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# 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
<b>ASSETS</b>			
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
		<b>10,981,639,385</b>	<b>6,309,276,963</b>
<b>Current assets</b>			
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
		<b>2,807,235,685</b>	<b>6,162,664,421</b>
<b>TOTAL ASSETS</b>		<b>13,788,875,070</b>	<b>12,471,941,384</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
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
<b>Equity attributable to equity holders of the parent</b>		<b>9,332,789,755</b>	<b>8,471,833,957</b>
Non-controlling interest		17,114,121	15,324,657
<b>Total equity</b>		<b>9,349,903,876</b>	<b>8,487,158,614</b>
<b>Non-current liabilities</b>			
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
		<b>3,793,834,975</b>	<b>2,231,190,404</b>
<b>Current liabilities</b>			
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
		<b>645,136,219</b>	<b>1,753,592,366</b>
<b>Total liabilities</b>		<b>4,438,971,194</b>	<b>3,984,782,770</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>13,788,875,070</b>	<b>12,471,941,384</b>



**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)
<b>GROSS PROFIT</b>		<b>1,756,829,844</b>	<b>4,672,131,414</b>
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)
<b>PROFIT FOR THE YEAR</b>		<b>1,696,032,250</b>	<b>4,686,122,157</b>
<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
		<b>1,696,032,250</b>	<b>4,686,122,157</b>

# 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
<b>Other comprehensive income (loss)</b>			
Net unrealised gain (loss) on cash flow hedges	16	318,213,012	(446,409,569)
<b>Total comprehensive income for the year</b>		<b>2,014,245,262</b>	<b>4,239,712,588</b>
<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
		<b>2,014,245,262</b>	<b>4,239,712,588</b>

# Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 QR	2008 QR
<b>OPERATING ACTIVITIES</b>			
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)
		<b>1,857,676,167</b>	<b>4,788,501,185</b>
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)
		<b>1,049,923,075</b>	<b>4,399,571,290</b>
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		<b>848,053,041</b>	<b>4,347,625,107</b>
<b>INVESTING ACTIVITIES</b>			
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		<b>(1,263,918,507)</b>	<b>(4,023,429,300)</b>
<b>FINANCING ACTIVITIES</b>			
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		<b>658,649,629</b>	<b>(81,500,000)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>242,784,163</b>	<b>242,695,807</b>
Cash and cash equivalents at 1 January		<b>340,276,534</b>	<b>97,580,727</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b>8</b>	<b>583,060,697</b>	<b>340,276,534</b>

# 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)
<b>Balance at 31 December 2009</b>	<b>1,000,000,000</b>	<b>205,354,707</b>	<b>(128,196,557)</b>	<b>8,255,631,605</b>	<b>9,332,789,755</b>	<b>17,114,121</b>	<b>9,349,903,876</b>
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.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 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
	<b>292,846,761</b>	<b>260,163,356</b>

#### 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
	<b>990,968,858</b>	<b>1,352,590,814</b>

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	<b>594,056,146</b>	<b>464,129,923</b>

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	<b>(491,548,179)</b>	<b>(221,886,107)</b>
At 31 December	<b>396,912,712</b>	<b>888,460,891</b>

# Notes to the Consolidated Financial Statements

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

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 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
	<b>1,150,000,000</b>	<b>1,900,000,000</b>

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)
	<b>3,594,067,629</b>	<b>1,780,273,519</b>

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

# Notes to the Consolidated Financial Statements

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
<b>Other financial assets</b>		
<i>Derivatives:</i>		
Forward foreign exchange contract collar – Current	3,035,827	161,006,487
<b>Other financial liabilities</b>		
<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
	<b>131,232,383</b>	<b>607,416,056</b>

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"
<b>At 31 December 2009</b>						
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	-	-
	<b>3</b>	<b>130</b>	<b>4,895</b>	<b>891</b>	<b>1,019</b>	<b>2,985</b>

	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	-
	<b>161</b>	<b>607</b>	<b>4,750</b>	<b>1,943</b>	<b>1,278</b>	<b>1,529</b>

#### 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.

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 17. EXPENDITURE COMMITMENTS

	2009 QR	2008 QR
<b>(a) Capital expenditure commitments:</b>		
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
	<b>8,003,752,552</b>	<b>10,252,320,318</b>

- (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>(b) Operating lease commitments:</b>		
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	<b>182,627,166</b>	<b>56,974,927</b>

## 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
	<b>98,524,457</b>	<b>241,943,466</b>

## 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
<b>Shareholder:</b>		
<b>Yara International ASA</b>		
- 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
<b>Other related party:</b>		
<b>Qatar Petroleum</b>		
- 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	-
	<b>282,149,456</b>	<b>262,513,703</b>	<b>423,508,944</b>	<b>650,978,591</b>

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

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 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
	<b>13,780,959</b>	<b>14,485,633</b>

## 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	<b>3,306,600,136</b>	<b>6,119,548,364</b>

## 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)
	<b>1,549,770,292</b>	<b>1,447,416,950</b>

## 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
	<b>214,376,793</b>	<b>312,840,221</b>

## 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
	<b>55,118,244</b>	<b>113,378,612</b>

## 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
	<b>220,056,143</b>	<b>185,470,866</b>

# Notes to the Consolidated Financial Statements

At 31 December 2009

## 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
<b>Financial assets</b>				
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
<b>Total</b>	<b>2,427,005,204</b>	<b>5,809,615,333</b>	<b>2,427,005,204</b>	<b>5,809,615,333</b>
<b>Financial liabilities</b>				
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
<b>Total</b>	<b>4,245,201,687</b>	<b>3,630,680,870</b>	<b>4,245,201,687</b>	<b>3,630,680,870</b>

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
<b>Assets measured at fair value</b>				
Forward foreign currency collar	3,247,928	-	3,247,928	-
Spot forward currency contract	212,101	-	212,101	-
<b>Liabilities measured at fair value</b>				
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
<b>Fixed interest rate instruments:</b>		
Short term bank deposits	1,324,740,000	4,678,640,000
Effective interest rate	12.42%	4.03%
<b>Floating interest rate instruments:</b>		
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
<b>At 31 December 2009</b>			
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
<b>At 31 December 2008</b>			
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
<b>Total</b>	<b>510,616,200</b>	<b>243,800,235</b>	<b>1,246,503,075</b>	<b>3,232,594,316</b>	<b>5,233,513,826</b>
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
<b>Total</b>	<b>1,222,284,401</b>	<b>132,350,699</b>	<b>1,651,978,220</b>	<b>882,585,832</b>	<b>3,889,199,152</b>

# 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.