

Growing
Globally: Growing
Sustainably.



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His Highness
Sheikh Hamad Bin Khalifa Al-Thani
Emir of the State of Qatar



His Highness
Sheikh Tamim Bin Hamad Bin Khalifa Al-Thani
Heir Apparent



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Board of Directors



Mr. Abdulla Hussein Salatt
Chairman



Mr. Faisal M. Al-Suwaidi
Vice Chairman



**Mr. Abdul Aziz
Ahmed Al-Malki**
Member



**Mr. Jørgen Ole
Haslestad**
Member



**Mr. Jassim
Mohamed Nama**
Member



Mr. Egil Hogna
Member



**Mr. Meshaal Mohamad
Abdulla Al-Mahmoud**
Member



**Mr. Khalifa Abdulla
Al-Sowaidi**
Managing Director

Corporate Objectives

Our Mission

We shall operate the plants Efficiently, Safely and Environmentally Responsibly to Produce and Supply Ammonia and Urea at the Quality required by our Customers and to carry out investments to Maximize Shareholders Returns.

Our Vision

Largest Quality Ammonia and Urea Producer.

QAFCO's Main Objectives are to:

- Achieve highest possible production at comparatively low cost.
- Operate the plants with maximum online factor.
- Operate the plants safely and in an environmentally responsible manner.
- Meet customer's expectations with regard to Quality and Timely Delivery.

We are committed through our Occupational Health & Safety, Environmental and Quality Management Systems to:

- Increase the competency of personnel and use of adequate technology to enhance Customers Satisfaction, environmental and safety performance.
- Control of operational risks and prevention of pollution.
- Implement Occupational Health & Safety, Environmental and Quality Management Systems as a prime line responsibility at all levels of our organization and continually improve their performance and effectiveness.
- Comply with all relevant Qatari Legislations, Regulations and Standards adopted by the Company.
- Involve and consult with our employees on matters related to our Occupational Health and Safety System.
- Communicate this Policy to our employees and contractors and make it available to interested parties and the public.
- Monitor, study and record the environmental impacts of our operations caused by discharges to the sea and emissions to air for possible reductions.
- Encourage re-use and recycling and manage our solid waste to reduce environmental impacts.
- Conduct regular reviews of relevant Occupational Health and Safety, Environmental and Quality activities for compliance with the adopted Standards.
- Open information and communication with all parties affected by or interested in our activities.

Qatar Fertiliser Company

Qatar Fertiliser Company (Q.S.C.C.) ("the Company") was incorporated on 29 September 1969 as a Qatari Shareholders Closed Company ("Q.S.C.C.") in the State of Qatar. The Company is engaged in the production and sale of Urea and Ammonia.

The shareholders and their shareholding interests in the Company are as follows:

Name of the Shareholder	Country of Incorporation	Interest
Industries Qatar (IQ)	Qatar	75%
Yara Nederland BV	Nederland	25%

IQ is the immediate parent of the Company, which is a 70% owned subsidiary of Qatar Petroleum (QP). Thus QP is the ultimate parent of the Company.

QAFCCO Downstream

Gulf Formaldehyde Company

Gulf Formaldehyde Company (S.A.Q) was incorporated on 3rd March 2003 as a Shareholder All Qatari Company in the State of Qatar. The company is engaged in the production and sale of Urea Formaldehyde Concentrate ("UFC").

The shareholders and their shareholding interests in the company are as follows:

Name of the Shareholder	Interest
Qatar Fertiliser Company Q.S.C.C.	70%
Qatar Industrial Manufacturing Company (S.A.Q)	15%
United Development Company P.S.C.	10%
Amwal Investment Company Q.S.C.C.	5%

Qatar Melamine Company

Qatar Melamine Company was established following a Shareholders and Services Agreement between Qatar Fertiliser Company and Qatar Holding to produce and sell melamine.

Name of the Shareholder	Interest
Qatar Fertiliser Company Q.S.C.C.	60%
Qatar Holding	40%



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Brief History

QAFCO's inception in 1969 as a joint venture company to produce chemical fertilisers was the first and a significant step in Qatar's industrial diversification programme to utilise its abundant natural gas resources. Since then QAFCO has steered its way successfully, responding adequately to the world market demand for fertilisers and living up to the expectations of its shareholders, IQ and Yara.

QAFCO inaugurated its first plant in 1973, which had a design capacity of 900 tons of ammonia and 1,000 tons of urea daily. Presently, the QAFCO complex comprises four completely integrated trains - QAFCO-1 (1973), QAFCO-2 (1979), QAFCO-3 (1997) and QAFCO-4 (2004). Each train is made up of two units, one for the production of ammonia and the other for urea.

Through scientific strategic plans and integration of the latest technologies, QAFCO has developed steadily, over the years, in terms of nameplate capacity, production quantities, quality and competitiveness of products and has become one of the main producers and exporters of ammonia and urea in the world. QAFCO has today become the world's largest single site producer of ammonia and urea. With the completion of QAFCO-5, QAFCO would further bolster its image as the world's largest single site producer of ammonia and urea.

Marketing

High quality products, a strategic geographical location, efficient logistic facilities and reliability in supply are among the factors that propelled the growth of QAFCO into a key producer and exporter in the international fertiliser market.

Historical Milestones

- 1973 - QAFCO-1
- 1979 - QAFCO-2
- 1997 - QAFCO-3
- 2003 - Gulf Formaldehyde Company
- 2004 - QAFCO-4
- 2004 - Inauguration of QAFCO's ammonia vessel LPG/C Al Marona
- 2006 - Qatar Melamine Company was established
- 2008 - Laid the foundation stone of QAFCO-5
- 2009 - Construction of QAFCO-6 expansion project begins
- 2009 - QAFCO adopts a new brand identity

Currently, QAFCO exports ammonia and urea to more than 35 nations across the globe. Deliveries have been made throughout the world, with India, Jordan, South Africa, South Korea and the USA being the main markets for QAFCO's ammonia exports and Africa, Asia and the USA dominating QAFCO's urea exports.

Our Products

- Ammonia
- Urea – prilled and granular
- Urea Formaldehyde Condensate (UFC-85)
- Melamine (to start production in 2010)

Ammonia

Ammonia is a chemical compound made of nitrogen (82%) and hydrogen (18%). It is produced using natural gas as the main feedstock. The other feeds required are steam and air. These feed materials undergo a series of reactions in the ammonia plant, before ammonia is produced in gaseous form. This is turned into liquid under pressure and is then cooled down. Ammonia is stored at very low temperature in a specially refrigerated ammonia storage tank.

Urea - Prilled and Granular

Urea is a solid fertiliser containing 46.6% of nitrogen. It is produced from the reaction of ammonia and carbon dioxide under high pressure; both feedstocks being supplied by the ammonia plant. The urea, which is produced as solution, is then turned into a solid fertiliser of spherical granules or prills.

Urea Formaldehyde Condensate

Urea Formaldehyde Condensate (UFC-85) is a viscous liquid containing 60% formaldehyde, 25% urea and the balance water. Formaldehyde is first produced from the reaction of methanol with air. This is then absorbed into the urea solution to form UFC-85. It is an additive that is added to the urea product to improve its strength. UFC-85 is used as an anti-caking agent for urea.

Melamine

Melamine is used in the synthesis of Melamine Formaldehyde (MF) and Melamine Urea Formaldehyde (MUF) resins, which are mainly used for laminates, wood adhesives, surface coating, paper, textile treatment, and for moulding compounds.



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Chairman's Message



The year 2009 was very significant for Qatar Fertiliser Company (QAFCO), as it was dotted with many momentous events that will guide the course of the company for years to come.

QAFCO in the year 2009 achieved record production and export figures, which culminated in excellent profits, reaching around 1.7 billion Qatari riyals. During that year, QAFCO expanded its presence in the American countries, Africa and Asia as the company found new buyers and further consolidated its presence in the existing markets.

The year 2009 was also marked by the fortieth anniversary of QAFCO's establishment. In that occasion, HE Abdullah Bin Hamad Al-Attiyah, the Deputy Prime Minister and Minister of Energy and Industry unveiled the new logo of the company, which manifests our zeal and reveal our ambitions. In fact, in these changing times, QAFCO realizes the need to reinvent itself and bolster its resources, and it is this strong awareness that has led us to launch the new corporate identity for the company.

While the global forecasts for the next few decades expect large population growth, an opportunity in disguise for the chemical fertiliser industry, it goes without saying that QAFCO has a big role to play. With Qatar's tremendous reserves of natural gas and our remarkable expertise, we can convert this opportunity towards playing a more sustainable role in the global fertiliser industry.

With that in mind, QAFCO signed in 2009 the EPC contract for QAFCO-6. The project consists of a complete urea plant, with a design capacity of 3800 million tons per day (mtpd) of urea including a granulator unit with a nominal capacity of 3850 mtpd. This US\$610-million project that will increase QAFCO's urea production to 5.6 MT per year is expected to come on stream by the end of the 3rd quarter of 2012. The project will help to create job opportunities for nationals and enable Qatari employees of QAFCO to acquire advanced expertise in the design, construction, and operation of large-scale industrial projects. The QAFCO-6 project also puts into effect the country's economic strategy, aimed at the optimal utilisation of the nation's gas resources, the expansion in the petrochemical sector to bolster up the country's economy and give further impetus to the development process.

With the 2009 developments and those expected to see the light in the near future, we do hope to synchronise ourselves more with the vision of HH Sheikh Hamad Bin Khalifa Al-Thani, Emir of the State of Qatar and HH Sheikh Tamim Bin Hamad Bin Khalifa Al-Thani, the Heir Apparent under the guidance of HE Abdulla Bin Hamad Al-Attiyah, Deputy Prime Minister and Minister of Energy and Industry, and the QAFCO Board of Directors.

I would like to conclude by expressing my gratitude to the members of QAFCO Board of Directors and the shareholders, Industries Qatar and Yara International, for their unwavering support. I am also grateful to QAFCO Management and staff that have helped with their hard work and diligence lifting up the company to the pedestal it is on today.

Sincerely,



Abdulla Hussein Salatt
Chairman, QAFCO



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Management Report



Mr. Khalifa Abdulla Al-Sowaidi
Managing Director

The year 2009 began on a cushion of the excellent profit that QAFCO garnered in the year 2008. The impetus was already there and the focus was to maintain it. This was going to be the biggest challenge before QAFCO in 2009.

During the year under review, QAFCO achieved a net profit of QR 1.7 billion. This is the fifth highest profit figure in QAFCO's history. Reading in the context of the global economic recession, QAFCO has been able to achieve commendable results in spite of the overall global setback.

Globally, according to IFA estimates, fertiliser markets have been inert, though nitrogen-based fertilisers did moderately well in the year 2009. Markets for ammonia remained stagnant due to the decrease in industrial demand while urea saw a rise in its production and sales as well. QAFCO, however, sold more ammonia than expected in the year 2009. Urea exports were also considerably good.

Ammonia

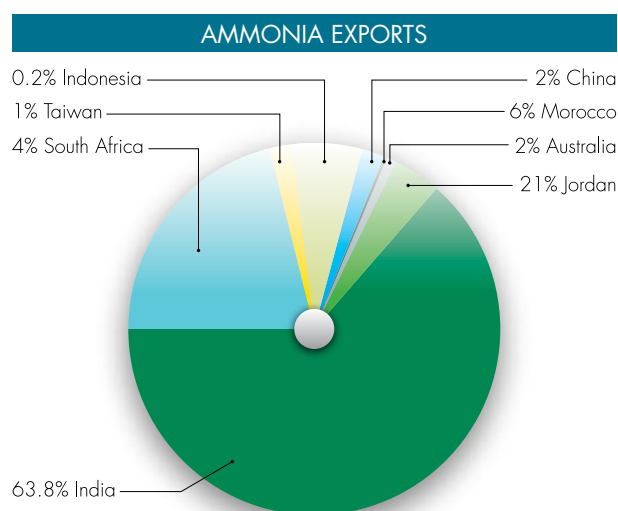
Ammonia Production

QAFCO operates four ammonia plants with a combined production capacity of more than 2 million MT per annum in its only facility in Mesaieed, Qatar. During the year under review, QAFCO produced 2,202,145 MT of ammonia, the highest volume ever in its production history, of which 1,694,725 MT was utilised in QAFCO for the production of urea and the remaining was exported. The previous highest production was in 2007, when QAFCO produced 2,187,000 MT of ammonia.

Ammonia Sales

During the year under review, QAFCO sold 509,040 MT of ammonia at an average sales price of US\$ 243/MT. India, Australia, South Africa, Jordan, Morocco, Taiwan, China and Indonesia were the buyers of ammonia from QAFCO. Of these, India continued to be bullish in its demand for ammonia, as it accounted for 63 percent of the total QAFCO ammonia export. A noticeable absentee from the ammonia export chart is the

United States of America (USA), which had accounted for nearly 8 percent of QAFCO's ammonia exports in the year 2008. This was primarily due to the severe drop in demand from the agricultural sector and a significant 20 percent decrease in demand for ammonia from the US industrial sector. China, too, registered a significant decrease in ammonia imports due to decrease in demand from its agricultural and industrial sector. Apart from this, new ammonia facilities in China also influenced the overall ammonia imports. The year under review also saw new markets being added to the QAFCO export pie, notably Morocco, which accounted for 6 percent of QAFCO's exports.



Ammonia Marketing Highlights

Anticipating demand, QAFCO, in its efforts to consolidate and expand its product reach, signed many long-term marketing agreements. Notable among them were its long-term agreement with Kisan International Trading FZE and Paradeep Phosphates Limited (PPL) to supply 100,000 metric tons of ammonia per annum. Apart from this, a long-term agreement was also signed with Deepak Fertiliser and Petrochemicals Corporation Limited to supply 100,000 to 300,000 MT of ammonia per annum. QAFCO has signed an exclusive agreement with MCFL to supply 50,000 MT per annum of ammonia. All these agreements were signed with Indian companies.

Continuing its good relations with the African markets, QAFCO signed a long-term agreement with Foskor (pty) Limited South Africa to supply 40,000 MT of ammonia per annum. It also signed an Agency Agreement with Agora Hermes International Trading Pte Limited (AHI) in order to promote the sale of QAFCO's ammonia in South Africa. QAFCO also signed a Memorandum of Understanding with Sumitomo to supply ammonia to Madagascar.

Management Report

Urea

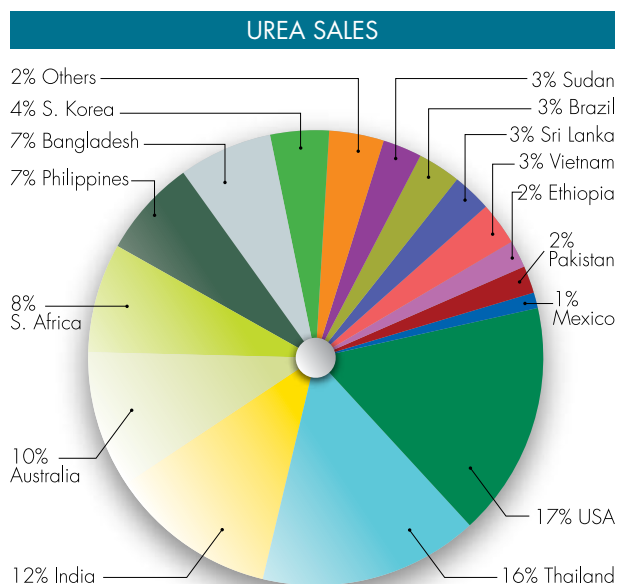
Urea Production

QAFCO operates four urea plants, with an annual production capacity of 3 million MT of urea, in its premises in Mesaieed, Qatar. The ammonia produced in its ammonia plants is the feedstock for the production of urea. QAFCO produces two kinds of urea - prilled and granular. QAFCO's relatively older plants Urea 1 and Urea 2 produce prilled urea while the later plants Urea 3 and Urea 4 produce urea granules. Apart from this, QAFCO will be also producing Sulphur Coated Urea (SCU), a product that will increase the nutrient recovery, improve crop yields and help negate the side effects of urea on the environment.

During the year under review, QAFCO bettered its previous production record of 2,997,000 MT of urea posted in 2008 and posted a new production record of 2,998,440 MT of urea.

Urea Sales

During the year under review, QAFCO sold 2,918,284 MT of urea at an average sales price of US\$ 267/MT. United States of America, Thailand, India and Australia took the major share of QAFCO's urea exports. In terms of percentages, India and USA maintained their share of the export pie, while Thailand, Bangladesh and Pakistan increased their urea imports from QAFCO.



According to IFA, technical problems and natural gas shortage affected the urea production capabilities of a few plants in Europe and Asia. Some plants were even closed down. However, regions with easy access to natural gas compensated for the overall urea shortage, and Qatar was one among them.

Urea Marketing Highlights

With a view towards exploring, expanding and consolidating markets in the farther reaches of the globe, QAFCO signed various agreements and MoUs. QAFCO signed an agreement with CSBP, Australia to supply 100,000 to 150,000 MT of urea to West Coast Australia. An agreement was also signed with Incitec Pivot to supply 150,000 MT of granular urea and 30,000 MT of prilled urea to Australia. QAFCO also signed an agreement with S.K. Networks, South Korea to supply 100,000 MT of granular urea to Namhae Chemicals Corporation, South Korea.

Apart from these, QAFCO signed an agreement with Bangladesh Chemical Industries Corporation to supply 200,000 MT of bagged prilled urea to Bangladesh for one year. With this QAFCO is expected to acquire a 45 percent share in the Bangladeshi market.

QAFCO Plant Maintenance

The Maintenance Department aims to keep the production resources operated at their best performances. Maintenance has a great importance in the Company's profitability and is a factor that has an effect on the Company's overall performance. QAFCO pursues a predictive maintenance strategy that aims to keep the production resources at their optimum level. During the year under review, QAFCO was able to reduce its unforeseen downtime as compared to the previous year. Maintenance cost for the year 2009 was QR 75 million compared to QR 90 million in 2008.

Major Shutdown 2009

During the month of March 2009, QAFCO-3 had a major planned shutdown. During the shutdown around 15,000 activities were carried out without any major safety incident.

Financial Performance

Despite a sharp fall in product prices, QAFCO achieved a provisional net profit of QR 1.7 billion during the year under review. The lesser sales price achieved for ammonia and urea had a dent on the sales income. However, the sales quantity of ammonia increased by 12 percent over the previous year. The price of ammonia decreased by 30 percent, while that of prilled urea and granular urea decreased by 15 percent and 10 percent respectively. Nevertheless, QAFCO maintained a steady cash flow during the year.

QAFCO had higher operating costs in 2009 compared to 2008 due to the 10 percent hike in natural gas prices, and about 2 percent increase in power and utilities cost.

Human Resources

Emphasizing on the Qatarization target set out by Qatar Petroleum, QAFCO continued its efforts to attract Qatari nationals and to train and develop them to take up leading technical and non-technical positions in QAFCO. QAFCO has nurtured the career development path of many Qatari nationals. The following data implies the commitment and dedication of QAFCO in gradually improving their key competencies towards becoming a highly effective workforce in both the technical and non-technical areas.

Promotions and Upgrading in 2009

During the year under review, 21 Qatari nationals were promoted and 15 Qatari nationals were upgraded after their completion of scholarship studies.

Qatari Intake 2009

As part of its commitment to achieve the goals of its Qatarization Plan, QAFCO recruited 43 Qatari nationals.

Other Activities

- In November 2009, QAFCO participated in the Career Fair 2009, organised by Qatar Petroleum and recruited 3 Qataris.
- In April 2009, QAFCO participated in the Students Internship and Sponsoring Day, organised by Texas A&M University Qatar.

Scholarship Programmes

In line with QAFCO's commitment to develop its national workforce, the Training & Development Section continues to nurture the career development path of Qatari nationals.

QAFCO, as a part of its core business objectives, has identified the high fliers among its Qatari employees on the basis of performance, hard work and commitment and have designed career paths for them. In this regard, over 30 Qatari employees were sent for further education to foreign and local universities. QAFCO also sponsored Qatari students for the academic bridge programmes at Qatar Petroleum.

Recruitment

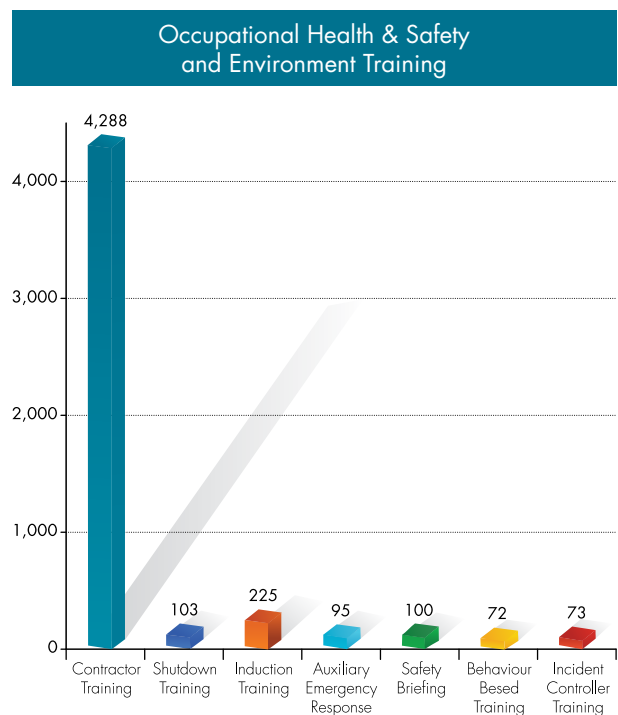
QAFCO recruited 250 personnel from different parts of the world to support QAFCO's operations and maintenance as well as the QAFCO-5 expansion project. This is the biggest and the fastest ever recruitment organised by QAFCO.

Safety at QAFCO

Safety has been of prime importance to QAFCO, and the year 2009 was no different. Contractor accidents were reduced considerably, mainly due to the awareness and training campaigns that were conducted on heat stress, shutdown safety and housekeeping.

During the year under review, reporting of 'First Aid Accidents' and 'Near Miss' increased. The emphasis on getting treatment for any injury to reduce the impact of any infection, together with the promotion of near miss reporting as a way of preventing actual incidents is a step forward towards improving safety consciousness.

During 2009 the contractor training of over 2 major shutdowns focused on safety and quality of work. Emphasis was given to early and clear communication in order to ensure an effective response. Auditing of the contractor facilities was also undertaken during the year under review. The extent of all the safety training is shown in the graph below.



Management Report

Safety campaign during shutdown



Behaviour Based Safety (BBS)

Behaviour Based Safety (BBS) is a proactive process for identifying 'at-risk behaviour' and removing the barriers for safe behaviour. A study concluded that ninety-six percent of the incidents were caused by unsafe acts/behaviours of personnel. Hence, it was inferred that compliance itself was not enough to ensure absolute safety.

BBS uses the principle of employee involvement & ownership, safety leadership and continual improvement. It is expected that this would lead to a further improvement in work safety, which will in turn reduce incidents and injuries. As a pilot project, this technique will be implemented in QAFCO's workshop area and based on the result, the decision will be made to expand this technique to other areas within QAFCO.

Safety Highlights

- An electronic form of the Permit to Work System is under trial.
- Electrical Lock Out as well as current Tag Out (LOTO) will be implemented in 2010 as part of the Permit to Work System.
- Job Safety Analysis has been made mandatory for all welding/cutting and grinding activities, as part of the Permit to Work System.

QAFCO and Environment

QAFCO continued to maintain its leadership position in Qatar and worldwide for the environmentally responsible operation of its plants.

Proactive steps have ensured that ammonia emissions and urea dust emissions from QAFCO are well controlled. The initiatives taken to improve the processes have reduced NO_x emissions from QAFCO considerably.

Certain improvement processes were implemented during the year 2009. Further improvements are expected in 2010 when the plant improvement projects will be completed. These are expected to reduce the Sulphur Dioxide emissions to the atmosphere.

Emissions to Sea

Prior to February 2009, the consent limit was set as 0.1 mg/l of Total Residual Chlorine. In February, the limit was revised as 0.05 mg/l of Free Residual Chlorine. At the end of the year, all the plants were being controlled to comply this new target. However, it may be necessary to target the limit that will avoid corrosion problems. Close monitoring of the situation continues. The temperature discharge to sea is under good control.

QAFCO at Al-Besheriya Island

After being appointed as the guardians of Al-Besheriya Island, QAFCO initiated a survey of the island by the Environmental Studies Centre of Qatar University. The **Baseline Survey of Al-Besheriya Island** recommended that the findings with respect to stork nesting are of international interest and will be reported to Bird Life International as a contribution from Qatar to the international body of scientific knowledge.

The survey also recommended to use 'curtain technology' in order to alleviate the unhealthy condition of the seabed.

Al-Besheriya Island



Environment Highlights

- QAFCO was awarded the second best environment awareness programme in Qatar by 'Qatar Today Green Awards 2009'.
- QAFCO will take the lead in the study on residual chlorine and chlorinated by-products in Mesaieed.
- QAFCO is developing a waste exchange and donation system for Qatar.

Quality at QAFCO

In 2009 QAFCO undertook an integrated internal and external audit (Bureau Veritas) on the Company's three Management Systems, namely ISO 9001:2000 (Quality Management System), ISO 14001:2004 (Environment Management System) and OHSAS 18001:2007 (Occupational Health and Safety Management System) for:

- (i) Production, Storage, Sales, Marketing and Delivery of Ammonia, and Prilled and Granular Urea.
- (ii) Production, Storage, Sales, Marketing and Delivery of Urea Formaldehyde Condensate.

The Management Review and Action Plan Meetings were completed according to schedule. At the end of the year a decision was taken to seek registration to the Responsible Care Management System.

It has been planned to certify Qatar Melamine Company for the three management systems.

Major Projects

Urea 1 and Melamine Projects

Despite facing a lot of challenges related to both engineering and construction during the entire project execution phase, the Melamine Project, which is being built at a total cost of around US\$ 350 million, reached nearly 100% construction progress and more than 20% commissioning progress, towards the end of 2009. This means that the Melamine Plant, which is owned by Qatar Melamine Company (60% by QAFCO and 40% by Qatar Holding, a 100% Qatar Petroleum subsidiary), and has an annual capacity of 60,000 tons and is based on Eurotecnica/Italy technology, is nearing its completion. Start-up has been planned for the 2nd quarter of 2010.

Likewise, QAFCO, being the operator of the melamine plant and the marketer of the melamine product on behalf of Qatar Melamine Company, has been making its final preparations and is getting ready to take over the melamine plant from the main contractors during the 3rd quarter of 2010. It is also getting ready to market and sell melamine worldwide from the very first day of its production.

The existing Urea 1 plant has been revamped using technology from Urea Casale/Switzerland as part of the Melamine Project. This part of the project was completed and taken over by QAFCO in late August 2009. The cost of this project is about US\$ 95 million, including US\$ 40 million spent to resolve the environmental commitments made to the Ministry of Environment in Qatar. When integrated with the melamine plant, QAFCO's high quality urea will be used as the main feedstock of the melamine plant, and off-gases will be supplied by the melamine plant and re-processed in the Urea 1 plant. The front-end capacity of the Urea 1 plant will increase from about 1,300 tpd prior to the revamping project and integration with the melamine plant to about 1,610 tpd (an increase of about 25%) by the time it is completed in the 2nd quarter of 2010.

Qatar Engineering and Construction Company (Qcon), a local Qatari construction company, is responsible for the construction of both projects. In addition to having delivered high standards of quality, their safety performance has been excellent during the entire project execution phase, with only two lost time incidents so far, after having spent more than seven million man-hours at the site. The experience gained during almost four years on these projects will now pave the way for them to achieve their full potential in the construction of chemical process plants.



Qatar Melamine Plant

Management Report

QAFCO-5 and QAFCO-6 QAFCO-5

The project consists of two ammonia trains, which will have a combined daily production capacity of 4,600 tons of ammonia (2,300 each) and a urea plant with a daily production capacity of 3,850 tons.

The Engineering, Procurement and Construction (EPC) contract for this US\$ 3.2 billion expansion was awarded to an Italian-South Korean consortium of Saipem and Hyundai Engineering & Construction Company on 15th December 2007.

At the end of December 2009, the overall EPC progress of the project was 69% of actual progress versus 72.8% of planned progress.

QAFCO-6

The Engineering, Procurement and Construction (EPC) contract for the QAFCO-6 expansion project was signed in November 2009 between Qatar Fertiliser Company (QAFCO) and a consortium formed by the Italian company, Saipem and the South Korean company, Hyundai Engineering & Construction Company.

The construction work will take 35 months and the completed project will be handed over to QAFCO by the end of the 3rd quarter of 2012. Apart from the main contractors, Saipem and Hyundai, a number of international and national construction companies will take part in the project construction as sub-contractors.

The EPC cost of the QAFCO-6 project will be around US\$ 610 million. The contract covers the supply of licenses, engineering, procurement, construction and start-up of the plant.

When completed in 2012, QAFCO-6 will raise the Company's production capacity and will cut down the unit production cost. The QAFCO-6 project will increase

the Company's annual production capacity of urea to 5.6 million MT. The project is expected to boost QAFCO's profitability and reinforce its position as a key player in the global fertiliser market.

The project facilities to be constructed include:

- A complete urea plant, with a design capacity of 3,800 MTPD of urea, including a granulator unit with a design capacity of 3,850 MTPD.
- A complete urea granules storage, with a capacity of 175,000 MT.
- A complete material handling system, with a capacity of 1,000 MTPH of urea granules.
- Additional seawater cooling cells, and steam and power generation facilities in addition to the ones already in the QAFCO-5 plant.
- All interconnections between the QAFCO-6, QAFCO-5 and UFC-85 plants.

Significant Events

QAFCO's New Corporate Identity Unveiled

The 14th of October was a historic day in the history of QAFCO as it revealed its new corporate identity. The new logo was unveiled by HE Abdulla Bin Hamad Al Attiyah, Deputy Prime Minister and Minister of Energy and Industry, at a glittering ceremony held in Doha, Qatar.

With this, QAFCO has raised the curtain for a new beginning. The new corporate identity will go a long way in bolstering QAFCO's image in the international market. With this, we welcome the change and ready ourselves to face the future with renewed vigor. With this, we hope to bring in more laurels to Qatar, and keep our flag flying high among the best in the world.



From (L-R):
Mr. Khalifa Al-Sowaidi, QAFCO Managing Director;
Mr. Varone Pietro, Chief Operating Officer, Onshore Business Unit, Saipem; Mr. Abdulla H. Salatt, QAFCO Board Chairman and Mr. J. H. Kim, COO of Plant Division, HDEC

HE Abdulla Bin Hamad Al Attiyah, Deputy Prime Minister and Minister of Energy and Industry launching the new corporate identity



Gulf Formaldehyde Company (GFC)

Gulf Formaldehyde Company (GFC) was established in 2003 and began operations in 2004. GFC produces 82 tons per day of Urea Formaldehyde Condensate (UFC-85), a viscous liquid with 60 percent formaldehyde, 25 percent urea and 15 percent water. Eighty percent of the UFC-85 produced is consumed by QAFCO and is used as an anti-caking agent in the production of urea, a solid fertilizer, and one of QAFCO's primary products. Production continues to increase and the plant is currently operating at 120 percent of its design capacity. During the year under review, 30,759 tons of Urea Formaldehyde Condensate was produced, of which 23,488 tons was used within QAFCO and the rest was exported to Oman India Fertiliser Company (OMIFCO).

During 2009, GFC achieved a net sales value of QR 43.96 million, and a net profit of QR 10.96 million, a sixty three percent increase over its 2008 profit. Apart from this, QAFCO signed a supply agreement with OMIFCO to supply 15,000 MT of Urea Formaldehyde Condensate. It also signed a supply agreement with Ruwais Fertilizer Industries Company (UAE) to supply 4,380 MT of Urea Formaldehyde Condensate for 3 years.

Throughout 2009, QAFCO, which operates, maintains and administers the plant, ensured efficient, safe and environmentally sound UFC-85 production.

Into the future

The global forecast for the next few decades points to an astonishing population growth and a reduction in arable land. This is an opportunity in disguise for the chemical industry. There is a need to grow more per acre and in there lies the opportunity for QAFCO to do its bit towards sustainable development. In line with this, QAFCO plans

to increase its production. QAFCO-5 and QAFCO-6 are steps in that direction. With the abundance of natural resources, this is the time for QAFCO to push ahead and make the most of the opportunity.

There is a stronger demand in the US. This will help drive up the price. Prices have also risen because of the demand in Latin America and the anticipation of Indian imports. Middle East prices will continue to edge up because of limited quantity from Middle Eastern producers.

Exports from marginal producers (such as the former Soviet Union and the US suppliers) are projected to decrease till 2013 because of major export capacity additions in North Africa and Middle East entering the market. The prices of oil and natural gas will still be the key issue which will affect future urea prices. The urea market is expected to continue to exhibit a cyclical downtrend till 2013 and then it will recover to an uptrend in 2014 till 2018.

I would take this opportunity to express my gratitude to QAFCO's Board of Directors for guiding us on the path envisaged by HH Sheikh Hamad Bin Khalifa Al-Thani, Emir of the State of Qatar and HH Sheikh Tamim Bin Hamad Bin Khalifa Al-Thani, the Heir Apparent. We are also thankful to HE Abdulla Bin Hamad Al Attiyah, Deputy Prime Minister and Minister of Energy and Industry for his able guidance.

I also express my sincere appreciation and gratitude to the Management and employees of QAFCO, with whom I look forward towards yet another year of progress.

Khalifa Abdulla Al-Sowaidi
Managing Director



Growing
Globally: Growing
Sustainably.



Independent Auditors' Report

To the Shareholders of
Qatar Fertiliser Company (Q.S.C.C.)

Report on the Financial Statement

We have audited the accompanying financial statements of Qatar Fertiliser Company (Q.S.C.C.) and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to

fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Legal and Other Requirements

Furthermore, in our opinion, proper books of account have been kept by the Company, an inventory count has been conducted in accordance with established principles, and the financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association. We have obtained all the information and explanations we required for the purpose of our audit and, we are not aware of any violations of the above mentioned law or the Articles of Association having occurred during the year which might have had a material effect on the business of the Company or on its financial position as of 31 December 2009.

A. Mekhael
of Ernst & Young
Auditor's Registration No. 59

17 February 2010
Doha, Qatar

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 QR	2008 QR
ASSETS			
Non-current assets			
Property, plant and equipment	3	9,949,112,643	4,931,598,323
Project under development	4	990,968,858	1,352,590,814
Catalysts	5	41,557,884	25,087,826
		10,981,639,385	6,309,276,963
Current assets			
Inventories	6	331,500,709	307,093,108
Accounts receivable and prepayments	7	564,898,452	675,648,292
Other financial assets	16	3,035,827	161,006,487
Bank balances and cash	8	1,907,800,697	5,018,916,534
		2,807,235,685	6,162,664,421
TOTAL ASSETS		13,788,875,070	12,471,941,384
EQUITY AND LIABILITIES			
Equity			
Share capital	9	1,000,000,000	1,000,000,000
Legal reserve	10	205,354,707	204,258,219
Cumulative changes in fair values		(128,196,557)	(446,409,569)
Retained earnings		8,255,631,605	7,713,985,307
Equity attributable to equity holders of the parent		9,332,789,755	8,471,833,957
Non-controlling interest		17,114,121	15,324,657
Total equity		9,349,903,876	8,487,158,614
Non-current liabilities			
Interest bearing loan	12	3,594,067,629	1,780,273,519
Other financial liabilities	16	129,977,389	386,414,545
Employees' end of service benefits	13	69,789,957	64,502,340
		3,793,834,975	2,231,190,404
Current liabilities			
Accounts payable and accruals	14	575,574,309	1,286,421,161
Other financial liabilities	16	1,254,994	221,001,511
Income tax payable	15	68,306,916	246,169,694
		645,136,219	1,753,592,366
Total liabilities		4,438,971,194	3,984,782,770
TOTAL EQUITY AND LIABILITIES		13,788,875,070	12,471,941,384



Abdulla Hussein Salatt
Chairman of the Board



Khalifa Abdulla Al-Sowaidi
Managing Director

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 QR	2008 QR
Sales - net	20	3,306,600,136	6,119,548,364
Cost of sales	21	(1,549,770,292)	(1,447,416,950)
GROSS PROFIT		1,756,829,844	4,672,131,414
Other income	22	214,376,793	312,840,221
Selling and distribution costs	23	(55,118,244)	(113,378,612)
Administrative expenses	24	(220,056,143)	(185,470,866)
PROFIT FOR THE YEAR		1,696,032,250	4,686,122,157
<i>Attributable to:</i>			
Equity holders of the parent		1,692,742,786	4,684,025,699
Non-controlling interest		3,289,464	2,096,458
		1,696,032,250	4,686,122,157

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 QR	2008 QR
Profit for the year		1,696,032,250	4,686,122,157
Other comprehensive income (loss)			
Net unrealised gain (loss) on cash flow hedges	16	318,213,012	(446,409,569)
Total comprehensive income for the year		2,014,245,262	4,239,712,588
<i>Attributable to:</i>			
Equity holders of the parent		2,010,955,798	4,237,616,130
Non-controlling interest		3,289,464	2,096,458
		2,014,245,262	4,239,712,588

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 QR	2008 QR
OPERATING ACTIVITIES			
Profit for the year		1,696,032,250	4,686,122,157
Adjustment for:			
Depreciation of property, plant and equipment	3	292,846,761	260,163,356
Amortisation of catalysts	5	11,708,937	8,269,008
Profit on disposal of property, plant and equipment	22	(25,010)	-
Property, plant and equipment write-off	24	153,836	-
Provision for impairment of receivables	24	113,434	-
Provision for slow moving inventories	21	5,272,267	4,307,481
Provision for employees' end of service benefits	13	16,125,455	18,252,736
Interest income	22	(164,551,763)	(188,613,553)
		1,857,676,167	4,788,501,185
Working capital changes:			
Inventories		(29,679,868)	(28,589,365)
Accounts receivable and prepayments		(67,226,372)	102,094,980
Accounts payable and accruals		(710,846,852)	(462,435,510)
		1,049,923,075	4,399,571,290
Cash from operating activities			
Employees' end of service benefits paid	13	(11,831,904)	(13,082,738)
Interest paid	3	(191,032,196)	(35,908,114)
Advance paid against end of service benefits		994,066	(2,955,331)
Net cash from operating activities		848,053,041	4,347,625,107
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(4,624,290,062)	(2,512,426,391)
Contribution to project under development	4	(129,926,223)	(349,402,521)
Additions to catalysts	5	(28,178,995)	(14,693,598)
Proceed from disposal of property, plant and equipment	22	25,010	-
Movement in time deposits maturing after 90 days		3,353,900,000	(1,335,520,343)
Interest income	22	164,551,763	188,613,553
Net cash used in investing activities		(1,263,918,507)	(4,023,429,300)
FINANCING ACTIVITIES			
Proceeds from interest bearing loan		1,820,000,000	1,820,000,000
Finance arrangement changes paid	12	(9,850,371)	-
Dividend paid to equity holders of the parent	11	(1,150,000,000)	(1,900,000,000)
Dividend paid to non-controlling interest		(1,500,000)	(1,500,000)
Net cash used in financing activities		658,649,629	(81,500,000)
INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at 1 January		340,276,534	97,580,727
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	583,060,697	340,276,534

The attached notes 1 to 27 form part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Attributable to equity holders of the parent						Total equity QR
	Share capital QR	Legal reserve QR	Cumulative changes in fair values QR	Retained earnings QR	Total QR	Non-controlling interest QR	
Balance at 1 January 2009	1,000,000,000	204,258,219	(446,409,569)	7,713,985,307	8,471,833,957	15,324,657	8,487,158,614
Profit for the year 2009	-	-	-	1,692,742,786	1,692,742,786	3,289,464	1,696,032,250
Other comprehensive income	-	-	318,213,012	-	318,213,012	-	318,213,012
Total comprehensive income	-	-	318,213,012	1,692,742,786	2,010,955,798	3,289,464	2,014,245,262
Transfer to legal reserve	-	1,096,488	-	(1,096,488)	-	-	-
Dividend paid and proposed (Note 11)	-	-	-	(1,150,000,000)	(1,150,000,000)	(1,500,000)	(1,151,500,000)
Balance at 31 December 2009	1,000,000,000	205,354,707	(128,196,557)	8,255,631,605	9,332,789,755	17,114,121	9,349,903,876
Balance at 1 January 2008	1,000,000,000	203,559,400	-	4,930,658,427	6,134,217,827	14,728,199	6,148,946,026
Profit for the year 2008	-	-	-	4,684,025,699	4,684,025,699	2,096,458	4,686,122,157
Other comprehensive loss	-	-	(446,409,569)	-	(446,409,569)	-	(446,409,569)
Total comprehensive income	-	-	(446,409,569)	4,684,025,699	4,237,616,130	2,096,458	4,239,712,588
Transfer to legal reserve	-	698,819	-	(698,819)	-	-	-
Dividend paid and proposed (Note 11)	-	-	-	(1,900,000,000)	(1,900,000,000)	(1,500,000)	(1,901,500,000)
Balance at 31 December 2008	1,000,000,000	204,258,219	(446,409,569)	7,713,985,307	8,471,833,957	15,324,657	8,487,158,614

The attached notes 1 to 27 form part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

At 31 December 2009

1. CORPORATE INFORMATION

Qatar Fertiliser Company (Q.S.C.C.) ("the Company") was incorporated on 29 September 1969 as a Qatari Shareholders Closed Company ("Q.S.C.C.") in the State of Qatar. The Company is engaged in the production and sale of Urea and Ammonia. The Company's registered office is at P.O. Box 50001, Mesaieed, State of Qatar.

The shareholders and their shareholding interests in the Company are as follows:

Name of the shareholder	Country of incorporation	Interests
Industries Qatar (IQ)	Qatar	75%
Yara Netherland BV	Netherland	15%
Fertiliser Holdings ASA	Norway	10%

IQ is the immediate parent of the Company, which is a 70% owned subsidiary of Qatar Petroleum (QP). Thus QP is the ultimate parent of the Company.

The consolidated financial statements comprise the financial statements of the Company and its subsidiary, Gulf Formaldehyde Company (Q.S.C.C.) (together referred to as the "Group").

The consolidated financial statements of the Group for the year ended 31 December 2009 were authorised for issue in accordance with a resolution of the Board of Directors on 17 February 2010.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of Qatar Commercial Company Law No. 5 of 2002.

These consolidated financial statements have been presented in Qatari Riyals.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments.

Basis of consolidation

The Company has 70% interest in Gulf Formaldehyde Company (Q.S.C.C.), a limited liability company registered under Commercial Registration No 36137 in the State of Qatar and is engaged in the production and sale of Urea Formaldehyde Concentrate ("UFC").

Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases.

The financial statements of the subsidiary are prepared for the same accounting period as the parent company, using consistent accounting policies.

All significant intra-group balances, income and expenses and unrealised gains and losses from intra-group transactions are eliminated in full.

Non-controlling interest represented the portion of profit or loss and net assets that were not held by the Group and were presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from the parent shareholders' equity. Acquisition of non-controlling interest was accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Changes in accounting policy and disclosures

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the consolidated financial statements for the year ended 31 December 2008, except for the adoption of new and amended standards as of 1 January 2009 as noted below:

Notes to the Consolidated Financial Statements

At 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policy and disclosures (continued)

IFRS 7 Financial Instruments: Disclosures

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 25. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 26.

IAS 1 Presentation of Financial Statements (Revised)

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expenses, either in one single statement, or in two linked statements. The Group has elected to present two linked statements. Adoption of the revised standard did not have any effect on the financial performance or position of the Group.

IAS 23 (Revised) Borrowing Costs

The standard has been revised to require capitalisation of borrowing costs when such costs relate to qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group had already adopted the policy of capitalising borrowing costs on qualifying assets (Note 3) and hence adoption of this standard did not have any effect on the financial performance or position of the Group.

Improvements to IFRSs (May 2008)

In May 2008, the International Accounting Standards Board (IASB) issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wordings. There are separate transitional provisions for each standard. The adoption of their amendments resulted in rewording or corrections to accounting policies but did not have any impact on the financial position or performance of the Group.

New and amended standards and interpretations issued as 31 December 2009, but not applied

The IASB and International Financial Reporting Interpretation Committee (IFRIC) have issued a number of standards and interpretations with an effective date after the date of these financial statements. The management has set out below only those which shall be considered in future periods and also believes that the adoption of these new and amended standards may not have any material impact on the future periods financial statements.

- Improvements to IFRSs (April 2009) (Applicable to 31 December 2010 year end)
- IAS 27 (Revised) "Consolidated and Separate Financial Statements" (Applicable to 31 December 2010 year end)
- IFRS 3 (Revised) "Business Combinations" (Applicable to 31 December 2010 year end)
- IFRS 9 Financial Instruments (Applicable subsequent to 31 December 2010 year end)
- IAS 24 Related Party Disclosures (Revised) (Applicable Subsequent to 31 December 2010 year end)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Capital work-in-progress is not depreciated.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

Buildings and foundations	13-20 years
Plant, machinery and equipment	3-20 years
Vehicles and mobile equipment	3 years

Expenditure incurred over QR 200,000 on new or to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure over QR 200,000 is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and value in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognised.

The asset's residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Capital work-in-progress will be transferred to the respective class of property, plant and equipment when the asset is ready for its intended use.

Project under development

Project under development is stated at cost less accumulated impairment in value and will be transferred to respective asset category when the asset is ready for its intended use by the management.

Catalysts

Catalysts are initially recorded at cost. Subsequently, they are measured at cost less accumulated amortisation and any impairment in value. Catalysts are amortised over the estimated useful lives of 1 to 12 years. Catalysts not in use at the plant are kept under inventories and stated at the lower of cost and net realisable value.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, as follows:

Packing materials, chemicals, supplies and spare parts	- weighted average purchase cost
Finished goods	- weighted average cost of direct materials, direct labor, other direct costs, plus attributable overheads based on normal level of capacity.

Net realisable value is based on estimated selling price less any further costs expected to be incurred on completion and disposal.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated income statement. Impairment is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the consolidated income statement;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

Accounts receivable

Accounts receivable are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and short term deposits with an original maturity of three months or less.

Interest bearing loan

Interest bearing loan is recognised initially at fair value of the amounts borrowed, less directly attributable transaction costs. Subsequent to initial recognition, the loan is measured at amortised cost using the effective interest method, with any differences between the cost and final settlement values being recognised in the consolidated income statement over the period of the borrowing. Installments due within one year at amortised cost are shown as a current liability. The costs of raising finance applicable to amounts already drawn down are amortised over the period of the loan using the effective yield method.

Gains or losses are recognised in the consolidated income statement when the liabilities are derecognised.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction or production of an asset that necessarily takes a substantial period of time for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Notes to the Consolidated Financial Statements

At 31 December 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Derecognition of financial assets and liabilities

a) Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

End of service benefits

The Group provides end of service benefits to its employees in accordance with employment contracts and Qatari Labour Law. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Under Law No 24 of 2002 on Retirement and Pensions, the Group makes a contribution to a government fund for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Group's obligations are limited to these contributions, which are expensed as due.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to consolidate income statement.

Derivative financial instruments and hedging

Derivative financial instruments are contracts, the value of which are derived from one or more underlying financial instruments or indices, and include a call option to repurchase equity at a predetermined price.

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is calculated by reference to the market valuation of the swap contracts.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting change in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement in finance cost. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in the consolidated income statement in finance cost.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity.

The Group uses interest rate swap contracts to hedge its risk associated primarily with interest rate fluctuations relating to the interest charged on its interest bearing loans and borrowings. These are included in the consolidated statement of financial position at fair value and any resultant gain or loss on interest rate swaps contracts that qualify for hedge accounting is recognised in the consolidated statement of changes in equity and subsequently recognised in the consolidated statement of comprehensive income when the hedged transaction affects profit or loss.

For cash flow hedges which meet the strict criteria for hedge accounting, the effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the cumulative changes in fair values, while any ineffective portion is recognised immediately in the consolidated income statement in finance costs.

The Group uses forward currency contracts to hedge its risks associated with foreign exchange rate fluctuations. These are included in the consolidated statement of financial position at fair value and any subsequent resultant gain or loss on forward currency contracts is recognised as other comprehensive income in the cumulative changes in fair values. Amounts recognised as other comprehensive income are transferred to the consolidated income statement when the hedged transaction affects profit or loss such as when a forecasted transaction occur or is expired.

Use of estimates

The preparation of consolidated financial statements in conformity with IFRS Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Revenue

Sale of goods

Sale of goods is recognised when the risk and rewards of the product is transferred to the buyer, which is at the time of loading at the terminal in Mesaieed, State of Qatar and the amount can be measured reliably. Revenue from sale of goods is recorded net of direct costs such as freight and insurance.

Interest income

Interest income is recognised as the interest accrues.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the period of lease term.

Income Taxes

Taxation is provided in accordance with the Qatar Income Tax Law.

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3. PROPERTY, PLANT AND EQUIPMENT

	Buildings and foundations QR	Plant, machinery and equipment QR	Vehicles and mobile equipment QR	Capital work-in- progress QR	Total QR
Cost:					
At 1 January 2009	1,160,775,111	4,622,070,973	11,729,716	3,251,473,890	9,046,049,690
Additions	-	-	755,300	5,309,759,617	5,310,514,917
Transfers	36,763,213	381,141,836	-	(417,905,049)	-
Disposals	-	(215,540,246)	(223,860)	-	(215,764,106)
Write-off	-	-	-	(153,836)	(153,836)
At 31 December 2009	1,197,538,324	4,787,672,563	12,261,156	8,143,174,622	14,140,646,665
Depreciation:					
At 1 January 2009	606,262,179	3,497,035,514	11,153,674	-	4,114,451,367
Charge for the year	45,062,832	247,120,236	663,693	-	292,846,761
Relating to disposals	-	(215,540,246)	(223,860)	-	(215,764,106)
At 31 December 2009	651,325,011	3,528,615,504	11,593,507	-	4,191,534,022
Net carrying amount:					
At 31 December 2009	546,213,313	1,259,057,059	667,649	8,143,174,622	9,949,112,643

	Buildings and foundations QR	Plant, machinery and equipment QR	Vehicles and mobile equipment QR	Capital work-in- progress QR	Total QR
Cost:					
At 1 January 2008	1,116,519,566	4,414,592,048	11,500,716	730,582,623	6,273,194,953
Additions	-	-	229,000	2,772,625,737	2,772,854,737
Transfers	44,255,545	207,478,925	-	(251,734,470)	-
At 31 December 2008	1,160,775,111	4,622,070,973	11,729,716	3,251,473,890	9,046,049,690
Depreciation:					
At 1 January 2008	562,981,999	3,280,632,494	10,673,518	-	3,854,288,011
Charge for the year	43,280,180	216,403,020	480,156	-	260,163,356
At 31 December 2008	606,262,179	3,497,035,514	11,153,674	-	4,114,451,367
Net carrying amount:					
At 31 December 2008	554,512,932	1,125,035,459	576,042	3,251,473,890	4,931,598,323

Notes:

- (i) Buildings and foundations, which include the industrial plant, office site and administrative facilities at Mesaieed are constructed on the land leased from Qatar Petroleum, except the staff housing complex, which is constructed on the land leased from the Industrial Development Technical Centre.
- (ii) Capitalised borrowing costs of QR 191,032,196 (2008: QR 35,908,114) are included in capital work-in-progress.
- (iii) The depreciation charge has been allocated in the consolidated income statement as follows:

	2009 QR	2008 QR
Cost of sales (Note 21)	243,593,399	213,839,293
Administrative expenses (Note 24)	49,253,362	46,324,063
	292,846,761	260,163,356

4. PROJECT UNDER DEVELOPMENT

	2009 QR	2008 QR
Advance for formation of a subsidiary	594,056,146	464,129,923
Advance for QAFCO – 5	396,912,712	888,460,891
	990,968,858	1,352,590,814

Advance for formation of a subsidiary

The Group has signed an agreement with Qatar Intermediate Industries Holding Company Ltd to establish a separate legal entity namely, "Qatar Melamine Company". The subsidiary's prime objective is to sell and produce of Melamine through the ownership of a plant which is currently under construction. The balance as at 31 December represents the contribution by the Group towards the construction of this plant facilities. The Group will own 60% shares of Qatar Melamine Company, which the commercial operation is expected to be commenced in early 2010.

The movement in the advance for formation of a subsidiary is as follows:

	2009 QR	2008 QR
At 1 January	464,129,923	114,727,402
Additional fund contribution	129,926,223	349,402,521
At 31 December	594,056,146	464,129,923

Advance for QAFCO – 5

The Group has signed an agreement with Hyundai Construction & Engineering Co Ltd and Snamprogetti S.P.A, ("Main Contractor") to construct its plant expansion project namely, "QAFCO-5". In accordance with the terms of the agreement, the Group made 10% advance payment to the Main Contractor and this amount will be recovered at the same percentage through the progress billing. The project is expected to be completed in mid 2011.

The Group also entered into an agreement with a consortium of banks led by HSBC as the facility agent on 2 December 2007, to obtain a term loan facility amounting to USD 1.6 billion, as more explained in Note 12.

The movement in the advance for QAFCO – 5 is as follows:

	2009 QR	2008 QR
At 1 January	888,460,891	1,152,707,604
Transferred to interest bearing loan (Note 12)	-	(42,360,606)
Recovered during the year	(491,548,179)	(221,886,107)
At 31 December	396,912,712	888,460,891

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At 31 December 2009

5. CATALYSTS

	2009 QR	2008 QR
Cost:		
At 1 January	68,617,873	53,924,275
Additions	28,178,995	14,693,598
Disposals	(2,660,818)	-
At 31 December	94,136,050	68,617,873
Amortisation:		
At 1 January	43,530,047	35,261,039
Charges for the year (Note 21)	11,708,937	8,269,008
Disposals	(2,660,818)	-
At 31 December	52,578,166	43,530,047
Net carrying amount at 31 December	41,557,884	25,087,826

6. INVENTORIES

	2009 QR	2008 QR
Spare parts	282,939,722	250,068,981
Finished goods	52,156,492	40,235,894
Chemicals and catalysts	18,931,254	17,091,736
Goods in transit	9,476,742	27,296,632
Packing materials, consumables and supplies	503,304	1,169,806
	364,007,514	335,863,049
Less: Provision for obsolete and slow moving spare parts	(32,506,805)	(28,769,941)
	331,500,709	307,093,108

Movement in the provision for obsolete and slow moving inventories is as follows:

	2009 QR	2008 QR
At 1 January	28,769,941	26,898,458
Provided during the year (Note 21)	5,272,267	4,307,481
Amounts written off	(1,535,403)	(2,435,998)
At 31 December	32,506,805	28,769,941

7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2009 QR	2008 QR
Trade accounts receivable	215,717,024	147,129,765
Amounts due from related parties (Note 19)	282,149,456	423,508,944
Prepayments and advances	48,941,873	45,955,980
Other receivables	18,203,533	59,053,603
	565,011,886	675,648,292
Less: Provision for impairment of receivables (Note 24)	(113,434)	-
	564,898,452	675,648,292

As at 31 December 2009, trade accounts receivable at nominal value of QR 113,434 (2008: Nil) were impaired, and fully provided for. Movement in the provision for impairment of receivables is as follows:

	2009 QR	2008 QR
At 1 January	-	-
Provided during the year (Note 24)	113,434	-
At 31 December	113,434	-

As at 31 December, the ageing of unimpaired financial assets is as follows

	Total QR	Neither past due nor impaired QR	Past due but not impaired		
			< 30 days QR	31 – 120 days QR	> 120 days QR
2009	515,956,579	515,956,579	-	-	-
2008	629,692,312	629,692,312	-	-	-

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and entire financial assets are, therefore, unsecured.

8. CASH AND CASH EQUIVALENTS

	2009 QR	2008 QR
Bank balances and cash	1,907,800,697	5,018,916,534
Short term deposits maturing after 90 days	(1,324,740,000)	(4,678,640,000)
Cash and cash equivalents at 31 December	583,060,697	340,276,534

Included in the bank balances and cash are time deposits denominated in United States Dollars and Euros equivalent to QR 12,740,000 (2008: QR 2,894,640,000). In addition, bank balances and cash include call deposits of QR 250,000,000 (2008: QR 27,209,849) maintained in Qatar Riyals.

9. SHARE CAPITAL

	2009 QR	2008 QR
Authorised, issued and fully paid: 10,000,000 ordinary shares of QR 100 each	1,000,000,000	1,000,000,000

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10. LEGAL RESERVE

As required by the Qatar Fertiliser Company's Articles of Association, 10% of the profit for the year should be transferred to legal reserve until the reserve totals 20% of the issued share capital. The Company resolved to discontinue such annual transfers since the reserve reached the required amount.

In the books of the subsidiary Company, as required by Qatar Commercial Companies Law No. 5 of 2002 and the subsidiary company's Articles of Association, 10% of the profit for the year is required to be transferred to a legal reserve until the reserve equals 50% of the issued capital. The current year transfer represents only the subsidiary company's share of transfers to the Group.

The reserve is not available for distribution except in the circumstances stipulated in the above law and the company's and subsidiary Company's and subsidiary Company's Articles of Association.

11. DIVIDEND PAID AND PROPOSED

	2009 QR	2008 QR
Declared and paid during the year:		
Final dividend for 2008 QR 115 per share (2007: QR 90)	1,150,000,000	900,000,000
Interim dividend for 2009 Nil per share (2008: QR 100)	-	1,000,000,000
	1,150,000,000	1,900,000,000

The Board of Directors has proposed a final cash dividend of QR 100 per share totaling QR 1,000,000,000 for 2009, which is subject to the approval of the shareholders at the Annual General Meeting.

12. INTEREST BEARING LOAN

	2009 QR	2008 QR
Term loan	3,640,000,000	1,820,000,000
Less: Deferred financing arrangement costs (ii)	(45,932,371)	(39,726,481)
	3,594,067,629	1,780,273,519

Notes:

(i) The Group has entered into an agreement with a consortium of banks lead by HSBC as the facility agent on 2 December 2007, to obtain a term loan facility amounting to USD 1.6 billion to finance the construction of QAFCO-5 project, which is currently under construction. The loan bears interest at LIBOR plus an applicable margin. The Group has entered into two interest rate swaps to hedge its risk associated with interest rate fluctuation as more explained in Note 16. The loan is repayable in semi-annual installments commencing after 4 years from the date of the loan agreement.

The Group has assigned to the security trustee, all monies which at any time may be or become payable to the trustee, all its present and future rights, title and interest in, under various agreements pursuant thereto and the net proceeds of any claims, award and judgments which may at any time be receivable or received by the Group.

(ii) The finance costs associated with raising finance ("arrangement fees") represent arrangement, underwriting and participation fees and agency fees paid for obtaining the finance.

The movement in the arrangement fees is as follows:

	2009 QR	2008 QR
At 1 January	39,726,481	-
Transferred from project advances (Note 4)	-	42,360,606
Additions	9,850,371	-
Amortised during the year	(3,644,481)	(2,634,125)
At 31 December	45,932,371	39,726,481

The amortised arrangement fees were capitalised in the capital work in progress as borrowing costs.

13. EMPLOYEES' END OF SERVICE BENEFITS

In accordance with the policy, the Group provides for end of service benefits for its employees. Movement in the provision is as follows:

	2009 QR	2008 QR
At 1 January	113,406,947	108,236,949
Provision during the year	16,125,455	18,252,736
End of service benefits paid	(11,831,904)	(13,082,738)
	117,700,498	113,406,947
less: Advances against end of service benefits	(47,910,541)	(48,904,607)
At 31 December	69,789,957	64,502,340

14. ACCOUNTS PAYABLE AND ACCRUALS

	2009 QR	2008 QR
Trade accounts payables	211,455,601	552,286,223
Amounts due to related parties (Note 19)	262,513,703	650,978,591
Other payables and accruals	101,605,005	83,156,347
	575,574,309	1,286,421,161

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At 31 December 2009

15. INCOME TAX PAYABLE

In accordance with the regulations of the Qatar Department of Public Revenues and Taxes, the Company is subject to corporate income tax in the State of Qatar for the share of profit attributable to foreign shareholders excluding exempted profit of QAFCO Plant 4.

For the purpose of these financial statements, the income tax obligations of the Company have been included as amounts due from foreign shareholders given that such shareholders are fully liable for the tax payment.

Reconciliation between income tax and the product of accounting profit multiplied by the effective tax rate for the year is as follows:

	2009 QR	2008 QR
Profit attributable to QAFCO Plants 1, 2 and 3	778,379,072	2,810,677,584
Profit attributable to QAFCO Plant 4 (Exempt from tax)	906,688,298	1,868,456,379
Profit from subsidiary (Exempt from tax)	10,964,880	6,988,194
Accounting profit	1,696,032,250	4,686,122,157
Accounting profit entitled for taxation	778,379,072	2,810,677,584
Expenses that are not deductible in determining taxable profit:		
Provision for impairment of receivables	66,522	-
Board of Directors remuneration	930,804	988,305
Provision for obsolete and slow moving inventories	3,954,200	3,230,611
	4,951,526	4,218,916
Expenses that are deductible in determining taxable profit:		
Slow moving inventories provision write-off	(1,151,552)	-
Taxable profit	782,179,046	2,814,896,500
Effective tax rate for the share of profit attributable to foreign shareholders	8.73%	8.75%
Income tax payable	68,306,916	246,169,694

QAFCO plant 5 is under construction and no operational activities for the year ended 31 December 2009.

16. OTHER FINANCIAL ASSETS AND LIABILITIES

	2009 QR	2008 QR
Other financial assets		
<i>Derivatives:</i>		
Forward foreign exchange contract collar – Current	3,035,827	161,006,487
Other financial liabilities		
<i>Derivatives:</i>		
Interest rate swap	129,977,389	386,414,545
Forward foreign exchange contract collar	1,254,994	221,001,511
	131,232,383	607,416,056

Presented in the statement of financial position as follows:

	2009 QR	2008 QR
Non-current portion	129,977,389	386,414,545
Current portion	1,254,994	221,001,511
	131,232,383	607,416,056

The maturity profiles of the derivatives are as follows:

	Positive fair value QR "Mn"	Negative fair value QR "Mn"	Notional amount QR "Mn"	3 - 12 months QR "Mn"	1 - 5 years QR "Mn"	More than 5 years QR "Mn"
At 31 December 2009						
Interest rate swaps	-	129	4,004	-	1,019	2,985
Forward foreign exchange contract with collar	3	1	526	526	-	-
Spot forward currency contract	-	-	365	365	-	-
	3	130	4,895	891	1,019	2,985

	Positive fair value QR "Mn"	Negative fair value QR "Mn"	Notional amount QR "Mn"	3 - 12 months QR "Mn"	1 - 5 years QR "Mn"	More than 5 years QR "Mn"
Interest rate swaps	-	386	2,548	-	1,019	1,529
Forward foreign exchange contract with collar	161	221	2,202	1,943	259	-
	161	607	4,750	1,943	1,278	1,529

Interest rate swaps:

The Group has two interest rate swap contracts replacing its floating interest rate bearing loans for fixed interest bearing loans, designated as hedges of expected future LIBOR interest rate payments during the period to 5 December 2017.

The terms of the interest rate swap contracts have been negotiated to match the terms of the commitments of the term loan (Note 12). At 31 December 2009, the measurement of the fair values of the hedges resulted in a negative amount of QR 129 million (2008: QR 386 million) which has been recognized in the equity as changes in fair values and as derivative liabilities.

Forward foreign exchange contract with collar:

Collar are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or any time during a specified period, a specified amount of a currency at a pre-determined price. At 31 December 2009, the measurement of the fair values of the collar resulted in a positive amount of QR 3 million (2008: QR 161 million) and negative amount of QR 1 million (2008: QR 221 million) which has been recognized in the equity as changes in fair values and as derivative assets and liabilities.

Spot forward currency contract

The Group has signed a spot forward currency contract to sell US\$ 100 million and buy Qatari Riyals at the spot rate of QR 3.6475.

The fair values of above derivative financial instrument as on 31 December 2009 amounted to QR 212,101 (2008: QR Nil) which has been included in the consolidated income statement as the transaction do not qualify for hedge accounting and resultant asset has been disclosed as other receivables.

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17. EXPENDITURE COMMITMENTS

	2009 QR	2008 QR
(a) Capital expenditure commitments:		
Estimated capital expenditure contracted for at the reporting date but not provided for:		
QAFCO-5 expansion project (i)	5,227,424,519	9,875,143,895
Urea 6 expansion project (ii)	2,256,800,000	-
Qatar Melamine project (iii)	306,155,333	230,531,277
Urea-1 Revamp project (iv)	24,612,897	139,073,803
Other contract commitments	188,759,803	7,571,343
	8,003,752,552	10,252,320,318

- (i) On 2 December 2007, the Group signed an agreement with Hyundai Construction & Engineering Co Ltd and Snamprogetti S.P.A for building a new Ammonia plant and Urea Formaldehyde Concentrate (UFC) plant –UFC 85. The value of the contract including variation orders is US\$ 3,515,467,000 (2008: US\$ 3,515,467,000).
- (ii) On 9 October 2009, the Company signed an agreement with Hyundai Construction & Engineering Co Ltd and Snamprogetti S.p.A for building a new Urea plant. The value of the contract is US\$ 620,000,000.
- (iii) The Group has signed an agreement with Qatar Intermediate Industries Holding Company Ltd to establish a separate legal entity namely, "Qatar Melamine Company" for constructing plant facilities to produce Melamine. The value of the contract is US\$ 348,757,160 (2008:US\$ 318,068,351). The Group will own 60% of the shares of the Qatar Melamine Company. The amount represents the Group's share of the committed future capital expenditure on this project.
- (iv) The Group has signed an agreement with Urea Casale S.A for building new Urea- 1 Revamp project. The value of the contract including variation orders is US\$ 95,153,395 (2008: US\$ 95,153,395).

	2009 QR	2008 QR
(b) Operating lease commitments:		
Future minimum lease payments:		
Within one year	36,788,917	25,180,333
After one year but not more than five years	45,509,080	20,297,832
More than five years	100,329,169	11,496,762
Total operating lease expenditure contracted for at the reporting date	182,627,166	56,974,927

18. CONTINGENCIES

Contingent liabilities

At 31 December, the Group had the following contingent liabilities from which it anticipates that no material liabilities will arise:

	2009 QR	2008 QR
Letters of credit	95,020,056	236,786,114
Bank guarantees	3,504,401	5,157,352
	98,524,457	241,943,466

19. RELATED PARTY DISCLOSURE

Related parties represent major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties.

Industries Qatar ("IQ") is the immediate parent entity of the Group and the ultimate parent entity of the Group is Qatar Petroleum ("QP").

Related party transactions

A significant portion of the Group's transactions have been entered with the shareholders. The prices and terms of payment for these transactions are in accordance with specific agreements entered into, with the shareholders as follows:

- Urea marketing agreement dated 18 June 1994 entered with Yara International ASA (formally known as Hydro Asia Trade Pte Limited), dated 18 June 1994 to market prilled and granulated Urea produced by the Group in the regional markets of Europe, America, Africa and Asia, in return for a Marketing Commission. This initial agreement was replaced by the Urea marketing and off-take agreement dated 5 September 2001 and shall remain in force until 31 December of the year from the tenth anniversary of the successful performance test of the QAFCO – 4 expansion project (i.e. 31 December 2016).
- Advisory and Technical Services Agreement entered with Yara International ASA to render technical services and provide qualified management and operating personnel to the Group in return for an agreed lump sum fee.
- Gas sale and purchase agreement dated 18 June 1994 entered with QP for a period of 25 years (renewable) to purchase feed gas at rates, which are lower than the prevailing international market rates, to use for the production of Urea and Ammonia.

Transactions with related parties included in the consolidated income statement are as follows:

	2009 QR	2008 QR
Shareholder:		
Yara International ASA		
- Sale of Urea and Ammonia	1,539,956,679	3,309,694,515
- Sales commission	45,890,730	97,712,349
- Purchase of inventories	43,403	9,140,010
- Technical service charges	3,500,000	3,500,000
Other related party:		
Qatar Petroleum		
- Purchase of feed stock	853,142,611	756,704,230
- Purchase of Methanol	13,918,604	29,450,687
- Land lease and staff accommodation lease charges	13,416,083	7,432,623
- Training costs	6,428,402	4,876,359
- Insurance	18,753,236	16,664,424
- Other charges	663,053	889,070

Related party balances

Balances with related parties included in the consolidated statement of financial position are as follows:

	2009		2008	
	Accounts receivable QR	Accounts payable QR	Accounts receivable QR	Accounts payable QR
Yara International A.S.A	237,568,605	17,639,496	310,032,416	32,061,667
Qatar Petroleum	17,258,085	241,419,458	15,008,650	618,916,924
Qatar Fuel Addictives Q.S.C.C.	-	3,454,749	-	-
Fertiliser Holding A.S.A	27,322,766	-	98,467,878	-
	282,149,456	262,513,703	423,508,944	650,978,591

Amounts due from and due to related parties are disclosed in Notes 7 and 14 respectively.

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19. RELATED PARTY DISCLOSURE (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2009 QR	2008 QR
Short-term benefits	11,884,683	12,510,479
Remuneration for Directors (Note 24)	1,516,927	1,592,103
Qatari employees' pension fund contribution	379,349	383,051
	13,780,959	14,485,633

20. SALES - NET

	2009 QR	2008 QR
Sales - gross	3,395,371,787	6,218,413,290
Freight and insurance	(88,771,651)	(98,864,926)
Sales - net	3,306,600,136	6,119,548,364

21. COST OF SALES

	2009 QR	2008 QR
Raw materials consumed	860,458,609	810,867,068
Salaries, wages and related expenses	289,533,653	265,802,006
Depreciation (Note 3)	243,593,399	213,839,293
Spares and equipment consumed	85,937,722	84,987,160
Insurance, rents and fees	43,923,800	35,817,348
External services	35,084,476	40,442,519
Amortisation of catalysts (Note 5)	11,708,937	8,269,008
Handling and bagging	7,957,778	10,218,563
Provision for obsolete and slow moving inventories (Note 6)	5,272,267	4,307,481
Amortisation of shutdown costs	35,131	427,695
Maintenance allocated to general and administrative expenses (Note 24)	(33,735,480)	(27,561,191)
	1,549,770,292	1,447,416,950

22. OTHER INCOME

	2009 QR	2008 QR
Interest income	164,551,763	188,613,553
Reversal of excess provision	18,460,721	17,827,865
Demurrages and dispatch	4,137,479	8,385,123
Sale of gas	3,389,786	3,951,551
Club contribution	2,696,458	756,668
Rent income	1,459,698	192,176
Profit on disposal of plant and equipment	25,010	-
Contribution from Norwegian Government for QAFCO Norwegian school	11,548	1,183,753
Miscellaneous income	19,644,330	22,881,938
Foreign currency exchange gain	-	69,047,594
	214,376,793	312,840,221

23. SELLING AND DISTRIBUTION COSTS

	2009 QR	2008 QR
Sales commission	51,780,599	109,648,300
Other sales expenses	3,337,645	3,730,312
	55,118,244	113,378,612

24. ADMINISTRATIVE EXPENSES

	2009 QR	2008 QR
Depreciation (Note 3)	49,253,362	46,324,063
Salaries and related expenses	41,036,987	52,358,855
Maintenance (Note 21)	33,735,480	27,561,191
Foreign currency exchange loss	19,396,924	-
External services	18,454,490	17,046,416
Insurance, rents and fees	12,692,625	6,723,837
Public relations and gifts	11,928,377	6,268,121
Spares and equipment consumed	8,318,367	7,445,923
Travel expenses	6,131,506	6,396,423
Communication expenses	3,851,842	3,626,736
Remuneration for Directors (Note 19)	1,516,927	1,592,103
Capital work in progress write-off (Note 3)	153,836	-
Provision for impairment of receivables (Note 7)	113,434	-
Miscellaneous expenses	13,471,986	10,127,198
	220,056,143	185,470,866

Notes to the Consolidated Financial Statements

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25. FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is a comparison by class of the carrying amounts and fair value of the Group's financial instruments that are carried in the consolidated financial statements.

	Carrying amount		Fair value	
	2009 QR	2008 QR	2009 QR	2008 QR
Financial assets				
Trade and other receivables	515,956,579	629,692,312	515,956,579	629,692,312
Other financial assets:				
Forward foreign currency collar	3,247,928	161,006,487	3,247,928	161,006,487
Bank balances and cash	1,907,800,697	5,018,916,534	1,907,800,697	5,018,916,534
Total	2,427,005,204	5,809,615,333	2,427,005,204	5,809,615,333
Financial liabilities				
Interest bearing loans				
Floating rate borrowings	3,640,000,000	1,820,000,000	3,640,000,000	1,820,000,000
Trade and other payables	473,969,304	1,203,264,814	473,969,304	1,203,264,814
Other financial liabilities:				
Interest rate swaps	129,977,389	386,414,545	129,977,389	386,414,545
Forward foreign currency collar	1,254,994	221,001,511	1,254,994	221,001,511
Total	4,245,201,687	3,630,680,870	4,245,201,687	3,630,680,870

The fair value of financial assets and liabilities that are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

- Bank balance and cash, trade and other receivables and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Interest bearing loan is estimated based on discounted cash flows using interest rate for items with similar terms and characteristic.
- The Group enters into derivative financial instruments, principally with financial institutions with investment grade credit ratings. Derivatives valued using valuation techniques with market observable inputs are mainly interest rate swaps and foreign exchange forward contracts (collar). The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

At 31 December 2009, the marked to market value of derivative asset position is net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationship and other financial instruments recognised at fair value.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

At 31 December 2009, the Group held the following financial instruments measured at fair value:

	31 December 2009 QR	Level 1 QR	Level 2 QR	Level 3 QR
Assets measured at fair value				
Forward foreign currency collar	3,247,928	-	3,247,928	-
Spot forward currency contract	212,101	-	212,101	-
Liabilities measured at fair value				
Interest rate swaps	129,977,389	-	129,977,389	-
Forward foreign currency collar	1,254,994	-	1,254,994	-

During the reporting period ending 31 December 2009, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

26. FINANCIAL RISK MANAGEMENT

Objectives and policies

The Group's principal financial liabilities comprise interest bearing loan, trade accounts payable and amounts due to related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade accounts receivable, amounts due from related parties and bank balances, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, credit risk, liquidity risk and foreign currency risk. The Board of Directors review and agree on policies for managing each of these risks which are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Group is minimally exposed to interest rate risk on its interest bearing assets and liabilities (term loan and short term deposits).

At reporting date the interest rate profile of the Group's interest bearing financial instruments as follows:

	2009 QR	2008 QR
Fixed interest rate instruments:		
Short term bank deposits	1,324,740,000	4,678,640,000
Effective interest rate	12.42%	4.03%
Floating interest rate instruments:		
Call deposits	250,000,000	27,209,849
Interest bearing loan	(3,640,000,000)	(1,820,000,000)
	(3,390,000,000)	(1,792,790,151)

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's financial assets and liabilities with floating interest rates and fixed interest instruments. To manage the risk of changes in floating interest rate on its interest bearing loan, the Group has entered into interest rate swaps as explained in Note 16. Under the swap agreements, the Group will pay an agreed fixed interest rate and receive a floating interest rate.

The following table demonstrates the sensitivity of the consolidated income statement (due to call deposits), property, plant and equipment (due to borrowing costs capitalised) and equity (due to interest rate swaps) to reasonably possible changes in interest rates by 25 basis points, with all other variables held constant. The sensitivity of the consolidated income statement, property, plant and equipment and equity is the effect of the assumed changes in interest rates for one year, based on the floating rate financial assets and financial liabilities held at 31 December. The effect of decreases in interest rates is expected to be equal and opposite to the effect of the increases shown.

Notes to the Consolidated Financial Statements

At 31 December 2009

26. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

	Profit +25 b. p QR	Property, plant and equipment +25 b.p QR	Equity +25 b.p QR
At 31 December 2009			
Variable rate instruments			
Call deposits	625,000	-	-
Interest bearing loan	-	9,100,000	-
Interest rate swaps	-	-	(10,010,000)
	625,000	9,100,000	(10,010,000)

	Profit +25 b.p QR	Property, plant and equipment +25 b.p QR	Equity +25 b.p QR
At 31 December 2008			
Variable rate instruments			
Call deposits	68,024	-	-
Interest bearing loan	-	4,550,000	-
Interest rate swaps	-	-	(6,370,000)
	68,024	4,550,000	(6,370,000)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's exposure to credit risk is as indicated by the carrying amount of its assets which consist primarily of account receivables, bank balances and derivatives.

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks. With respect to customers, the marketing department has established a credit policy under which each new customer is analysed individually for creditworthiness before Group's standard payment and delivery terms and conditions are offered and monitoring outstanding receivables. The Group is engaged in production and sales of Urea and Ammonia. The five largest customers of the Group account for 78% of outstanding receivable at 31 December 2009 (2008: 87%).

With respect to credit risk arising from the financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments as follows;

	2009 QR	2008 QR
Bank balances	1,907,800,697	5,018,916,534
Amounts due from related parties	282,149,456	423,508,944
Trade accounts receivable	215,603,590	147,129,765
Other financial assets	21,239,360	220,060,090
	2,426,793,103	5,809,615,333

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group limits its liquidity risk by maintaining adequate funds in the banks and ensuring bank facilities are available. The Group's terms of sales require amounts to be paid within 30 days of the date of invoice. Trade payables are normally settled within 45 – 60 days of the date of purchase.

The table below summarises the maturity of the Group's financial liabilities at 31 December based in contractual undiscounted payments.

Year ended 31 December 2009	Less than 3 months QR	3 to 12 months QR	1 to 5 years QR	> 5 years QR	Total QR
Trade accounts payable	211,455,601	-	-	-	211,455,601
Amounts due to related parties	262,513,703	-	-	-	262,513,703
Derivative financial liabilities (net basis)	-	133,859,548	42,584,912	(57,841,177)	118,603,283
Interest bearing loan	36,646,896	109,940,687	1,203,918,163	3,290,435,493	4,640,941,239
Total	510,616,200	243,800,235	1,246,503,075	3,232,594,316	5,233,513,826

Year ended 31 December 2008	Less than 3 months QR	3 to 12 months QR	1 to 5 years QR	> 5 years QR	Total QR
Trade accounts payable	552,286,223	-	-	-	552,286,223
Amounts due to related parties	650,978,591	-	-	-	650,978,591
Derivative financial liabilities (net basis)	-	77,929,926	330,322,582	50,057,583	458,310,091
Interest bearing loan	19,019,587	54,420,773	1,321,655,638	832,528,249	2,227,624,247
Total	1,222,284,401	132,350,699	1,651,978,220	882,585,832	3,889,199,152

Notes to the Consolidated Financial Statements

At 31 December 2009

26. FINANCIAL RISK MANAGEMENT (continued)

Currency risk

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

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

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the Qatari Riyal currency rate against the GBP and Euro, with all other variables held constant, on the consolidated income statement (due to the fair value of currency sensitive monetary assets and liabilities). The effect of decrease in currency rates is expected to be equal and opposite to the effect of the increase shown.

	Changes in currency rate to the Qatari Riyal	Effect on profit QR
2009		
GBP	+5%	(82,398)
Euro	+5%	(780,704)
2008		
GBP	+5%	100,720
Euro	+5%	5,215,909

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances.

The Group makes adjustments to its capital structure, in light of changes in economic and business conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, or issue new shares. During 2008, the Group has obtained a loan facility to finance the QAFCO 5 Plant.

Capital includes share capital, legal reserve, and retained earnings and is measured at QR 9,460,986,312 at 31 December 2009 (2008: QR 8,918,243,526).

27. KEY SOURCES OF ESTIMATION UNCERTAINTY

a) Impairment of accounts receivable

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

b) Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on historical realisable value.

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives of property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset, physical wear and tear, technical or commercial obsolescence.