صناعات قطر
Industries Qatar

2006 Annual Report

صناعات قطر
Industries Qatar

Industries Qatar Q.S.C. (IQ) (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.

IQ was formed with QP as its sole founding shareholder with an initial authorized capital of QR 5,000,000,000 divided into 500,000,000 ordinary shares with a nominal value of QR 10 each. QP initially subscribed for 500,000 shares paying for such shares in cash. Subsequently, QP divested 30% of its interest in IQ to the Qatari individuals and non-profit Qatari organizations.

The business operations of the company comprise the direct holding of shares in the following subsidiary and joint ventures companies.

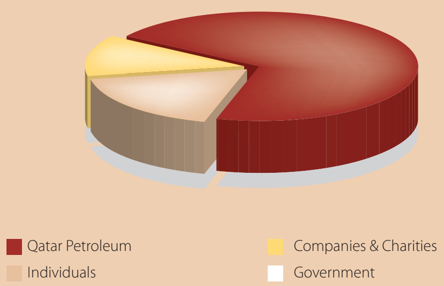
- Qatar Petrochemical Company Limited Q.S.C. ("QAPCO"), a manufacturer of high quality ethylene and low density polyethylene, a joint venture and owned 80% by IQ.
- Qatar Fertiliser Company S.A.Q. ("QAFCO"), a producer of ammonia and urea, a joint venture and owned 75% by IQ.
- Qatar Steel Company Q.S.C. ("QASCO"), an integrated steel manufacturer is a fully owned subsidiary of IQ.
- Qatar Fuel Additives Company Limited Q.S.C. ("QAFAC"), a methanol and methyl-tertiary-butyl-ether producer, a joint venture and is owned 50% by IQ.

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

The IQ shareholding distribution as at December 31, 2006 was as follows:

Shareholding Distribution (December 31, 2006)

Shareholder	Shares Held	%
Qatar Petroleum	350.000.000	70%
Individuals	90.894.449	18%
Companies & Charities	59.063.381	12%
Government	42.170	0%
Total	**500.000.000**	**100%**



IN THE NAME OF ALLAH
THE MOST MERCIFUL
THE MOST COMPASSIONATE

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. SheikhTamim Bin Hamad Al-Thani
The Heir Apparent

Contents

Board of Directors

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

H.E. Yousef Hussain Kamal
Minister of Finance
Acting Minister of Economy and Commerce
Vice-Chairman

Dr. Ibrahim Al-Ibrahim
Economic Advisor to H.H. the Emir
Secretary General, Development Planning Council
Member

Mr. Abdullah Hussain Salatt
Senior Advisor, the Second Deputy Premier
Minister of Energy & Industry's Office
Member

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

Mr. Hamad Rashid Al-Mohannadi
Vice - Chairman of Board Directors & General Manager
Qatar Petrochemical Company Ltd
(QAPCO)
Member

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

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Chairman's Message

Distinguished shareholders

As-Salamu Alaikum Wa Rahmatullah Wa Barakatu,

On behalf of the Board of Directors, I am pleased to welcome you to the 4th Annual General Meeting of Industries of Qatar Q.S.C. (IQ) and present the annual report for the year ended 31st December 2006.

The company has grown from strength to yet another successful year both financially and operationally. As reflected in its final accounts for 2006, IQ has recorded remarkable growth in the volume of operating profits and equity compared to 2005. This is mainly due to the healthy business environment, outstanding performance of the group companies and the commitment of the management teams. Besides, trading conditions have been extremely favorable for the group companies as world economy continued to grow, oil prices reached record high and products sold at high prices in the world markets.

In its never-ending pursuit of excellence, IQ had adopted a well-integrated strategy for the forthcoming years, which reflects IQ's ambitions to realize its objectives both quantitatively and qualitatively and help maintain its competitive advantage as one of the best joint stock companies in the region.

In fact, the company has benefited from the far-sighted vision of HH the Emir for optimal utilization of the State's natural resources and maximization of their added value within the parameters of the national strategy. Qatar's strategy is based on the diversification of sources of income and attraction of foreign investments to play an effective role in the major projects currently underway in the country as well as encourage the private sector and nationals to effectively contribute in these projects and share in reaping their fruits.

The exceptional growth of Qatar's economy coupled with the application of free trade principles have put Qatar on the threshold of a new era in which Qatari products, including intermediate and finished products, will be able to compete in regional and international markets.

Distinguished shareholders

If we take a look at Qatar's economy, with IQ as one of its

prime movers, we shall find that the Gross Domestic Product (GDP) has grown by 25% in 2006, one of the highest rates in the world. The national economy today is two times larger than it was four years ago and will continue to grow at historical rates in the future. This is mainly due to the active exploration and development of hydrocarbon resources and the setting up of hydrocarbon-based macro projects assisted by healthy investment environment and favorable legislative framework for investors.

I would like to report to you the key features of 2006 as follow:

- **Sales Revenues** : Grew by 18.2%.
- **Net Profit Attributable to equity holder of the Parent**: Grew by 12.6%.
- **Capital Expenditure:** Sustained investments, increasing assets to QR 14.9 Billion, 23.1% increase compared to 2005.
- **Earnings per Share**: Grew up to QR 7.24 compared to QR 6.43 in 2005.

It is worth mentioning that IQ is sparing no effort to develop existing facilities and enhance their competitive capabilities and in the meanwhile look for new promising investment opportunities. This has resulted in exceptional growth in IQ's year-on-year net profits as follows:

*2003	2004	2005	2006
QR 1.1 Billion	QR 2.5 Billion	QR 3.2 Billion	QR 3.6 Billion

* First year of incorporation from 19/04/2003 – 31/12/2003 (9 months).

Distinguished shareholders

Despite these phenomenal results, we have not lost focus on our strategic vision to increase the company's capital value for the benefit of our shareholders through gains in operating efficiency and investments with the help of our committed management teams and staff.

However, capital investment remains the central pillar supporting our strategic plan. These capital investments will hopefully contribute to the economic development of Qatar and the region by providing raw materials, goods and services for the local, regional and world markets. Besides, these investments will enable us to gain advanced technology, enhance various economic sectors and create quality national workforce.

IQ's total investment in projects is budgeted to reach QR 14.7 billion.

As far as existing projects are concerned, IQ is currently involved in some major projects with our international strategic partners, the largest of which are:

- **Qatofin**
  It is a petrochemical joint venture between QAPCO, TOTAL and Qatar Petroleum.
- **QASCO** Plant Expansion (Phase I)
  It will have more than doubled QASCO's annual production.
- **QAFCO V**
  This new project should further increase the annual production of Ammonia and Urea.

In addition, IQ has already taken initial steps to construct a high-rise building at an area of 5,500 M on the Cornish of Doha. This edifice will signify the high status of IQ as one of the main pillars of Qatar's economy.

Distinguished shareholders

Given IQ's remarkable performance, the Board of Directors are pleased to recommend a total annual dividend distribution for the year ended 31st December, 2006 of QR 2.5 billion equating to a dividend payout of QR 5 per share and representing 50% 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 HH the Emir, HH the Heir Apparent, and HH the Prime Minister for their support and strategic vision, which has made IQ such an immense success.

Thank you, Was-Salam Alaykum.

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

(Further information can be found at www.industriesqatar.com.qa)

BOARD OF DIRECTORS REPORT
Industries Qatar
2006

Industries Qatar

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, 2006. In line with the expectations, 2006 was a more successful year both financially and operationally.

This success has been amply assisted by the conducive 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 and 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 2006 was remarkable - increased sales translated into 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

Compared to 2005, the sales have touched QR 7.8 billion recording a growth of 18.2%, thereby the group companies' accumulated revenue since incorporation has now increased to QR 22.5 billion. Such continuing sales growth is due to several factors explained below:

- **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 some Southeast Asian countries, positively impacted demand for polyethylene and other petrochemicals.

  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, has had a positive impact on QAFAC's revenues.

- **Marketing**

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

  The Group companies also continued to penetrate a number of new markets by looking for new emerging markets. A number

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of new sales offices were established, thereby expanding their global network. The Group companies also showcased their products and continued to improve their marketing presence by participating in numerous international fairs.

- **Production / Sales Volumes**
  Increase in sales volume, effective maintenance schedules, design modifications and feedstock supply improvements, also contributed to the year-on-year sales growth.

  The other IQ projects slated for completion post-2006, should resolve any capacity constraint issues currently being experienced. In addition, the signing of long-term marketing deals and the establishment of international marketing offices should all help to further secure additional sales growth.

Table 2.1a

Sales Revenue By Industry

Sector Stated in QR billions	2003 (9 months)	2004	2005	2006	**Total**
Petrochemicals	1.1	2.1	2.6	2.8	**8.6**
Fertilisers	0.8	1.4	2.2	2.2	**6.6**
Steel	0.9	1.8	1.8	2.8	**7.3**
Total	**2.8**	**5.3**	**6.6**	**7.8**	**22.5**
Growth		**89%**	**25%**	**18%**	

Operating Costs

In line with the year-on-year sales growth, Operating Costs (consisting of cost of sales, selling expenses as well as general and administrative costs) as a percentage of sales have increased to 58% in 2006 from 53% in 2005. This increase in operating costs was mainly attributed to the combined effect of increase in raw material prices and the general rise in inflation.

Table 2.1b

Operating Costs By Industry

Sector Stated in QR billions	2003 (9 months)	2004	2005	2006	**Total**
Petrochemicals	0.6	1.0	1.2	1.2	**4.0**
Fertilisers	0.4	0.7	0.9	1.0	**3.0**
Steel	0.7	1.1	1.4	2.3	**5.5**
Other	-	0.1	-	-	**0.1**
Total	**1.7**	**2.9**	**3.5**	**4.5**	**12.6**
As Percent of Sales	**61%**	**55%**	**53%**	**58%**	

The following should be noted when further analysing operating costs:

- Cost Of Sales
  The majority of 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. Due to this factor, cost of sales, as a percent of sales, increased from 47.1%, in 2005, to 52.6% in 2006.

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

Net Profit

Profits showed excellent year-on-year growth, reaching QR 3.6 billion, an increase of 12.6% over 2005. This should be considered in light of the annual sales growth of 18.2%.

Figure 2.1a

Net Profit By Year

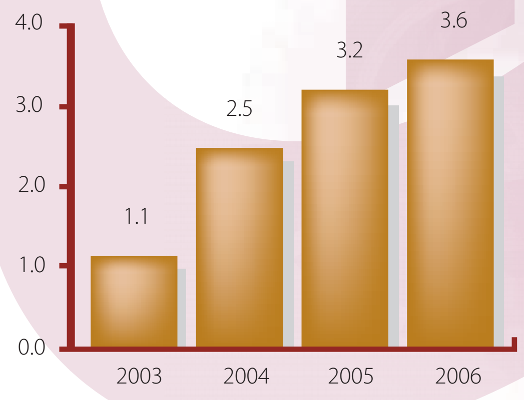
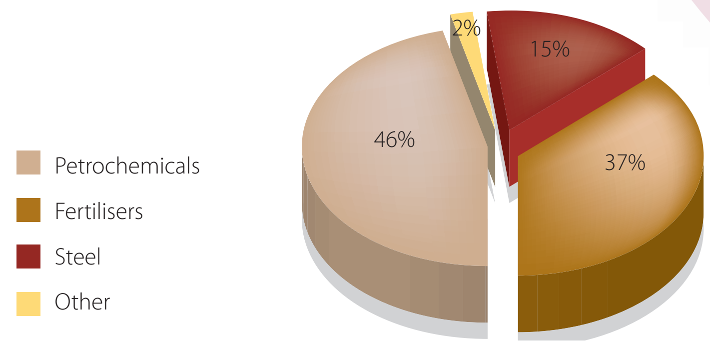


Figure 2.1b

Profit Before tax and Minority Interests By Industry



2.2 Balance Sheet / Cash Flow Statement

Non-Current Assets

The ambitious expansion plans have already started, like Qatofin, QAPCO's Ethylene Plant Expansion II and QASCO's Plant Expansion (Phase I). IQ's total investment in projects is budgeted to reach QR 14.7 billion:

Table 2.2

Summary CAPEX

Category Stated in QR billions	Total Project Costs Estimated	IQ's Contribution Estimated
Existing Projects	12.8	8.9
Imminent Projects	2.3	2.1
Future Projects	11.7	3.7
Total Investment	**26.8**	**14.7**

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

3. Operational Review

Operationally, 2006 was a success with the strong emerging petrochemicals markets. 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 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.

In order to update employees' skills and to keep abreast of the latest technological developments, the Group companies have invested heavily in training days for both technical and non-technical staff.

Table 3.1

Total Headcount (Excluding Trainees) by Nationality and Industry

Nationality Number of employees	Nationals	2006 Total
Petrochemicals	133	798
Fertilisers	122	731
Steel	203	1,869
Total Headcount	**458**	**3,398**

3.2 Quality Assurance / Quality Control

The commitment to quality can be evidenced by the fact QASCO, QAFAC and QAPCO are already ISO 9001 (QMS) and ISO 14001 (EMS) certified. QAFCO, on the other hand, was ISO 9001 (QMS) certified 11 years ago.

3.3 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 well.

Funds not generating returns, in the form of working capital, remain within acceptable levels. Operating margins (Gross Margin and Profit Margin) have slightly decreased. Funding the capital projects has resulted in a modest increase in debt; but, as internally-generated cash flows were also being utilised, the Debt to Total Assets ratio has reasonable increased. Finally, the Return On Capital Employed has experienced a slight decrease mainly due to investments in various projects that have a gestation period and the returns of which are expected in future, while Earnings Per Share has increased, in line with the greater profits generated this year.

Table 3.3

Efficiency KPI's

Key Performance Indicator	2003 (9 months)	2004	2005	2006
Working Capital (stated in QR billions)	3.3	4.0	4.7	5.8
Gross Profit Margin	47%	54%	53%	47%
Net Profit Margin	41%	47%	49%	47%
Debt : Total Assets	23%	16%	13%	15%
Return On Capital Employed	14%	27%	30%	27%
Earnings Per Share	2.26	4.99	6.43	7.24

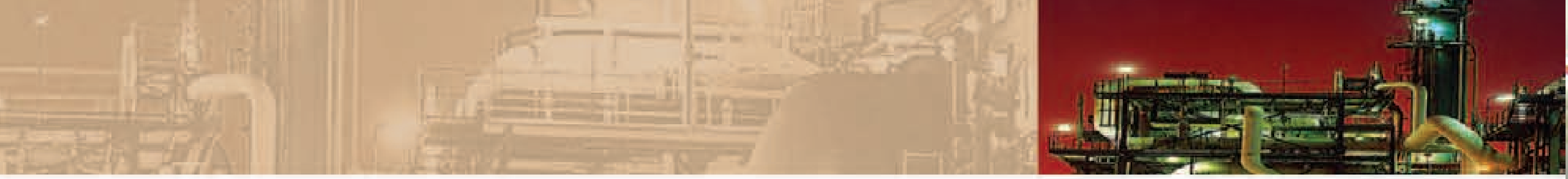
3.4 Investment

Selecting capital investments that compliment and strengthen our existing facilities, foster strategic business partnerships and generate positive returns, are still of primary importance to the Board of Directors. The current capital investment program involves all the Group companies and should be completed in 2010.

Shareholders should be aware that capital investment programs are going through a review process and the list is based on our current information regarding projected expenditures and time lines.

Table 3.4

Project Name (Stated in QR billions)	IQ Portion	Total Cost	IQ Share	Completion Date
EXISTING PROJECTS				
QAPCO Ethylene Expansion	80%	0.8	0.6	Q2, 2007
United Stainless Steel Company	25%	0.3	0.1	Q2, 2007
QAFAC De-Bottlenecking	50%	0.1	0.05	Q2, 2007
QASCO Plant Expansion (Phase I)	100%	2.1	2.1	Q2 & Q3, 2007
Qatofin	51%	4.5	2.3	Q4, 2008
Qatar Melamine (QAFCO)	45%	0.6	0.3	Q4, 2008
IQ Tower	100%	0.7	0.7	2009
QAFCO V	75%	3.7	2.8	Q1, 2010
Category Total		**12.8**	**8.9**	
IMMINENT PROJECTS				
QASCO PC Strands	100%	0.1	0.1	Q4, 2008
QASCO Steel Melt Shop Furnace	100%	1.3	1.3	Q4, 2009
QAPCO LDPE-3	80%	0.9	0.7	Q4, 2010
Category Total		**2.3**	**2.1**	
FUTURE PROJECTS				
QASCO Plant Expansion (Phase II)	100%	3.1	3.1	2010
Other Projects	-	8.6	0.6	2010
Category Total		**11.7**	**3.7**	
Total Expenditure		**26.8**	**14.7**	



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4. Conclusion

The Board of Directors has identified a number of possible challenges for 2007, 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 investments in a cross-section of companies ranging from petrochemicals to steel industries - an investment in IQ is, in itself, an investment in a diversified portfolio of companies. Investors in IQ 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 group companies to develop localised expertise and react quickly to counter any 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 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 all the hard work, commitment and dedication, shown throughout 2006. Their efforts and sacrifices have all borne fruit and are the reasons why we can celebrate the outstanding accomplishments of 2006.

(Further information can be found at www.industriesqatar.com.qa)

FOCUS ON THE GROUP COMPANIES

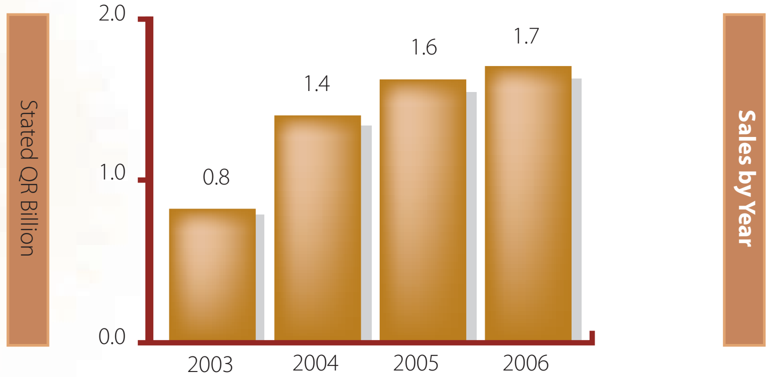
Qatar Petrochemical Company

Background

In line with the industrialization plan of the State of Qatar, Qatar Petrochemical Company Q.S.C. (QAPCO) was established in 1974 with the aim of utilizing 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

2006 will be remembered as an exceptional year for QAPCO for many reasons: record annual production levels were achieved for ethylene (547 KT) and the LDPE maintained almost the same level of 2005 (413 KT). Plants performance was commendable in view of the fact that this is the sixth year in a row of operations after the last schedule maintenance done in 2000.



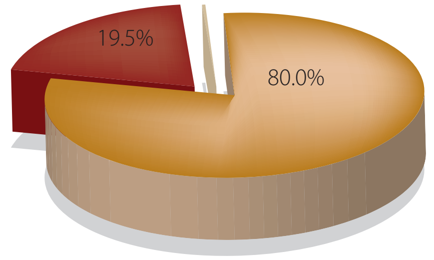
IQ's share of sales turnover reached the amount of QR1.7 billion, an increase by 9.3%, compared to year 2005. In terms of profitability, IQ's share of net profit reported an amount of QR1.3 billion, a 18.3% rise over the year 2005.

The high prices experienced were due to a number of factors, the important being: (i) high oil prices leading to high derivative prices, including ethylene; and (ii) closure of several competitors' crackers in Asia and Europe.

The outlook for future appears bright for QAPCO because of its plans for the capacity expansion and a growing global network of self-operating offices and agents. QAPCO so far opened 15 offices and 2 regional warehouses in Asia and Middle East region and the establishment of several other offices are also under discussion.

On the environment and safety front, during 2006, QAPCO had achieved Occupational Health & Safety Assessment Series (OHSAS) 18001 Certification from SGS for establishing and implementing the safety Management System (SMS). QAPCO also upgraded the wastewater treatment system in order to compliance with the Environment Standards issued by the Supreme Council for Environment and Natural Reserves,Qatar.

Share of Sales By Product



Category Ststed in QR Billions	Total Project Cost Estimated	IQ's Contribution Estimated
Existing Projects	5.3	2.9
Imminent Projects	0.9	0.7
Future Projects	-	-
Total Investement	**6.2**	**3.6**

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 23% 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 joint venture between QAPCO, TOTAL Petrochemicals 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.
- **Ras Laffan 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)

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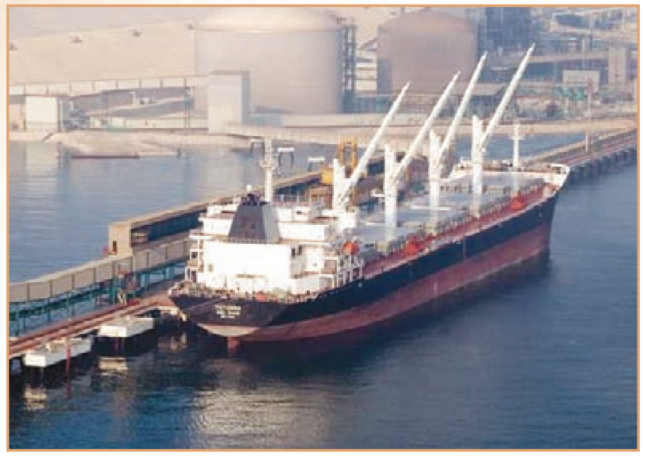
Qatar Fertiliser Company

QAFCO

Background

Established in 1969 as a joint venture, Qatar Fertiliser Company S.A.Q. (QAFCO) through its facilities in Mesaieed, is a world-class producer and exporter of ammonia, urea and urea formaldehyde. 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 neighboring countries.



Financial & Operational Review

In terms of sales, profits and total assets, QAFCO contributed QR 2.2 billion to total Group sales (equivalent to 29% of IQ sales), QR 1.4 billion to Group profits (representing 37.5% of IQ profits) and accounting for QR 4.0 billion of Group total assets (equal to 26.8% of IQ total assets). The current year results are a testament to IQ's strategic vision to focus on expansions, new products and better utilization of existing facilities.

There were several factors that contributed to maintain a strong performance during 2006, the most important being: (i) Limited export from China due to good season. (ii) Increase in demand in USA (iii) Strong demand in Indian sub continent, Iran and South East Asia (iv) Annual unscheduled shot down and the delay in start up of news plants by the competitors.

The future looks promising for QAFCO. During the year the company was also able to successfully penetrate new markets like Brazil, Mexico, and Taiwan in order to reduce the reliance on the existing markets. In 2006, QAFCO has established business relationship in Iran with Freedom Sky and ASSC and participated in many international fertilizer fairs and exhibitions.

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.

(Further information can be found at www.qafco.com)

Qatar Steel Company

Background

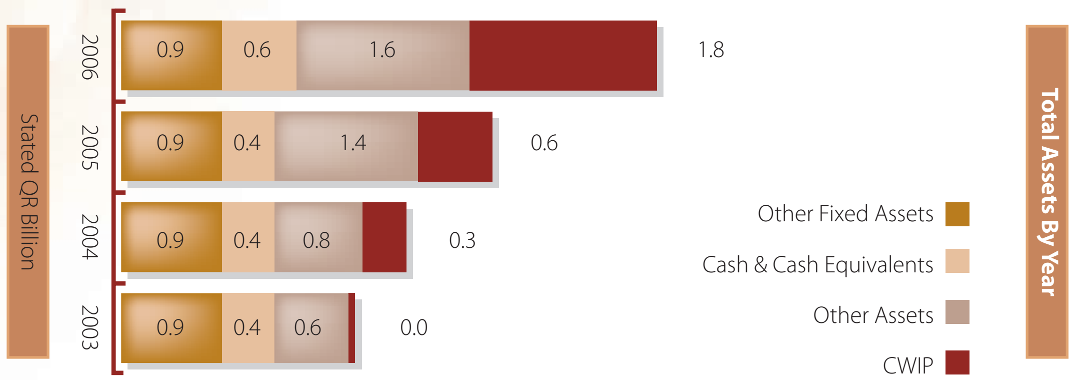
Established in 1974 Qatar Steel Company Q.S.C. (QASCO), fully owned by IQ, is the first integrated steel producing company in the GCC region and Qatar's sole steel producer. The main products manufactured by QASCO and Qasco Dubai Steel FZE (QDS), a 100 % owned subsidiary located in Dubai are steel bars, billets and coils, which are sold primarily in the local and GCC market.

Financial & Operational Review

2006 was a successful year for QASCO as sales volume was higher year-on-year by 38%, while sales revenue was up by 56%, an increase of QR 1 billion. Even though there were no capacity increases during 2006, the sales were up due to the import of steel to meet the growing demand.

With strong supply and demand fundamentals existing in the GCC market, the short term focus of QASCO will continue to be the GCC market. Along with maintaining regular supplies to the domestic market, QASCO will continue its efforts in optimizing its share in each of the GCC countries.

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



Investment & CAPEX :

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 triple QASCO's annual production of DRI and double its bars production upon its completion in 2007. The project includes the building of a new DRI / HBI plant, melt shop and rolling mill. DRI / HBI and Bars production is expected to commence in Q 2 2007, and Billets production from Q 3 2007.
- **United Stainless Steel Company (USCO):** USCO was established in February 2005. Construction of a cold rolled stainless steel mill commenced in April and is expected to be completed in 2007 at a total cost of about QR 300 million. The company is based in Bahrain and will be the first of its kind in the region. QASCO's total investment in USCO is 25 % of the equity in USCO, about QR 75 million.

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Qatar Fuel Additives Company

Background

Established in 1991 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

Compared to 2005, IQ's share of QAFAC revenue increased marginally touching QR 1 billion level. On the net profit front, in spite of increase in raw material prices the company was able to sustain the good margin achieved during 2005 due to the increase in Methanol prices.

On the marketing side, the year of 2006 has experienced somewhat tight supply of Methanol in Asia due to a number of production issues. This was supported by strong prices shown in U.S. and European markets. The prices became stable with the greater flow of Chinese exports particularly in the North Asian region.

QAFAC is in the process of obtaining the ISO9001:2000 in the first quarter of 2007 which is primarily concerned with "quality management". Thus the company would focus on the customers' quality requirements, and applicable regulatory requirements, while aiming to enhance customer satisfaction, and achieve continual improvement of its performance in pursuit of these objectives.

QAFAC also started the initial stages of the Distributed control System (DCS) upgrade to be executed in the 2007. The upgrade is aimed to enhance the system reliability and enabled functionality to enhance the control of our processes.

The methanol production capacity is 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 0.05 billion and is expected to be completed by Q2, 2007.

(Further information can be found at www.qafac.com)

صنـاعـات قـطـر
Industries Qatar

Industries Qatar Q.S.C

Doha - Qatar

Consolidated Financial Statements

For The Year Ended 31 December 2006

Together With Independent Auditor's Report

صناعات قطر
Industries Qatar

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Independent Auditor's Report

To The Shareholders
Industries Qatar Q.S.C.
Doha – Qatar

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Industries Qatar Q.S.C. (the "Company), which comprise of the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The accompanying consolidated financial statements includes the assets, liabilities and results of operations of the subsidiaries and joint ventures companies which represent significantly all the assets, liabilities and results of operations of the company.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. The financial statements of the subsidiaries and joint ventures companies 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion and based on the audit work performed by the other auditors, the accompanying consolidated financial statements present fairly, in all material respect the financial position of Industries Qatar Q.S.C. as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Legal and Regulatory Requirements

Furthermore, in our opinion the consolidated financial statements provide the information required by the Qatar Commercial Companies' Law No. 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 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 21, 2007

Samer H. Jaghoub
License No. 88

Industries Qatar

Industries Qatar Q.S.C.
Doha – Qatar

Consolidated Balance Sheet

As Of 31 December 2006
(Amounts expressed in thousands of Qatari Riyals)

ASSETS	Note	2006	2005 Restated
Current Assets			
Bank balances and cash	5	4,626,389	3,950,112
Accounts receivable and prepayments	6	1,149,975	875,506
Inventories	7	1,141,841	1,022,951
Due from related parties	8	543,284	471,203
Investments	9(c)	27,061	23,982
Total Current Assets		**7,488,550**	**6,343,754**
Non-Current Assets			
Investment in associates	9(a)	359,059	339,041
Investments	9(b)	293,850	394,312
Intangible assets	10	71,707	71,707
Investment property	11	118,426	-
Property, plant and equipment	12	6,385,679	4,827,490
Other assets	13	163,195	111,936
Total Non-Current Assets		**7,391,916**	**5,744,486**
Total Assets		**14,880,466**	**12,088,240**
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and accruals	14	1,067,236	642,969
Term loans	15	205,458	555,810
Due to related parties	16	422,460	370,922
Total Current Liabilities		**1,695,154**	**1,569,701**
Non-Current Liabilities			
Term loans	15	1,961,623	1,057,558
Provision for employees' end of service benefits	17	118,728	95,689
Interest rate swaps	18(a)	40,544	-
Total Non-Current Liabilities		**2,120,895**	**1,153,247**
Equity and Reserves			
Share capital	19	5,000,000	5,000,000
Legal reserve	30	104,813	103,975
Investments revaluation reserve		132,204	264,936
Hedging reserve		(37,623)	-
Retained earnings		3,353,034	2,234,654
Proposed dividends	20	2,500,000	1,750,000
Equity Attributable to Equity Holders of the Parent		**11,052,428**	**9,353,565**
Minority interest		11,989	11,727
Total Equity		**11,064,417**	**9,365,292**
Total Liabilities and Equity		**14,880,466**	**12,088,240**

Abdullah Bin Hamad Al-attiyah
Second Deputy Premier
and Minister of Energy & Industry
Chairman and Managing Director

Yousef Hussain Kamal
Minister of Finance and Acting Minister
of Economy and Commerce
Vice Chairman

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

Industries Qatar Q.S.C.
Doha – Qatar

Consolidated Statement Of Income

For The Year Ended 31 December 2006
(Amounts expressed in thousands of Qatari Riyals)

	Note	Year ended 31 December 2006	Year ended 31 December 2005 Restated
Sales	21	7,778,065	6,578,039
Cost of sales		(4,091,928)	(3,097,784)
Gross Profit		**3,686,137**	**3,480,255**
Selling expenses		(117,871)	(106,431)
General and administrative expenses		(296,118)	(268,560)
Income from associates		20,117	50,942
Income from investments		9,976	10,996
Other income	22	363,693	104,162
Finance charges		(44,204)	(55,531)
Profit for the Year	23	**3,621,730**	**3,215,833**
Attributable to:			
Equity holders of the parent		3,619,218	3,213,564
Minority interest		2,512	2,269
Total		**3,621,730**	**3,215,833**
Basic earnings per share		QR. 7.24	QR. 6.43
Number of shares		500,000,000	500,000,000

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

Industries Qatar Q.S.C.
Doha – Qatar

Consolidated Statement Of Changes In Equity

For The Year Ended 31 December 2006
(Amounts expressed in thousands of Qatari Riyals)

	Share Capital	Legal Reserve	Investments Revaluation Reserve	Hedging Reserve	Retained Earnings	Proposed Dividends	Attributable to equity holders of the parent	Minority Interest	Total
Balance at 1 January 2005	**5,000,000**	**103,219**	**192,418**	**-**	**771,846**	**1,750,000**	**7,817,483**	**10,921**	**7,828,404**
Gain on available for sale investments	-	-	72,518	-	-	-	72,518	-	72,518
Dividends paid	-	-	-	-	-	(1,750,000)	(1,750,000)	-	(1,750,000)
Profit for the year	-	-	-	-	3,213,564	-	3,213,564	2,269	3,215,833
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 December 2005 – (restated)	**5,000,000**	**103,975**	**264,936**	**-**	**2,234,654**	**1,750,000**	**9,353,565**	**11,727**	**9,365,292**
Loss on available for sale investments	-	-	(132,732)	-	-	-	(132,732)	-	(132,732)
Dividends paid	-	-	-	-	-	(1,750,000)	(1,750,000)	-	(1,750,000)
Profit for the year	-	-	-	-	3,619,218	-	3,619,218	2,512	3,621,730
Net movement in fair value of interest rate swaps (note 18 a)	-	-	-	(37,623)	-	-	(37,623)	-	(37,623)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	(2,250)	(2,250)
Transfer to legal reserve	-	838		-	(838)	-	-	-	-
Dividends proposed	-	-	-	-	(2,500,000)	2,500,000	-	-	-
Balance at 31 December 2006	**5,000,000**	**104,813**	**132,204**	**(37,623)**	**3,353,034**	**2,500,000**	**11,052,428**	**11,989**	**11,064,417**

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

Industries Qatar Q.S.C.
Doha – Qatar

Consolidated Statement Of Cash Flows

For The Year Ended 31 December 2006
(Amounts expressed in thousands of Qatari Riyals)

	Note	Year ended 31 December 2006	Year ended 31 December 2005 Restated
Cash Flows from Operating Activities			
Net profit for the year		3,621,730	3,215,833
Adjustments for:			
Depreciation and amortisation		524,250	556,930
Provision for employee's end of service benefits		40,333	17,203
Provision for (reversal of) inventories and doubtful debts		3,450	(5,784)
Losses on investments		2,811	9,016
Income from associates		(20,117)	(50,942)
Finance charges		44,204	55,531
Gain on revaluation of investment property		(107,354)	-
Loss on disposal of property, plant and equipment		2,035	776
		4,111,342	3,798,563
Increase in accounts receivable, prepayments and due from related parties		(346,468)	(173,165)
Increase in inventories		(122,422)	(312,263)
Increase in accounts payable, accruals and due to related parties		475,805	319,276
Cash from operations		4,118,257	3,632,411
Payments towards employees' end of service benefits		(17,294)	(46,797)
Net cash from operating activities		**4,100,963**	**3,585,614**
Cash Flows from Investing Activities			
Movements in deposits maturing after ninety days		(228,985)	(945,256)
Increase in other assets		(2,234)	(35,278)
Acquisitions of investments		(56,684)	(207,352)
Acquisition of investment property		(11,072)	-
Acquisition of property, plant and equipment		(2,106,753)	(809,178)
Movement in projects under development		(52,534)	5,839
Proceeds on disposal of investments		13,823	46,236
Expenditure on product development		-	(71,707)
Dividend received from associate		4,800	12,689
Proceeds on disposals of property, plant and equipment		28,709	1,640
Net cash used in investing activities		**(2,410,930)**	**(2,002,367)**
Cash Flows from Financing Activities			
Net movements in loans		553,713	10,822
Finance charges paid		(44,204)	(55,531)
Dividends paid by parent company		(1,750,000)	(1,750,000)
Dividends paid to minority shareholders		(2,250)	(1,463)
Net cash used in financing activities		**(1,242,741)**	**(1,796,172)**
Net Increase (Decrease) in Cash and Cash Equivalents		**447,292**	**(212,925)**
Bank balances and cash at Beginning of the Year		2,679,538	2,892,463
Bank Balances and Cash at End of the Year	31	**3,126,830**	**2,679,538**

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

Notes To The Consolidated Financial Statements

For The Year Ended 31 December 2006
(Amounts in table expressed in thousands of Qatari Riyals)

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 3,398 employees as of 31 December 2006 (2005: 3,169).

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 22 July 2003, pursuant to Dubai Law No. 9 of 1992 and implementing the regulations of the Jebel Ali Free Zone Authority.

- **Qatar Petrochemical Company Limited Q.S.C., ("QAPCO"),** a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ 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), a Qatari Shareholding Company incorporated in the State of Qatar on August 2005, is a joint venture between QAPCO owing 63.63%, TOTAL Petrochemicals - France (TPF) 36.36% and QP 0.01%. Qatofin is engaged in the production of linear low-density polyethylene (LLDPE).

  Qatofin also own 45.69% interest in Ras Laffan Olefins Company, a joint venture between Q-Chem II, Qatofin and Qatar Petroleum. Ras Laffan Olefins Company is involved in the production of ethylene.

- **Qatar Fertiliser Company (SAQ), ("QAFCO"),** a Qatari Shareholding Company incorporated in the State of Qatar, is a joint venture between IQ owning 75%, Fertiliser Holdings AS owning 10% (2005: 20%) and Yara Netherland BV owning 15% (2005: 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 this subsidiary.

- **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 Netherlands Antilles N.V. owning 20%, International Octane Limited owning 15% and 15% by LCY Middle East Corporation, a body corporate formed under the laws of the British Virgins Islands. QAFAC is engaged in the production and export of methyl-tertiary-butyl-ether (MTBE) and methanol.

2. Adoption of New and Revised International Financial Reporting Standards

During 2006, 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 2006. The adoption of the revised Standard has resulted in changes to the Group's accounting policies in the following area that has affected the amounts reported for the current and prior year.

- Investments classified as at fair value through profit or loss.

The impact of the change is discussed later in note 3.

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective and are relevant to the Group operations:

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRS 7 Financial Instruments Disclosures
- IFRS 8 Operating Segments
- 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
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

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 Prior Period Adjustments / Change in Accounting Policies

(i) In 2005, QAPCO one of the joint ventures of Industries Qatar (Q.S.C.) issued its consolidated financial statements assuming that it had control over Qatofin.

After a review of the agreement between the parties concerned, it was stipulated that major decision has to be made unanimously with the consent of all the parties. QAPCO has therefore revised its accounting treatment to proportional consolidation in accordance with IAS 31 – Interest in Joint Venture.

The adoption of proportional consolidation has been considered by QAPCO, as being a change in accounting policy and has been accounted for retrospectively and had impacted the prior period figures accordingly.

(ii) Also in 2005, QAPCO through its investment in Qatofin accounted for its investment in Ras Laffan Olefins Company Limited (RLOC) as an associate. During 2006, management of Qatofin and QAPCO have decided to change the accounting policy and to treat RLOC as an investment in joint venture, since they believe that this will improve the quality of the information presented and accordingly, the investment in RLOC has been recognised based on proportional consolidation method in accordance with IAS 31 – Interest in Joint Ventures. This change in accounting policy has been accounted for retrospectively and had impacted the prior period figures accordingly.

(iii) Limitation of ability to designate financial assets and financial liabilities through profit or loss.

Following amendments to IAS 39 Financial Instruments: Recognition and Measurement in June 2005, the ability of entities to designate any financial asset or financial liability as at fair value through profit or loss (FVTPL) has been limited.

Financial assets that can no longer be designated as at FVTPL are now classified as either loans and receivables , held-to-maturity or available-for-sale financial assets, as appropriate, and measured at amortised cost, or at fair value with changes in fair value recognised in equity, according to their classification.

These changes have been applied by the Group in accordance with the transitional provisions of IAS 39 with effect from the beginning of the comparative reporting period presented in these consolidated financial statements. The amendments resulted in some of the listed shares held by the Group with a carrying amount QR. 38.3 million that were previously designated as at held for trading being reclassified as available-for-sale investments.

The cumulative impact of the above changes in accounting policies was a decrease in the total assets by QR. 88.73 million, decrease in total liabilities by QR. 2.82 million, a decrease in minority interest by QR. 85.8 million, a decrease in shareholders' equity by QR. 0.11 million and a decrease in profit by QR. 1.3 million.

4 Significant Accounting Policies

The significant accounting policies adopted are as set out below:

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.

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 in line with those used by other members of the Group.

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

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.

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 consolidated 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.

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 quipment, 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.

Investment Property

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

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.

4 Significant Accounting Policies (continued)

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.

Available-for-Sale Investments

Listed shares held by the Group that are traded in an active market are classified as being available for sale investments. They are initially recognised at cost, being the fair value of the consideration given. After initial recognition, these investments are remeasured 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.

Financial Assets at Fair Value through Profit or Loss – FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling in the near future; or
- It is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument

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.

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. The prices and terms of payment for transactions for related parties are in accordance with specific agreements entered into, by the main shareholder and the joint venture partners. In accordance with these agreements, the main shareholder and the joint venture partners provide support services, feedstock, fuel gas, in addition to entering into call off agreements for the sale of its products.

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.

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.

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.

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.

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.

4 Significant Accounting Policies (continued)

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.

Employees' End of Service Benefits 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.

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.

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.

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.

Foreign Currencies

Foreign currency transactions are recorded in Qatari Riyals at the rates of exchange prevailing at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies are translated to Qatari Riyals at the rate of exchange prevailing at the year end. The resultant exchange differences are included in the statement of income.

One of the joint venture's accounting records is maintained in US Dollars which is the currency of the primary economic environment in which it operates (functional currency). For the purpose of these consolidated financial statements, the results and financial position of the joint venture are expressed in the functional currency of the parent company.

As the US Dollars and the Qatari Riyals are pegged, the assets, liabilities and results of operations have been converted of a fixed rate of QR. 3.64.

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.

Term Loans

Term loans are carried on the balance sheet at their outstanding principal amount. Instalments due within one year are shown under current liabilities.

4 Significant Accounting Policies (continued)

Derivative Financial Instruments

The Group entered into a variety of derivative financial instruments to manage its exposure to interest and foreign exchange risks, including interest rate swaps and foreign exchange forward contracts respectively.

These derivatives are initially recognised at fair value at the date they are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in the profit or loss immediately unless the derivative is designated and effective as a hedging instrument (cash flow hedge), in which case the profit or loss is recognised in the statement of changes in equity.

5. Bank Balances and Cash:

	2006	2005 Restated
Bank balances and cash	**4,626,389**	3,950,112

Included in bank balances and cash are time deposits denominated in United States Dollars, Euros and Saudi Riyals equivalent to QR 1,695 million (2005: QR 1,383 million). In addition, bank balances and cash include current and call deposits of QR 787million (2005: QR. 662 million) and term deposits of QR. 3,839 million (2005: QR. 3,288 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 5.00% to 5.60% (2005: 2.75% to 3.75%).

6. Accounts receivable and prepayments:

	2006	2005 Restated
Trade receivables	854,535	670,267
Other receivables and prepayments	247,337	179,128
Loans to employees	50,194	28,284
Less: Provision for doubtful debts	(2,091)	(2,173)
Net	**1,149,975**	**875,506**

Included in other receivables and prepayments is an amount of QR 86 million (2005: QR. 109 million) relating to accrued income of one of the joint ventures. The joint venture entered into offtake agreements with its shareholders for the sale of its products.

7. Inventories:

	2006	2005 Restated
Fuel additives	17,809	17,909
Steels	218,328	126,244
Fertilisers	15,802	46,551
Petrochemicals	65,705	44,956
Work-in-progress	61,335	49,875
Raw materials	300,772	258,111
Goods in transit	60,871	96,180
Maintenance parts and supplies	474,301	452,675
Total	**1,214,923**	**1,092,501**
Less: Provision for obsolescence	(73,082)	(69,550)
Net	**1,141,841**	**1,022,951**

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8. Due from related parties:

	2006	2005 Restated
Yara International ASA	221,256	243,094
Qatar Petroleum	56,218	28,974
Qatar Vinyl Company	70,241	40,555
Qatar Chemical Company	1,282	481
Total Petrochemicals	129,766	121,986
Qatar Metal Coating Company	31,100	29,744
International Octane Ltd.	3,192	428
LCY Investment Corporation.	8,077	3,709
Qatar Gas	23	23
Chinese Petroleum Corporation	19,416	2,209
Ras Laffan Olefins Cracker Company	1,002	-
Qatofin Company Limited Q.S.C.	1,471	-
Qatar Fuel Additives Company Limited Q.S.C.	240	-
Total	**543,284**	**471,203**

9. Investments:

a) Investment in associates

Name of Associate	Principal Activity	Country of Incorporation	Group Ownership 2006	Group Ownership 2005	2006	2005 Restated
Qatar Metal Coating Company	Metal Coating	Qatar	50.00%	50.00%	16,944	16,747
Qatar Vinyl Company Ltd. Q.S.C.	Chemical Products	Qatar	25.52%	25.52%	255,976	237,078
Qatar Plastic Product Company W.L.L.	Industrial Products	Qatar	26.66%	26.66%	9,667	8,744
United Stainless Steel Company*	Steel Manufacturing	Bahrain	25.00%	25.00%	76,472	76,472
Total					**359,059**	**339,041**

*United Stainless Steel Company is in the development stage and has not yet commenced operations.

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

	2006	2005 Restated
Share of associates' balance sheets:		
Current assets	221,055	197,591
Non-current assets	554,589	563,409
Current liabilities	(48,343)	(59,416)
Non-current liabilities	(368,242)	(362,543)
Net Assets	**359,059**	**339,041**

9. Investments (Continued):

b) Available-for-sale investments

	Fair Value 2006	Fair Value 2005 Restated
Quoted shares	**293,850**	**394,312**

Included is an amount of 57,500 shares (2005: 57,500 shares) of Qatar Maritime Shipping Company having a market value of QR. 3.5 million (2005: QR. 6.2 million) restricted due to a Directorship held by one of the subsidiaries.

c) Financial Assets at Fair Value Through Profit or Loss - Held for Trading

	2006	2005 Restated
At 1 January	23,982	--
Acquisition of Qatari Shareholding Companies' shares during the year	19,713	27,019
Sold during the year	(11,833)	(2,627)
Movement in fair value	(4,801)	(410)
At 31 December	**27,061**	**23,982**

10. 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 joint ventures within the group. As at 31 December 2006, the project has not yet started its operations.

11. Investment Property:

At fair value

	2006	2005 Restated
Acquisition during the year	11,072	-
Net gain from fair value adjustments (note 22)	107,354	-
Balance at December 31	**118,426**	**-**

The fair value of the Group's investment property at 31 December 2006 has been arrived at on the basis of a valuation carried by an independent valuer that is not related to the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties.

12. Property, plant and equipment:

	Land and Buildings	Plant, Machinery and Equipment	Heavy Duty Mobile Equipment	Furniture Equipment & Fixtures	Motor Vehicles	Computer Equipment	Capital Work-in-Progress	Total
Cost								
At 1 January 2006 (as previously stated)	1,527,674	9,267,177	27,356	35,586	12,976	52,517	1,185,475	**12,108,761**
Reclassification	--	--	--	--	--	--	(3,496)	**(3,496)**
Prior year adjustments	--	--	--	--	--	--	43,523	**43,523**
Balance at 1 January 2006 (as restated)	1,527,674	9,267,177	27,356	35,586	12,976	52,517	1,225,502	**12,148,788**
Additions	1,151	135,969	3,044	955	136	1,346	1,964,152	**2,106,753**
Transfers	17,176	95,734	15,953	1,652	--	1,967	(132,482)	**--**
Adjustments and reclassifications	(1,859)	(1,949)	100	2,131	--	--	--	**(1,577)**
Disposals	(2,560)	(57,474)	(344)	(39)	(76)	(5,822)	--	**(66,315)**
At 31 December 2006	1,541,582	9,439,457	46,109	40,285	13,036	50,008	3,057,172	**14,187,649**
Accumulated depreciation								
At 1 January 2006	923,378	6,308,067	16,364	26,498	11,166	35,825	--	**7,321,298**
Charge for the year	40,040	465,933	2,822	2,399	119	6,507	--	**517,820**
Adjustments and reclassifications	(124)	(1,640)	100	1,664	--	--	--	--
Disposals	(777)	(30,187)	(320)	(39)	(38)	(5,787)	--	**(37,148)**
At 31 December 2006	962,517	6,742,173	18,966	30,522	11,247	36,545	--	**7,801,970**
Net carrying amount								
At 31 December 2006	**579,065**	**2,697,284**	**27,143**	**9,763**	**1,789**	**13,463**	**3,057,172**	**6,385,679**
At 31 December 2005 (as restated)	**604,296**	**2,959,110**	**10,992**	**9,088**	**1,810**	**16,692**	**1,225,502**	**4,827,490**

12. Property, plant and equipment (continued):

Some of the buildings and plants at Messaied, Qatar amounting to QR. 1,398 million (2005: QR. 1,500 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. 10.5 million (2005: QR 6.5 million), are constructed on a leased land from Jebel Ali Free Zone Authority for an initial period of 15 years from August 2003.

Fully depreciated assets as at 31 December 2006 amounted to QR. 5,553 million (31 December 2005: QR. 5,478 million).

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

	Year ended 31 December 2006	Year ended 31 December 2005 Restated
Cost of sales	482,077	516,289
Selling expenses	606	608
General and administrative expenses	35,137	33,629
Total	517,820	550,526

13. Other assets:

	2006	2005 Restated
Catalysts and other assets	31,517	50,200
Projects under development (A)	114,270	61,736
Advances to contractors	14,487	-
Interest rate swaps	2,921	-
Total	**163,195**	**111,936**

(A) Represents cost incurred by the parent company for the Qafac II joint venture project and by QAFCO in the Qatar Melamine Project in which QAFCO will have a 60% interest.

14. Accounts payable and accruals:

	2006	2005 Restated
Trade payables	591,597	292,373
Other creditors and accruals	437,349	313,277
Provision for pension obligations	38,290	37,319
Total	**1,067,236**	**642,969**

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15. Term loans:

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

	Interest	Currency	Due date	2006	2005 Restated
Term loan 1	Libor plus 0.9%	US$	2008	18,667	27,945
Term loan 2	Libor plus 0.5%	US$	2011	325,234	385,840
Term loan 3	Libor plus 0.65%	US$	2008	196,479	247,418
Term loan 4	Libor plus applicable margin	US$	2016	1,310,940	473,395
Term loan 5	Libor plus 1%	US$	2012	25,901	21,545
Syndicated loan	Libor plus applicable margin	US$	2020	289,860	22,238
Syndicated loan	Libor plus 0.75%	US$	2006	-	434,987
Total				2,167,081	1,613,368
Less: repayments due within one year				(205,458)	(555,810)
Total Non-Current Portion				**1,961,623**	**1,057,558**

As of 31 December 2006, the loans were repayable as follows:

	2006	2005 Restated
Within one year	205,458	555,810
Years 2 to 5	957,080	644,499
Over 5 years	1,004,543	413,059
Total	**2,167,081**	**1,613,368**

The effective interest rates for the group on term loan borrowings are in the range of 5.15% to 6.20%.

Term loan 1:

This is a U.S. 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 USD 1,270,000 each and a final instalment of USD 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 2:

This loan was signed by QAFAC on August 8, 2005 with a local bank. It represents a clean corporate loan facility amounting to USD 212 million (IQ share amounting to USD 106 million). It was used on 9 September 2005 to refinance the outstanding balance of a previous loan. This loan is repayable in 11 semi annual installments commencing March 9,2006.

Term loan 3:

This unsecured subordinated loan was taken by QASCO and carries interest at Libor plus 0.65% per annum. The remaining balance is repayable in annual instalments of USD 20 million (QR. 72.8 million) and USD 34 million (QR. 123.7 million) due in 2007 and 2008 respectively.

Term loan 4:

This is a US Dollar denominated facility consisting of a term loan facility of USD 483.5 million (Tranche A loan) and a stand by facility of USD 75 million (Tranche B loan) intended to fund the major EPC contracts entered into by QASCO. The loan carries interest at Libor plus a margin ranging from 0.8% - 1.0% per annum (Tranche A loan) and 1.0% – 1.10% per annum (Tranche B loan) and mandatory cost. 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 twelfth Tranche A repayment date. The balance disclosed above represents the draw downs made by QASCO up to the date of the balance sheet.

15. Term loans (continued):

Term loan 5:

This is a US Dollar denominated facility obtained by the subsidiary of QASCO and carries interest at six month libor plus 1% per annum. The loan is repayable in 10 semi-annual instalments of USD 709,076 each starting 2008. QASCO has issued a letter of comfort to the bank as security in addition to an endorsement of insurance policies for the new plant and machinery.

Syndicated Loans:

(i) During the year 2005, QATOFIN a joint venture of QAPCO, entered into an agreement with 27 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 installment scheduled on 30 June 2020.

QATOFIN has assigned to the security agent, all its present and future rights, title and interest under various agreement to all monies which at any time may be or become payable to it, pursuant thereto and the net proceeds of any claims, awards and judgements which may at any time be received or receivable.

(ii) On 2 July 2001, QAFCO obtained a syndicated loan facility amounting to QR1,456 million (USD400 million) [IQ's share QR1,092 million (USD300 million)] to assist in financing the design, construction and commissioning of the QAFCO IV Project. The loan balance outstanding as at 31 December 2005 was fully settled during the year.

16. Due to related parties:

	2006	2005 Restated
Yara International ASA	17,810	3,676
Qatar Vinyl Company	52,847	17,697
Qatar Petroleum	306,826	315,150
Total Petrochemicals	8,342	6,934
Qatar Plastic Products Company	57	774
QAFAC II	1,790	3,742
Qatar Chemical Company	33,106	22,939
LCY Investment Corporation	49	7
International Octane Ltd.	1	3
WOQOD	91	-
Qatar Metal Coating Company	317	-
ARKEMA	767	-
Mesaieed Industrial City	457	-
Total	**422,460**	**370,922**

17. Provision for employees' end of service benefits:

	2006	2005 Restated
Balance at the beginning of the year	95,689	120,235
Reclassification	-	5,048
Provision for the year	40,333	17,203
Payments made during the year	(17,294)	(46,797)
Balance at the end of the year	**118,728**	**95,689**

18. Derivative financial instruments:

(a) Interest Rate Swaps Agreement

The Group entered into Interest Rate Swap agreements with several financial institutions to hedge its exposure to interest rate fluctuations on some of its loans. At 31 December 2006, the Swap agreements were as follows:

	Notional Amount USD/ Million	Fixed Rate	Floating Rate	Fair Value Amount QR 000
Swap 1	290.2	5.45%	Libor	(40,544)
Swap 2	136.2	4.995% and 5.0175%	Libor	2,921
Total	**426.4**			**(37,623)**

These derivatives are designated as being effective cash flow hedges.

Swap 1 was taken by the subsidiary company against loan 4 included in note 15 above.

Swap 2 was taken by one of the joint venture's with two financial institutions against the syndicated loan included in note 15 above. The amount of QR. 2.921 million representing the group's share is included under other assets in note 13.

Both loans referred to above and the interest rate swaps have the same critical terms.

(b) Forward foreign exchange contracts

One of the joint venture's within the group entered into forward foreign exchange contracts to hedge exposure primarily arising from sales in Euros. At 31 December 2006, the group share of the fair value of the contract amounted to QR. 2.82 million which is included in the income statement as the transactions did not qualify for hedge accounting. The resulting liability is disclosed as part of accounts payable and accruals.

19. Share capital:

	2006	2005
500,000,000 issued and fully paid shares of QR. 10 each	**5,000,000**	**5,000,000**

20. Proposed dividends:

The Board of Directors proposed a final dividend of QR 5 per share for the year ended 31 December 2006 (2005: QR 3.5). The dividends for 2005 were approved by the shareholders at the Annual General Assembly Meeting on 6 March 2006 and were paid during 2006.

21. Sales:

	Year ended 31 December 2006	Year ended 31 December 2005 Restated
Sales comprise the following:		
Petrochemicals	1,741,772	1,593,042
Fuel additives	1,006,608	979,287
Steel	2,790,195	1,789,444
Fertilisers	2,239,490	2,216,266
Total	**7,778,065**	**6,578,039**

22. Other Income:

	Year ended 31 December 2006	Year ended 31 December 2005 Restated
Interest income	161,608	92,595
Exchange Gain / (loss)	35,069	(42,939)
Change in fair value of investment property (note 11)	107,354	-
Others	59,662	54,506
Total	**363,693**	**104,162**

23. Profit for the year:

	Year ended 31 December 2006	Year ended 31 December 2005 Restated
The profit for the year is arrived at after charging:		
Staff costs	451,374	407,053
Depreciation on property, plant and equipment	517,820	550,526
Amortisation of catalysts and other non-current assets	6,430	6,404
Pension contribution	10,225	21,591
Operating lease rent	22,163	25,065
Change in fair value of investment property	107,354	--

24. 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.

	As at 31 December 2006	As at 31 December 2005 Restated
Assets		
Property, plant and equipment	3,689,398	3,369,188
Other non-current assets	31,517	53,697
Intangible assets	71,707	71,707
Financial instruments	265,643	284,141
Current assets	5,254,382	4,665,229
Total	**9,312,647**	**8,443,962**
Liabilities		
Current liabilities	849,107	1,182,822
Non-current liabilities	632,296	417,197
Total	**1,481,403**	**1,600,019**

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24. Interests in joint venture companies:

	Year ended 31 December 2006	Year ended 31 December 2005 Restated
Revenues		
Sales	4,987,870	4,788,595
Other	269,138	131,876
Total	**5,257,008**	**4,920,471**

	Year ended 31 December 2006	Year ended 31 December 2005 Restated
Expenses		
Cost of sales	1,888,315	1,757,202
Interest and finance charges	25,410	40,006
Selling expenses	92,395	89,589
General and administrative expenses	234,568	210,469
Total	**2,240,688**	**2,097,266**

25. Commitments:

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

	2006	2005 Restated
Capital expenditure commitments:		
Property, plant and equipment	**1,471,211**	**2,666,909**

Details of the significant capital commitments are as follows:

(a) 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 USD 267,400,000. The remaining commitment as of December 31, 2006 on this project amounts to USD 8,301,854 equivalent to QR. 30,231,200.

(b) 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 EUR 101,577,000. The remaining commitment as of December 31, 2006 on this project amounts to EUR 4,046,843 equivalent to QR. 17,522,831.

(c) 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 USD 33,780,550 plus EUR 29,370,875. The remaining commitment as of December 31, 2006 on this project amounts to USD 8,240,824 and EUR 3,656,190 equivalent to QR. 30,008,961 and QR. 15,831,305 respectively.

(d) On 21 November 2005, QASCO Dubai Steel FZE, signed an agreement for engineering, procurement, supervision, start-up and commissioning and training in connection with the rolling mill described in c above and the re-heating furnace. The value of the contract and the remaining commitment as of December 31, 2006 on this project are EUR 5,123,588 and USD 2,832,800 equivalent to QR. 22,102,645 and QR. 10,315,641.

(e) On 25 March 2004, QAPCO signed an agreement for improving the operational efficiency and expanding the production capacity of its existing ethylene production facility. The value of the contract including variation order is USD 199,455,544. The remaining commitment as of December 31, 2006 on this project amounts to USD 26,588,134 equivalent to QR. 96,780,808.

(f) Included in the above, is the group share of Qatofin capital commitment amounting to QR. 1,117.6 million.

25. Commitments (continued):

Operating Lease Commitments:

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

In addition, one of the subsidiaries entered into a lease agreement with the Government of Dubai , where it will be contingently liable for the value of the annual rent on the lease agreement for the land on which plant facilities are constructed.

Details are as follows:

	2006	2005 Restated
Future lease payments:		
Within one year	7,903	7,610
Between two and five years	35,713	34,081
After five years	85,236	78,097
Total operating lease expenditure contracted for at the balance sheet date	**128,852**	**119,788**

Finance Lease Commitments:

One of the joint ventures entered into a contract with a foreign party for the engineering, construction and operation of the polyethylene logistics terminal. The group share of the future aggregate minimum lease payments are as follows:

	2006	2005 Restated
Between two and five years	19,662	--
After five years	78,779	--
Total finance lease expenditure contracted for at the balance sheet date	**98,441**	**--**

Other Commitments:

As at 31 December 2006, the parent company had committed to pay the remaining 50% of its investment in Qatar Gas Transport Company (Nakilat) amounting to QR. 3,934,310.

26. Significant undertakings:

The shareholders (excluding Industries Qatar) in one of the joint ventures 'QAFAC' and Qatar Petroleum have agreed to offtake 100% of the product produced by the Fuel Additives plant and available for export 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.

27. Related party transactions:

Year Ended 31 December 2006	Sales	Cost of sales	Selling Expenses	General and administrative expenses: Lease Rental Payments	General and administrative expenses: Others	Other Income
Qatar Petroleum	505,162	981,907	226	6,963	20,113	1,706
Total Petrochemicals	410,736	-	16,299	-	7,454	-
Qatar Metal Coating Company	117,146	-	1,182	-	403	-
Yara International ASA	934,699	8,479	27,476	-	3,000	-
Qatar Vinyl Company	325,366	438	-	-	226	12,316
Qatar Plastic Products Company	10,473	17,802	-	-	-	234
Qatar Chemical Company	-	-	-	-	-	7,177
International Octane Limited	142,668	-	-	-	-	-
LCY Investments Corporation	151,495	-	-	-	394	-
Chinese Petroleum Corporation	207,283	-	-	-	326	-
Gulf Helicopters Company	-	28	-	-	-	-
WOQOD	-	-	-	-	209	-
Mesaieed Industrial City	-	-	-	5,411	-	-
Qatar Gas	-	-	-	-	5	-
TOTAL	**2,805,028**	**1,008,654**	**45,183**	**12,374**	**32,130**	**21,433**

Year Ended 31 December 2005	Sales	Cost of sales	Selling Expenses	General and administrative expenses: Lease Rental Payments	General and administrative expenses: Others	Other Income
Qatar Petroleum	501,477	908,075	-	6,935	21,050	-
Total Petrochemicals	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**

27. Related party transactions / (continued):

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

	2006 QR.	2005 Restated QR.
Compensation of key management personnel	17,169	14,177

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

28. Contingent liabilities:

	2006	2005 Restated
a) Letters of credit	638,611	221,617
b) Bank guarantees	3,469	5,897
c) Trust receipts	16,355	6,470

29. Financial instruments:

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 and derivatives 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.

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 sensitive. As part of its strategy to manage the interest rate risk, management entered into interest rate swaps to hedge against the interest payments of some borrowings. These interest rate swaps are reviewed and evaluated regularly to ensure optimal hedging strategies are applied and are in line with the group's risk management objective.

Currency risk

The Group is not significantly exposed to currency risk, since the Qatar Riyal is pegged to the US Dollar. With regard to transactions in other currencies, it is Group's policy to enter into forward contract on a case by case basis to cover foreign currency receipts of payments as required.

30. Legal reserve:

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

Since the Articles of Association of the Company does not provide for legal reserve, the legal reserve detailed on the face of the consolidated balance sheet represents the sum of the subsidiaries and share of one of the joint venture companies' legal reserve, included for consolidation purposes.

31. Cash and cash equivalents:

	2006	2005 Restated
Bank balances and cash	4,626,389	3,950,112
Less:		
Fixed deposits maturing after 90 days	(1,499,559)	(1,270,574)
Net	**3,126,830**	**2,679,538**

Included in the above is an amount of QR 1.8 million (2005: QR. 5.1 million) restricted to QAFAC II project.

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32. Segmental reporting:

	Petrochemicals	Fertilisers	Steel	Total
Sales	2,748,380	2,239,490	2,790,195	7,778,065
Expenses/costs	1,242,945	972,333	2,280,972	4,496,250
Assets	5,390,999	3,995,086	4,885,862	14,271,947
Liabilities	1,143,682	337,722	2,323,151	3,804,555

33. Approval of consolidated financial statements:

These consolidated financial statements were approved by the Board of Directors on 21st February 2007.

34. Critical accounting judgements and key source of estimation uncertainty:

In application of the Group's accounting policies, which are described in note 4 management is required to make certain judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects both current and future periods.

Critical judgements in applying accounting policies
The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in these consolidated financial statements.

Investment Property
The Group has elected to adopt the fair value model for its investment property. Accordingly, the change in fair value are reflected in the statement of income.

Classification of equity investments
The Group invests in quoted securities. Management does not wish for certain securities to be accounted for short term unrealized gains or losses in the income statement as their intention is to keep them for the long term and not for regular trading. Consequently, these investments, are classified as "available for sale". Any short term unrealized gains or losses are treated as part of equity.

Key sources of estimation uncertainty
The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of investments
Management evaluates its investments for impairment on a regular basis where there is a prolonged decline. Management estimates the value of impairment and the same is charged in the income statement.

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. 731 million (2005: QR 530 million) with a provision of QR. 2.1 million (2005: QR. 2.1 million) for doubtful debts. The Group does not have collection issue with regard to its receivables as sales are against irrevocable letters of credit.

Impairment of inventories
Inventories are held at the lower of cost and net realiasable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amount 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 selling prices.

At the balance sheet date, finished goods and goods for resale, raw materials, work in progress and spares and consumables were QR. 924 million (2005: QR. 751 million), with provisions for slow moving inventories of QR. 55 million (2005 QR. 53 million). Any difference between the amounts actually realized in future periods and the amounts expected will be recognised in the income statement.

35. Comparative figures:

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