCO IV. The current year results are a testament to IQ's strategic vision to focus on expansions, new products and better utilisation of existing facilities.



There were also several secondary factors that assisted QAFCO during 2005, the most important being: (i) high gas prices in the US that negatively impacted on production, (ii) strong demand from traditional markets like India and the Far East and (iii) global demand restrictions due to several competitors performing annual shut-downs and the Indonesian government's decision to ban exports of urea.

The future looks promising for QAFCO, as 4 main marketing deals were signed during 2005, increasing prominence in Jordan (5-year deal), Australia (capturing 43% of urea imports), New Zealand (targeting a market share of 42%)

and Europe. During the year the company was also able to successfully penetrate new markets like Korea, Sudan and Yemen.

IMMINENT PROJECTS

QAFCO plans to build on the success of QAFCO IV by constructing another plant, QAFCO V. This plant will substantially increase the current ammonia and urea production levels. QAFCO V is currently at the Concept Study Phase and construction is expected to be completed in Q1, 2010. This project, along with the Qatar Melamine project, represent 17% of IQ's total major CAPEX.

Category Stated in QR billions	Total Project Costs Estimated	IQ's Contribution Estimated
Existing Projects	-	-
Imminent Projects	3.1	2.4
Future Projects	-	-
Total Investment	**3.1**	**2.4**

[Further information can be found at www.qafco.com]

FOCUS ON THE GROUP COMPANIES

كفاك
QAFAC

Yet Another Good Year For QAFAC

BACKGROUND

Established as part of Qatar's strategic plan to diversify its petrochemical base and expand its downstream industries, Qatar Fuel Additives Company Limited Q.S.C. (QAFAC) is recognised as a producer of high quality methanol and methyl-tertiary-butyl-ether (MTBE). The primary markets for the company are the Far East, Europe and the Gulf region.

FINANCIAL & OPERATIONAL REVIEW

2005 proved to be a continuation of the excellent results posted over the previous 2 years: IQ's share of sales almost reached the QR 1 billion mark (QR 0.98 billion); methanol and MTBE production was at record levels; the plants safely exceeded design capacity; and IQ's share of net profit was QR 0.4 billion.

Key Performance Indicator IQ Share	2003 (9 months)	2004	2005
Sales (Stated in QR billions)	0.37	0.69	0.98
Volumes (Stated in MT000)	407.5	628.0	688.5
Sales Growth	-	86%	43%
Net Profit	0.10	0.26	0.40
Net Profit Growth	-	160%	57%
Net Profit Margin	27%	38%	42%

QAFAC benefited tremendously from a 41% increase in the average selling price of MTBE experienced during the year. This year's additional sales were also converted to profit at an even better rate than last year - 42% versus 2004's 38%.

On the operational side, QAFAC achieved ISO 14001 (EMS) certification during the year and is currently working towards ISO 9001 (QMS) accreditation.

EXISTING PROJECTS

The outlook for the future appears even better for QAFAC because plans are well on the way for the creation of QAFAC II, the world's largest methanol plant, at Mesaieed. By its completion date of Q1, 2010, the plant will have significantly increased QAFAC's methanol production capacity as well as added ammonia to the company's product line. The plant is expected to cost IQ approximately QR 1.5 billion - making it one of IQ's largest capital projects. The methanol production capacity is also expected to increase after completion of the de-bottlenecking project on its existing methanol plant. This exercise should cost IQ in the region of QR 0.02 billion and be completed by Q2, 2007. These 2 projects represent 11% of IQ's total major CAPEX.

Category Stated in QR billions	Total Project Costs Estimated	IQ's Contribution Estimated
Existing Projects	3.0	1.5
Imminent Projects	-	-
Future Projects	-	-
Total Investment	**3.0**	**1.5**

FOCUS ON THE GROUP COMPANIES

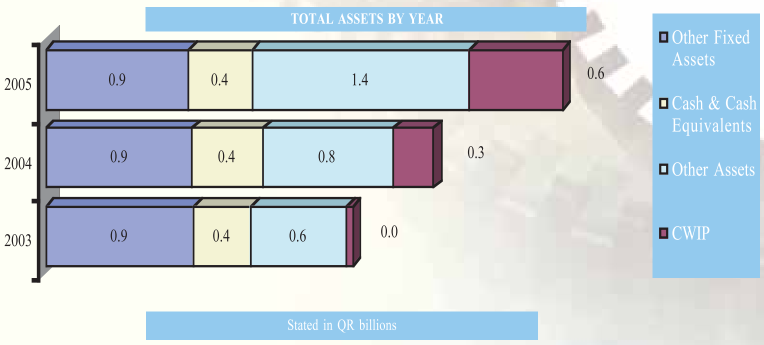
QASCO - Investing For The Future

BACKGROUND

Qatar Steel Company Q.S.C. (QASCO) was the first integrated steel producing company in the GCC region and is Qatar's sole steel producer. The main products manufactured are steel bars, billets and coil, which are sold primarily in the local and GCC market. However, the company is working on developing new markets, like Egypt, Yemen and the Far East.

FINANCIAL & OPERATIONAL REVIEW

2005 was a challenging year for QASCO as production volumes were slightly lower year-on-year while sales revenue was marginally higher (up 1% to QR 1.8 billion). Domestic demand was significantly higher than last year, leading to a drop in export shipments. QASCO contributed QR 0.4 billion to IQ's total profits in 2005 - equating to 12% of the Group's profits.



The outlook for the future is bright given that the company intends to continue with its capital expenditure plans that have already seen its total assets increase by 74% since 2003.

INVESTMENT & CAPEX PROJECTS

QASCO's investment and capital expenditure (CAPEX) projects are the most ambitious for the Group. QASCO's total project expenditure is estimated at QR 6.4 billion. By the end of 2010, the company expects to have become a net exporter of HBI (it currently imports all of its HBI needs), expanded its range of products (to include PC strands and seamless tubes) and significantly increased production of its core products (bars, billets and rods). Existing Projects, i.e. those currently under way, are:

- **Plant Expansion (Phase I):** At a cost of QR 2.1 billion, this project is designed to more than double QASCO's annual production of DRI, billets and bars, by its completion in 2007. The project includes the building of a new DRI / HBI plant, melt shop and rolling mill. Detailed design and engineering is in progress, long lead items have already been ordered and civil works have commenced.

- **United Stainless Steel Company (USCO):** Established in February 2005, construction on this cold rolled stainless steel mill commenced in April and is expected to be completed in 2007. The company will be based in Bahrain and will be the first of its kind in the region. QASCO's total investment in USCO is budgeted at QR 0.1 billion.

Very shortly, QASCO intends to invest in 2 additional projects: (i) to produce PC Strands and (ii) to build a new steel melt shop furnace, thereby increasing the production capacity of billets. The total cost of these projects is estimated at QR 0.9 billion.

Category Stated in QR billions	Total Project Costs Estimated	IQ's Contribution Estimated
Existing Projects	2.4	2.2
Imminent Projects	0.9	0.9
Future Projects	3.1	3.1
Total Investment	**6.4**	**6.2**

Strategically, there is also an intention to build on the first plant expansion by further expanding the facilities through Phase II works, at a cost of QR 3.1 billion.

[Further information can be found at www.qasco.com]

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2005
TOGETHER WITH AUDITORS' REPORT

Contents	Page

AUDITORS' REPORT

TO THE SHAREHOLDERS
INDUSTRIES QATAR Q.S.C.
DOHA – QATAR

We have audited the accompanying consolidated balance sheet of Industries Qatar (the "Company") as of December 31, 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended as set out on pages 32 to 53. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The financial statements of the subsidiary and joint venture companies which when consolidated represent significantly all the assets, liabilities and results of operations of the Company have been audited by other auditors who expressed their unqualified opinion on the respective financial statements. The audit reports of the other auditors were furnished to us and our opinion, in so far as it relates to the amounts included for the subsidiary and joint venture companies, is based on the reports of the other auditors.

We conducted our audit in accordance with **International Standards on Auditing**. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, and based on the audit work performed by the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Industries Qatar as of December 31, 2005 and the results of its operations, changes in equity and its cash flows for the year then ended in accordance with **International Financial Reporting Standards**.

Furthermore, in our opinion the consolidated financial statements provide the information required by the Qatar Commercial Companies' Law Number 5 of 2002 and the Company's Articles of Association. We are also of the opinion that proper books of account were maintained by the Company and the contents of the directors' report are in agreement with the Company's consolidated financial statements. To the best of our knowledge and belief and according to the information given to us, no contraventions of the Law or the Company's Articles of Association were committed during the year which would materially affect the Company's activities or its financial position.

For Deloitte & Touche

Doha - Qatar
February 16, 2006

Samer H. Jaghoub, CPA
Licence Number 88

CONSOLIDATED BALANCE SHEET

AS OF 31 DECEMBER 2005

(Amounts expressed in thousands of Qatari Riyals)

	Note	2005	2004
ASSETS			
Current Assets			
Bank balances and cash	4	3,951,290	3,217,781
Accounts receivable and prepayments	5	870,048	619,557
Inventories	6	1,022,951	704,819
Due from related parties	7	471,203	554,072
Investments - Held for trading	9 (c)	62,302	--
Total Current Assets		**6,377,794**	**5,096,229**
Non-Current Assets			
Property, plant and equipment	8	4,787,463	4,583,416
Investment in associates	9 (a)	339,174	211,372
Investments - Available for sale	9 (b)	355,992	265,882
Intangible assets	11	112,677	--
Other assets	10	203,870	88,901
Total Non-Current Assets		**5,799,176**	**5,149,571**
Total Assets		**12,176,970**	**10,245,800**
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accruals	12	603,404	444,287
Term loans	13	555,810	398,333
Due to related parties	15	370,922	250,328
Total Current Liabilities		**1,530,136**	**1,092,948**
Non-Current Liabilities			
Term loans	13	1,070,264	1,204,213
Subordinated loan	14	35,215	--
Provision for EOSB	16	90,154	120,235
Total Non-Current Liabilities		**1,195,633**	**1,324,448**
Equity and Reserves			
Share capital	17	5,000,000	5,000,000
Legal reserve	28	103,975	103,219
Fair value reserve		263,720	192,418
Retained earnings		2,235,958	771,846
Proposed dividends	18	1,750,000	1,750,000
Attributable to Equity Holders of the Parent		**9,353,653**	**7,817,483**
Minority interest		97,548	10,921
Total Equity		**9,451,201**	**7,828,404**
Total Liabilities and Equity		**12,176,970**	**10,245,800**

ABDULLAH BIN HAMAD AL-ATTIYAH
Second Deputy Prime Minister
Minister of Energy & Industry
Chairman and Managing Director

YOUSEF HUSSAIN KAMAL
Minister of Finance
Vice-Chairman

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in thousands of Qatari Riyals)

	Note	2005	2004
Sales	19	6,578,039	5,257,778
Cost of sales		(3,097,784)	(2,397,247)
Gross Profit		**3,480,255**	**2,860,531**
Selling expenses		(106,431)	(90,136)
General and administrative expenses		(268,595)	(410,256)
Operating Profit		**3,105,229**	**2,360,139**
Income from associates		50,942	57,582
Income from investments		12,212	4,298
Other income	20	104,324	110,228
Finance charges		(55,531)	(33,973)
Net Profit for the Year	21	**3,217,176**	**2,498,274**
Attributable to:			
Equity holders of the parent		3,214,868	2,496,516
Minority interest		2,308	1,758
Total		**3,217,176**	**2,498,274**
Basic earnings per share		QR 6.43	QR 4.99
Number of shares		500,000,000	500,000,000

The accompanying notes form an integral part of these consolidated financial statements.

Industries Qatar

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in thousands of Qatari Riyals)

	Share Capital	Legal Reserve	Fair Value Reserve	Retained Earnings	Proposed Dividends	Attributable to Equity Holders Of Parent	Minority Interest	Total
Balance at 1 Jan 2004	**5,000,000**	**60,591**	**70,586**	**67,958**	**1,000,000**	**6,199,135**	**9,163**	**6,208,298**
Change in fair value of investments	--	--	121,832	--	--	121,832	--	121,832
Dividends paid	--	--	--	--	(1,000,000)	(1,000,000)	--	(1,000,000)
Net profit for the year	--	--	--	2,496,516	--	2,496,516	1,758	2,498,274
Transfer to legal reserve	--	42,628	--	(42,628)	--	--	--	--
Dividends proposed	--	--	--	(1,750,000)	1,750,000	--	--	--
Balance at 31 Dec 2004	**5,000,000**	**103,219**	**192,418**	**771,846**	**1,750,000**	**7,817,483**	**10,921**	**7,828,404**
Change in fair value of investments	--	--	71,302	--	--	71,302	--	71,302
Dividends paid	--	--	--	--	(1,750,000)	(1,750,000)	--	(1,750,000)
Net profit for the year	--	--	--	3,214,868	--	3,214,868	2,308	3,217,176
Capital introduced by minority shareholder	--	--	--	--	--	--	85,782	85,782
Dividends paid to minority shareholders	--	--	--	--	--	--	(1,463)	(1,463)
Transfer to legal reserve	--	756	--	(756)	--	--	--	--
Dividends proposed	--	--	--	(1,750,000)	1,750,000	--	--	--
Balance at 31 Dec 2005	**5,000,000**	**103,975**	**263,720**	**2,235,958**	**1,750,000**	**9,353,653**	**97,548**	**9,451,201**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2005

(Amounts expressed in thousands of Qatari Riyals)

	Note	2005	2004
Cash Flows from Operating Activities			
Net profit for the year		3,217,176	2,498,274
Adjustments for:			
Depreciation and amortisation		556,930	515,335
Goodwill written-off		--	113,054
Provision for EOSB		16,716	29,676
Provision for doubtful debts		85	2,088
Provision for obsolescence		5,606	3,643
Unrealized gain on Held for Trading Investments		(806)	--
Profit on disposal of investments held for trading		(8,606)	--
Income from associates		(50,942)	(57,582)
Finance charges		55,531	33,973
Loss on disposal of property, plant and equipment		776	2,670
		3,792,466	**3,141,131**
Increase in accounts receivable, prepayments and due from related parties		(167,707)	(465,297)
Increase in inventories		(323,738)	(151,139)
Increase in accounts payable, accruals and due to related parties		279,711	286,890
Cash from operations		**3,580,732**	**2,811,585**
Payments towards EOSB		(46,797)	(12,819)
Net cash from operating activities		**3,533,935**	**2,798,766**
Cash Flows from Investing Activities			
Deposits maturing after ninety days		78,438	62,499
Acquisition of other assets		(8,636)	(9,330)
Acquisition of investments		(207,483)	--
Acquisition of property, plant and equipment		(756,989)	(702,986)
Movement in projects under development		9,335	(47,324)
Proceeds on disposal of investments		46,236	698
Advances (to) from associate		(122,072)	18,579
Expenditure on product development		(112,677)	--
Proceeds on disposal of property, plant and equipment		1,640	6,995
Dividend received from associate		12,689	--
Net cash used in investing activities		**(1,059,519)**	**(670,869)**
Cash Flows from Financing Activities			
New bank loans raised		1,198,357	--
Repayment of term loans		(1,139,614)	(360,409)
Finance charges paid		(55,531)	(33,973)
Dividends paid		(1,751,463)	(1,000,000)
Minority Interest contribution		85,782	--
Net cash used in financing activities		**(1,662,469)**	**(1,394,382)**
Net Increase in Bank Balances and Cash		**811,947**	**733,515**
Bank Balances and Cash at Beginning of the Year		2,892,463	2,158,948
Bank Balances and Cash at End of the Year	29	**3,704,410**	**2,892,463**

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. Legal Status and Activities:
Industries Qatar ("IQ" or "the Company") is a 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 is governed by its Memorandum and Articles of Association and Law No. 5 of year 2002 concerning commercial companies.

The Company, its subsidiaries and joint venture companies (collectively referred as the "Group") operate in the State of Qatar and in the Jebel Ali Free Zone in the United Arab Emirates. The Group employed 3,169 employees as of 31 December 2005 (2004: 3,162).

The main activity of IQ is to act as a holding company. The following are the details of the subsidiaries and joint venture companies:

- **Qatar Steel Company Q.S.C. ("QASCO")**, is a Qatari Shareholding Company incorporated in the State of Qatar, 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.
- **QASCO incorporated Qasco Dubai Steel FZE**, a fully owned subsidiary with limited liability on 18 August 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 owning 80% and TOTAL Petrochemicals (France) owning 20%. QAPCO is engaged in the production and sale of ethylene, polyethylene, hexane and other petrochemical products.
- **Qatofin Company Limited Q.S.C. ("Qatofin")** is a partly owned subsidiary of QAPCO owing 63.64%. Qatofin was incorporated in August 2005.
- **Qatar Fertiliser Company S.A.Q. ("QAFCO"),** a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ owning 75%, Fertiliser Holdings AS owning 20% and Yara Netherland BV owning 5%. 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 GFC.
- **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 owning 50%, OPIC Middle East Corporation owning 20%, International Octane Limited owning 15% and LCY Investments Corporation owning 15%. QAFAC is engaged in the production and export of methyl-tertiary-butyl-ether (MTBE) and methanol.

2. Adoption of New and Revised International Financial Reporting Standards:
During 2005, the Group has adopted the revised Standards issued by the International Accounting Standards Board (the IASB) that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of these revised Standards listed below has not resulted in changes to the Group's accounting policies and have not affected the amounts reported for the current year.

- IAS 1 Presentation of Financial Statements
- IAS 2 Inventories
- IAS 8 Accounting Policies, Changes in Accounting Estimate and Errors
- IAS 17 Leases
- IAS 24 Related Party Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 28 Investments in Associates
- IAS 31 Interest in Joint Ventures

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 3 Emission Rights
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

3. Significant Accounting Policies:

The significant accounting policies adopted are as set out below:

a) Accounting Convention

These consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which have been stated at fair value.

b) Investment in Subsidiary Company

A subsidiary is an entity where the Group can exercise control. Control is achieved where the parent company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

c) Investment in Joint Venture Company

A joint venture is a contractual arrangement whereby the Group and the other parties undertake an economic activity that is subject to joint control. Joint Venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation whereby the Group's share of the assets, liabilities, income and expenses of the jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture except to the extent that unrealised losses provide evidence of an impairment of the asset transferred.

d) **Investment in Associate Company**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

e) **Property, Plant and Equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Depreciation is charged to write off the cost of these assets other than capital work in progress over their estimated useful lives, using the straight line method as follows:

Petrochemical plant and buildings	25 years
Fertiliser plant and buildings	20 years
Steel plant, buildings and structures	15 to 25 years
Other assets: motor vehicles, heavy mobile equipment, furniture and fixtures, and computer equipment	3 to 15 years

General repair and annual maintenance costs of property, plant and equipment are charged to operating costs as and when they are incurred.

f) **Capital Work-in-Progress**

All expenditures and costs incurred on the Capital Assets are capitalised and are initially recorded as Capital Work-in-Progress. These costs are transferred to property, plant and equipment when the assets are ready for their intended use.

g) **Projects Under Development**

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

h) **Available-for-Sale Investments**

Available for sale investments are initially recognised at cost, being the fair value of the consideration given. After initial recognition, these investments are re-measured at fair value. Unrealised gains and losses are reported as a separate component of equity until the investment is disposed of or the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income for the year.

i) **Financial Assets at Fair Value through Profit or Loss - Held for Trading**

These investments are carried at fair value (marked to market) with any gain or loss arising from the change in fair value included in the statement of income in the period in which it arises.

j) **Related Parties**

A related party is one with which the Group has in common partners or management. Related parties also include key management personnel of the Group. Transactions with related parties are performed at prices approved by the management.

k) **Accounts Receivable and Prepayments**

Accounts receivable and prepayments are stated net of provision for amounts estimated to be doubtful of recovery. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

l) **Inventories**

Inventories, including work in progress, other than maintenance parts and supplies, are stated at the lower of cost and net realisable value; cost is determined on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Maintenance parts and supplies are stated at cost, less provisions for obsolescence.

m) **Borrowing Costs**

Borrowing costs specifically incurred in connection with major capital projects are capitalised as incurred during the construction period. Capitalisation of interest ceases once the asset has been brought into use. Other borrowing costs are recognised as expenses in the period in which they are incurred.

n) **Accounts Payable and Accruals**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

o) **Provisions**

Provisions are recognised when the Group has an obligation either legal or constructive arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

p) **Operating Leases**

Leases where the risks and rewards of ownership remain with the lessor are classified as operating leases. Operating lease payments are recognised as expenses in the statement of income. Future commitments of such leases are disclosed as commitments.

q) **Employees' End of Service Benefits ("EOSB") and Pension Contributions**

Employees' end of service benefits represent terminal gratuity and are provided for services rendered based on entitlements stipulated in the employees' contracts of employment and their length of service, subject to the completion of a minimum service period.

Under Law No. 24 of 2002 on Retirement and Pensions, contributions by the Group to a Government fund scheme for Qatari employees are calculated as a percentage of the Qatari employees' salaries and the obligations are limited to these contributions, which are expensed when due.

r) **Revenue**

Revenue from the sale of goods is recognised when significant risks and rewards of ownership have been transferred to the buyer. Sales revenue represents the value of products sold during the year, net of freight and other related charges.

Interest income is recognised on an accrual basis, taking into account the interest rate applicable and principal outstanding.

Dividend income is recognised, when the right to receive the dividend is established.

s) **Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, current accounts with banks and bank deposits having maturities of less than 90 days.

t) **Impairment**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

u) **Foreign Currencies**

Transactions in foreign currencies are translated into Qatari Riyals at exchange rates in effect at the respective transaction dates. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at exchange rates in effect at that date. Resultant exchange gains and losses are reflected in the statement of income.

One of the joint venture accounting records are maintained in United States Dollars being the reporting currency. Since the United States Dollars and Qatari Riyals are pegged, the assets, liabilities and results of operations have been converted at a fixed rate of QR 3.64.

v) **Intangible Assets**

Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The amortisation period is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement.

4. Bank Balances and Cash:

	2005	2004
	QR 000	QR 000
Bank balances and cash	**3,951,290**	**3,217,781**

Included in bank balances and cash are time deposits denominated in United States Dollars, Euros and Saudi Riyals equivalent to QR 1,383 million (2004: QR 1,268 million). In addition, bank balances and cash include call deposits of QR 115 million (2004: QR 195 million) and term deposits of QR 660 million (2004: QR 383 million) held with commercial banks in Qatar. The term deposits are denominated mainly in Qatari Riyals and are short-term in nature, with effective interest rates ranging from 2.75% to 3.75% (2004: 2.75% to 3.75%).

Bank balances include the Group's share of a target cash balance of QR 82 million (US$ 23 million) [2004: QR 82 million (US$ 23 million)] to be maintained after the completion of the design and construction of a project until the maturity date of the loan, in accordance with the loan facility agreement.

In 2004, QR 240 million (US$ 66 million) were held in on shore and offshore accounts in accordance with the terms of the Senior Facility Agreement. QR 58 million (US$ 16 million) held in the offshore account was subject to a fixed and floating charges related to the project refinance loan taken by one of the joint ventures. In addition, the joint venture assigned all its rights, titles and interests in the offshore accounts to the security agent of the lenders (Note 13).

Since the Senior Facility Agreement was renewed with a local bank on 8 August 2005, there are no amounts held in offshore accounts at December 31, 2005, and accordingly no fixed or floating charges attached.

5. Accounts Receivable and Prepayments:

	2005 QR 000	2004 QR 000
Trade receivables	669,385	475,151
Other receivables and prepayments	174,552	119,117
Loans to employees	28,284	27,377
Less: Provision for doubtful debts	(2,173)	(2,088)
Net	**870,048**	**619,557**

Included in other receivables and prepayments is an amount of QR 218 million (2004: QR 77.5 million) relating to accrued income for one of the joint ventures. The joint venture entered into off-take agreements with its shareholders for the sale of its products. Accrued income is recognised based on estimates as the necessary information or documents to issue final invoices were not available as at the year end and relate mainly to liftings by the off-takers in December 2005.

6. Inventories:

	2005 QR 000	2004 QR 000
Fuel additives	17,909	24,250
Steels	126,244	30,830
Fertilisers	46,551	40,658
Petrochemicals	56,431	36,905
Work-in-progress	49,875	33,459
Raw materials	258,111	193,359
Goods in transit	96,180	21,406
Maintenance parts and supplies	452,675	399,371
Total	**1,103,976**	**780,238**
Less: Provision for obsolescence	(81,025)	(75,419)
Net	**1,022,951**	**704,819**

7. Due from Related Parties:

	2005 QR 000	2004 QR 000
Yara International ASA	243,094	244,589
Qatar Petroleum	28,974	70,782
Qatar Vinyl Company	40,555	70,644
Qatar Chemical Company	481	178
TOTAL Petrochemicals (France)	121,986	139,422
Qatar Metal Coating Company	29,744	18,662
International Octane Limited	428	163
LCY Investment Corporation	3,709	9,632
Qatar Gas Downstream	23	--
Chinese Petroleum Corporation	2,209	--
Total	**471,203**	**554,072**

8. Property, plant and equipment:

	Land and Buildings QR 000	Plant, Machinery and Equipment QR 000	Heavy Duty Mobile Equipment QR 000	Furniture Equipment & Fixtures QR 000	Motor Vehicles QR 000	Computer Equipment QR 000	Capital Work-in-Progress QR 000	Total QR 000
Cost								
At 1 Jan 2005	1,518,384	9,104,743	22,763	38,409	12,512	46,324	634,649	11,377,784
Additions	2,135	119,213	--	1,729	517	1,761	634,272	759,627
Transfers	14,481	56,500	4,543	3,809	79	4,034	(83,446)	--
Adjustments and reclassifications	--	(3,475)	425	--	--	412	--	(2,638)
Disposals	(7,326)	(9,804)	(375)	(8,361)	(132)	(14)	--	(26,012)
At 31 Dec 2005	1,527,674	9,267,177	27,356	35,586	12,976	52,517	1,185,475	12,108,761
Accumulated depreciation								
At 1 Jan 2005	889,292	5,819,425	15,166	31,742	10,479	28,264	--	6,794,368
Charge for the year	41,412	496,874	1,395	2,510	763	7,562	--	550,516
Adjustments and reclassifications	--	19	18	(27)	--	--	--	10
Disposals	(7,326)	(8,251)	(215)	(7,727)	(76)	(1)	--	(23,596)
At 31 Dec 2005	923,378	6,308,067	16,364	26,498	11,166	35,825	--	7,321,298
Net carrying amount								
At 31 Dec 2005	**604,296**	**2,959,110**	**10,992**	**9,088**	**1,810**	**16,692**	**1,185,475**	**4,787,463**
At 31 Dec 2004	**629,092**	**3,285,318**	**7,597**	**6,667**	**2,033**	**18,060**	**634,649**	**4,583,416**

8. Property, Plant and Equipment (continued):

Buildings and plants at Mesaieed amounting to net book value of QR 1,500 million (2004: QR 1,611 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.

Buildings for the subsidiary in Dubai, amounting to net book value of QR 6.5 million (2004: QR 6.3 million), are constructed on leased land from Jebel Ali Free Zone Authority for an initial period of 15 years from August 2003.

Effective 2004, QASCO entered into three major EPC contracts in connection with its expansion plan. The expansion is estimated to cost more than QR 2 billion and to more than double the existing production capacity by 2007.

Fully depreciated assets as at 31 December 2005 amounted to QR 958 million (31 December 2004: QR 951 million).

Depreciation charge has been allocated in the statement of income as follows:

	2005 QR 000	2004 QR 000
Cost of sales	516,279	447,538
Selling expenses	608	640
General and administrative expenses	33,629	24,742
Total	**550,516**	**472,920**

9. Investments:

a) Investment in Associates

Company	Country of Incorp.	Group Ownership 2005	Group Ownership 2004	2005 QR 000	2004 QR 000
Qatar Metal Coating Company	Qatar	50.00%	50.00%	16,747	14,866
Qatar Vinyl Company Limited	Qatar	25.52%	25.52%	237,078	188,158
Qatar Plastic Product Company	Qatar	26.66%	26.66%	8,744	8,348
United Stainless Steel Company	Bahrain	25.00%	--	76,472	--
Ras Laffan Olefins Cracker Company	Qatar	36.55%	--	133	--
Total				**339,174**	**211,372**

The following illustrates the Group's share in the associates:

	2005	2004
	QR 000	QR 000
Share of associates' balance sheets:		
Current assets	197,724	175,476
Non-current assets	563,409	505,062
Current liabilities	(59,416)	(56,049)
Non-current liabilities	(362,543)	(413,117)
Net Assets	**339,174**	**211,372**

b) Investments - Available For Sale

Company	No. of shares	Status	Fair Value 2005	Fair Value 2004
			QR 000	QR 000
Qatar Electricity & Water Company Q.S.C.	1,000,000	Fully Paid	77,400	55,700
Qatar Maritime Shipping Company Q.S.C	2,225,879	Fully Paid	238,392	189,007
Qatar Real Estate Investment Company Q.S.C.	500,618	Partly Paid	40,200	21,175
Total			**355,992**	**265,882**

A total of 57,500 shares of Qatar Maritime Shipping Company Q.S.C. having a market value of QR 6.2 million, are restricted due to a Directorship held by one of the subsidiaries.

c) Investments - Held For Trading

Transactions in Qatari Shareholding Companies shares during the year:

	2005	2004
	QR 000	QR 000
Purchased	99,126	--
Sold	(37,630)	--
Movement in fair value	806	--
As at 31 December	**62,302**	--

10. Other Assets:

	Note	2005	2004
		QR 000	QR 000
Advance to an associate	(A)	122,072	--
Catalysts and other assets		23,558	21,326
Projects under development	(B)	58,240	67,575
Total		**203,870**	**88,901**

(A) This advance was made by one of the subsidiaries to its associate company. This advance is interest-free with no defined repayment period.
(B) Represents cost incurred for the Qafac II joint venture project.

11. Intangible Assets:

This represents the group share of the cost of Unipol Polyethylene License agreement for the Linear Low-Density Polyethylene (LLDPE) and High Density Polyethylene (HDPE) entered into by one of the group entities.

12. Accounts Payable and Accruals:

	2005 QR 000	2004 QR 000
Trade payables	263,521	160,270
Other creditors and accruals	302,564	226,022
Provision for pension obligations	37,319	57,995
Total	**603,404**	**444,287**

13. Term Loans:

The table below summarises the Group's consolidated loans profile:

	Interest	Currency	Due Date	Loan Balance 2005 QR 000	Loan Balance 2004 QR 000
Term loan 1	Libor plus 0.40% to 0.55%	US$	2005	--	247,418
Term loan 2	Libor plus 0.9%	US$	2006 to 2008	27,945	39,049
Term loan 3	Libor plus 0.75%	US$	2005	--	442,479
Term loan 4	Libor plus 0.5%	US$	2006 to 2011	385,840	--
Term loan 5	Libor plus 0.65%	US$	2006 to 2009	247,418	--
Term loan 6	Libor plus 0.9%	US$	2007 to 2016	473,395	--
Term loan 7	Libor plus 1%	US$	2007 to 2011	21,545	--
Term loan 8	Libor plus applicable margin	US$	2009 to 2020	34,944	--
Syndicated loan	Libor plus 0.75%	US$	2001 to 2006	434,987	873,600
Total				**1,626,074**	**1,602,546**
Less: repayments due within one year				(555,810)	(398,333)
Total Non-Current Portion				**1,070,264**	**1,204,213**

As of 31 December 2005, the loans were repayable as follows:

	2005 QR 000	2004 QR 000
Within 1 year	555,810	398,333
Years 2 to 5	644,499	1,085,458
Over 5 years	425,765	118,755
Total	**1,626,074**	**1,602,546**

The effective interest rate for the group on term loan borrowings is 3.85% to 5.15%.

- **Term Loan 1:**
  This unsecured term loan has been fully repaid in 2005.

- **Term Loan 2:**
This is a US Dollar dominated facility and carries interest presently at 0.9% per annum over US Dollar Libor, subject to variation. The loan is repayable in 5 semi-annual instalments of US$ 1,270,000 each and a final instalment of US$ 1,300,000. A promissory note and a letter of comfort have been issued to the bank by QASCO Dubai Steel FZE and QASCO respectively.

- **Term Loan 3:**
On 25 July 2002, QAFAC signed a Senior Facility Agreement for a term loan amounting to US$ 300 million (IQ's share amounting to US$ 150 million) with a consortium of bankers to refinance all its outstanding project finance loans including the equity loans and interest thereon. This loan was fully repaid on 9 September 2005.

- **Term Loan 4:**
This loan was signed by QAFAC on August 8, 2005 with a local bank. It represents a clean corporate loan facility amounting to US$ 212 million (IQ share amounting to US$ 106 million). It is used to refinance the outstanding balance of Term Loan 3. This loan is repayable in 11 semi-annual instalments commencing March 9, 2006.

- **Term Loan 5:**
This unsecured subordinated loan was taken by QASCO and carries interest at Libor plus 0.65% per annum. This loan is repayable over the next 3 years starting in December 2006.

- **Term Loan 6:**
This is a US Dollar denominated facilities agreement consisting of a term loan facility of US$ 483.5 million (Tranche A loan) and a stand by facility of US$ 75 million (Tranche B loan) intended to fund the major EPC contracts entered into by QASCO. The loan carries interest at Libor plus a margin ranging from 0.8% to 1.0% per annum (Tranche A loan) and 1.0% to 1.10% per annum (Tranche B loan) and mandatory cost, if any.

  Tranche A loan is repayable in 19 instalments at a predetermined rate of total Tranche A loan draw downs starting 6 months after the completion date of the related expansion projects. Tranche B is repayable in 8 equal instalments starting on the date of the 12th Tranche A repayment date. The balance disclosed above represents the draw downs made by QASCO up to the date of the balance sheet.

- **Term Loan 7:**
This is a US Dollar denominated facility obtained by the subsidiary of QASCO and carries interest at 6-month Libor plus 1% per annum. The loan is repayable in 10 semi-annual instalments of US$ 589,800 each. A letter of comfort has also been issued from QASCO and an endowment of insurance policies for the new plant and machinery has been given to the bank.

- **Term Loan 8:**
During the year 2005, the subsidiary of one joint venture, Qatofin, entered into an agreement with 24 syndicated banks. The loan carries interest at Libor plus an applicable margin. The loan is repayable in semi-annual instalments starting on 31 December 2009 with the last instalment scheduled on 30 June 2020.
Qatofin has assigned to the security agent, all its present and future rights, title and interest in under various agreement 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 receivable or received.

- **Syndicated Loan:**
On 2 July 2001, QAFCO obtained a syndicated loan facility amounting to QR 1,456 million (US$ 400 million) [IQ's share QR 1,092 million (US$ 300 million)] to assist in financing the design, construction and commissioning of QAFCO IV project. The balance at 31 December 2005 amounted to QR 580 million (2004: QR 1,165 million) [IQ share QR 435 million, (2004: IQ share QR 874 million)].

  Repayment commenced 48 months after the execution date (2 July 2001) and the loan is repayable over 10 semi-annual instalments. During the year, the loan was rescheduled and is now repayable over 3 semi-annual instalments.

Distributions to the shareholders of QAFCO, as defined under the terms of agreement of the loan facility obtained to finance QAFCO IV Project, are restricted to meeting conditions defined in the agreement. As per terms of the loan agreement, certain cash balances need to be maintained as set out in Note 4.

14. Subordinated Loan:

This represents the Group share of a subordinated loan given to Qatofin by its minority shareholders. This loan is interest-free and has no defined repayment period.

15. Due to Related Parties:

	2005 QR 000	2004 QR 000
Yara International ASA	3,676	14,240
Qatar Vinyl Company	17,697	20,574
Qatar Petroleum	315,150	180,368
TOTAL Petrochemicals (France)	6,934	7,088
Qatar Plastic Products Company	774	771
QAFAC II	3,742	5,961
Qatar Chemical Company	22,939	21,310
LCY Investment Corporation	7	--
International Octane Ltd.	3	16
Total	**370,922**	**250,328**

16. Provision for Employees' End of Service Benefits ("EOSB"):

	2005 QR 000	2004 QR 000
Balance at the beginning of the year	120,235	103,378
Provision for the year	16,716	29,676
Payments and advances made during the year	(46,797)	(12,819)
Balance at the end of the year	**90,154**	**120,235**

17. Share Capital:

	2005 QR 000	2004 QR 000
500,000,000 issued and fully-paid shares of QR 10 each	**5,000,000**	**5,000,000**

18. Proposed Dividends:

The Board of Directors proposed a final dividend of QR 3.50 per share for the year ended 31 December 2005 (2004: QR 3.50). The proposed dividends for 2004 were approved by the shareholders at the 2nd Annual General Assembly Meeting held on 23 February 2005, and were paid during 2005.

19. Sales:

Sales comprise the following:

	2005 QR 000	2004 QR 000
Petrochemicals	1,593,042	1,407,199
Fuel additives	979,287	687,177
Steel	1,789,444	1,777,799
Fertilisers	2,216,266	1,385,603
Total	**6,578,039**	**5,257,778**

20. Other Income:

	2005 QR 000	2004 QR 000
Interest income	92,599	50,206
Exchange (loss) / gain	(42,939)	28,590
Other	54,664	31,432
Total	**104,324**	**110,228**

21. Profit for the year:

The profit from operations is arrived at after charging:

	2005 QR 000	2004 QR 000
Staff costs	407,053	381,736
Depreciation on property, plant and equipment	550,526	472,920
Amortisation of catalysts and other non-current assets	6,404	42,415
Board of directors remuneration	1,550	1,550
Pension contribution	21,591	7,800
Operating lease rent	25,065	10,879
Goodwill written off	--	113,054

22. Interests in Joint Venture Companies:

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:

	2005 QR 000	2004 QR 000
Assets		
Property, plant and equipment	3,329,162	3,435,571
Other non-current assets	23,557	21,326
Intangible assets	112,677	--
Investments	245,955	250,686
Advance to an associate	122,072	--
Current assets	4,603,176	3,921,648
Total Assets	**8,436,599**	**7,629,231**

	2005	2004
	QR 000	QR 000
Liabilities		
Current liabilities	1,143,257	1,068,888
Non-current liabilities	459,582	1,298,008
Total Liabilities	**1,602,839**	**2,366,896**
Revenues		
Sales	4,788,595	3,500,631
Other	132,038	147,091
Total Revenue	**4,920,633**	**3,647,722**
Expenses		
Cost of sales	1,757,202	1,370,009
Interest and finance charges	40,006	25,542
Selling expenses	89,589	92,853
General and administrative expenses	210,502	209,510
Total Expenses	**2,097,299**	**1,697,914**

23. Commitments:

a) Capital Expenditure Commitments

The Group's approved project capital expenditures and other commitments are as follows:

	2005	2004
	QR 000	QR 000
Property, plant and equipment	**2,236,081**	**355,200**

Details of the significant capital commitments are as follows:

- On 5 December 2004, QASCO signed an agreement for the design, engineering, construction, commissioning and testing of a plant. The value of the contract is US$ 267,400,000. The estimated future capital expenditure on this project amounts to US$ 188,078,906 (equivalent to QR 684,889,336).

- On 21 April 2005, QASCO signed an agreement for the design, engineering, construction, commissioning and testing of a steel melt shop. The value of the contract is € 101,577,000. The estimated future capital expenditures on this project amounts to € 74,313,418 (equivalent to QR 320,580,654).

- On 12 April 2005, QASCO signed an agreement for the engineering, procurement and construction of a new bar rolling mill. The value of the contract is US$ 33,780,550 plus € 26,726,675. The estimated future capital expenditure on this project amounts to US$ 30,402,495 and € 23,495,787 (equivalent to QR 110,710,685 and QR 101,358,475 respectively).

b) **Operating Lease Commitments:**

Future lease payments:

	2005	2004
	QR 000	QR 000
Within 1 year	7,079	3,388
Years 2 to 5	30,858	13,550
Over 5 years	57,937	49,769
Total operating lease expenditure contracted for at the balance sheet date	**95,874**	**66,707**

The Group entered into operating lease agreements with Qatar Petroleum for the land on which the plant facilities are constructed and for the use of berth facilities.

24. Significant Undertakings:

The shareholders (excluding IQ) of one of the joint ventures, QAFAC, and Qatar Petroleum have agreed to offtake 100% of the product produced and available for export by the fuel additives plant under the terms of the Offtake Agreements signed on 14 April 1997 and amended and restated subsequently on 9 August 2002. This agreement is valid until the date on which all amounts payable by the joint venture to the lenders pursuant to the refinancing agreements have been irrevocably discharged in full.

Qatar Petroleum has given an undertaking to produce, deliver and sell to the joint venture, QAFAC, such quantities of gas and butane as the joint venture will require from time to time to operate its plant. The terms of this undertaking are contained in the Butane and Gas Feedstock Sale and Purchase Agreement between QAFAC and Qatar Petroleum. This agreement is valid until the later of expiry / termination of the amended and restated Consolidated Joint Venture Agreement or final maturity. Final maturity is the date on which all amounts payable by the joint venture to the lenders pursuant to the refinancing agreement have been irrevocably paid in full.

25. Related Party Transactions:

	Sales	Cost of Sales	Selling Expenses	General and Administrative Expenses (Lease Rental	Other)	Other Income
	QR 000	QR 000	QR 000	QR 000	QR 000	QR 000
2005						
Qatar Petroleum	501,477	908,075	--	6,935	21,050	--
TOTAL Petrochemicals (France)	433,196	--	16,094	--	6,963	--
Qatar Metal Coating Company	108,627	--	--	--	--	1,896
Yara International ASA	1,271,284	25,116	34,243	--	19,875	--
Qatar Vinyl Company	234,489	388	--	--	3,300	13,639
Qatar Plastic Products Company	12,972	18,255	--	--	182	--
Qatar Chemical Company	--	--	--	--	--	5,571
Gulf Helicopters Company	--	18	--	--	--	--
Total	**2,562,045**	**951,852**	**50,337**	**6,935**	**51,370**	**21,106**
2004						
Qatar Petroleum	352,773	606,554	--	11,050	10,396	58,884
TOTAL Petrochemicals (France)	368,952	3,422	19,022	--	1,003	--
Qatar Metal Coating Company	81,901	--	--	--	--	1,504
Yara International ASA	801,737	12,578	23,841	--	9,962	--
Qatar Vinyl Company	282,578	--	--	--	81,987	17,213
Qatar Plastic Products Company	10,082	15,754	--	--	218	--
Qatar Chemical Company	--	--	--	--	--	3,184
Qatar Nitrogen	--	14	--	--	--	--
International Octane Limited	95,872	495	--	--	--	--
LCY Investments Corporation	104,177	--	--	--	--	--
Chinese Petroleum Corporation	134,358	506	--	--	--	--
Gulf Helicopters Company	--	14	--	--	--	--
Total	**2,232,430**	**639,337**	**42,863**	**11,050**	**103,566**	**80,785**

Industries Qatar

25. Related Party Transactions (continued):

The remuneration of the directors and key management personnel of the group during the year was as follows:

	2005	2004
	QR 000	QR 000
Compensation of key management personnel	**26,846**	**25,128**

Compensation includes short-term benefits, end of service benefits and pension fund contributions for Qatari employees.

26. Contingent Liabilities:

	2005	2004
	QR 000	QR 000
Letters of credit	225,550	70,711
Bank guarantees	1,964	3,647
Bills for collection	--	482
Others	--	514

27. Financial Instruments:

a) Fair Value of Financial Instruments

Fair value is the amount for which an asset can be exchanged or a liability settled, between knowledgeable and willing parties at arms length. Since the accompanying consolidated financial statements have been prepared under the historical cost convention, the carrying value of the Group's financial instruments except for certain investments as recorded could therefore be different from the fair value. However, in management's opinion, the fair values of the Group's financial assets and liabilities are not considered significantly different from their book value.

b) Interest Rate Risk

The Group's exposure to interest rate sensitivity and maturities of cash and bank and loans are detailed in the respective notes. The Group's remaining financial assets and liabilities are non-interest rate sensitive.

c) Currency Risk

One of the joint ventures has short-term deposits denominated in Euro's which are not hedged and are therefore exposed to foreign currency fluctuations. As the Qatar Riyal is pegged to the US Dollar, balances denominated in US Dollars are not exposed to currency risk.

28. Legal Reserve:

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

Since the Articles of Association of the Company do not provide for a legal reserve, the legal reserve detailed on the face of the consolidated balance sheet represents the sum of the subsidiaries and share of one of the joint venture company's legal reserves.

29. Cash and Cash Equivalents:

	2005 QR 000	2004 QR 000
Bank balances and cash	3,951,290	3,217,781
Less: Fixed deposits maturing after 90 days	(246,880)	(325,318)
Net	**3,704,410**	**2,892,463**

Included in the above is an amount of QR 5.1 million (2004: QR 6.5 million) relating to QAFAC II project.

30. Segmental Reporting:

	Petrochemicals QR 000	Fertilisers QR 000	Steel QR 000	Total QR 000
Sales	2,572,329	2,216,266	1,789,444	6,578,039
Expenses	1,145,030	912,263	1,407,327	3,464,620
Assets	4,662,014	3,832,441	3,235,488	11,729,943
Liabilities	878,752	781,944	1,056,560	2,717,256

31. Approval of Consolidated Financial Statements:

These consolidated financial statements were approved by the Board of Directors on 16th February 2006.

32. Key Sources of Estimation Uncertainty:

a) 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 360 million (2004: QR 298 million) and the provision for doubtful debts was QR 2.1 million (2004: 2.1 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

b) 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 602 million (2004: QR 550 million) with provisions for old and obsolete spare parts of QR 81 million (2004: QR 75 million). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the income statement.

33. Comparative Figures:

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.