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Independent Auditors' Report

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

Report on the consolidated financial statements

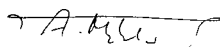
We have audited the accompanying consolidated financial statements of Qatar Fertiliser Company (Q.S.C.C.) (the "Company") and its subsidiary (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated statement of income, 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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



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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010 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 Group, an inventory count has been conducted in accordance with established principles, and the consolidated 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 Group or on its financial position.

Date: 9 February 20 11
Doha.

Consolidated statement of financial position

At 31 December 2010

	Notes	2010 QR	2009 QR
ASSETS			
Non-current assets			
Property, plant and equipment	3	13,661,654,167	9,949,112,643
Project under development	4	1,015,203,230	990,968,858
Catalysts	5	46,012,156	41,557,884
		14,722,869,553	10,981,639,385
Current assets			
Inventories	6	391,388,789	331,500,709
Accounts receivable and prepayments	7	778,321,901	564,898,452
Other financial asset	16	-	3,035,827
Bank balances and cash	8	497,003,830	1,907,800,697
		1,666,714,520	2,807,235,685
TOTAL ASSETS		16,389,584,073	13,788,875,070
EQUITY AND LIABILITIES			
Equity			
Share capital	9	1,000,000,000	1,000,000,000
Legal reserve	10	206,403,954	205,354,707
Cumulative changes in fair values		(307,745,529)	(128,196,557)
Retained earnings		9,372,252,014	8,255,631,605
		10,270,910,439	9,332,789,755
Equity attributable to equity holders of the parent		10,270,910,439	9,332,789,755
Non-controlling interest		18,161,862	17,114,121
Total equity		10,289,072,301	9,349,903,876
Non-current liabilities			
Interest bearing loan	12	3,825,123,070	3,594,067,629
Other financial liabilities	16	307,745,529	129,977,389
Employees' end of service benefits	13	69,550,362	69,789,957
		4,202,418,961	3,793,834,975
Current liabilities			
Interest bearing loan	12	1,228,493,146	-
Accounts payable and accruals	14	561,046,072	575,574,309
Other financial liabilities	16	-	1,254,994
Income tax payable	15	108,553,593	68,306,916
		1,898,092,811	645,136,219
Total liabilities		6,100,511,772	4,438,971,194
TOTAL EQUITY AND LIABILITIES		16,389,584,073	13,788,875,070



Abdulla Hussain Salatt
Chairman of the Board



Khalifa Abdullah Al-Sowaidi
Managing Director

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated statement of financial income

Year Ended 31 December 2010

	Notes	2010 QR	2009 QR
Sales - net	20	3,880,038,408	3,306,600,136
Cost of sales	21	(1,438,507,686)	(1,359,622,027)
GROSS PROFIT		2,441,530,722	1,946,978,109
Other income	22	116,237,189	196,964,008
Selling and distribution costs	23	(64,572,783)	(55,118,244)
Administrative expenses	24	(372,377,731)	(392,791,623)
PROFIT FOR THE YEAR		2,120,817,397	1,696,032,250
Attributable to:			
Equity holders of the parent		2,117,669,656	1,692,742,786
Non-controlling interest		3,147,741	3,289,464
		2,120,817,397	1,696,032,250

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated statement of Comprehensive Income

Year Ended 31 December 2010

	Note	2010 QR	2009 QR
Profit for the year		2,120,817,397	1,696,032,250
Other comprehensive (loss) income			
Net unrealised (loss) gain on cash flow hedges	16	(179,548,972)	318,213,012
Total comprehensive income for the year		1,941,268,425	2,014,245,262
Attributable to:			
Equity holders of the parent		1,938,120,684	2,010,955,798
Non-controlling interest		3,147,741	3,289,464
		1,941,268,425	2,014,245,262

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated statement of Cash Flows

Year Ended 31 December 2010

	Notes	2010 QR	2009 QR
OPERATING ACTIVITIES			
Profit for the year		2,120,817,397	1,696,032,250
Adjustment for:			
Depreciation of property, plant and equipment	3	318,451,595	292,846,761
Amortisation of catalysts	5	12,982,873	11,708,937
Provision for employees' end of service benefits	13	15,845,083	16,125,455
Provision for obsolete and slow moving inventories	21	5,301,835	5,272,267
Profit on disposal of catalysts, property, plant and equipment	22	(2,478,983)	(25,010)
Capital work-in-progress write-off	24	144,820	153,836
Provision for impairment of receivables	24	-	113,434
Interest income	22	(22,686,274)	(164,551,763)
		2,448,378,346	1,857,676,167
Working capital changes:			
Accounts receivable and prepayments		(173,176,772)	(67,226,372)
Inventories		(65,189,915)	(29,679,868)
Accounts payable and accruals		(14,528,237)	(710,846,852)
Cash from operating activities		2,195,483,422	1,049,923,075
Interest paid		(193,541,449)	(191,032,196)
Employees' end of service benefits paid	13	(13,764,930)	(11,831,904)
Advance paid against end of service benefits		(2,319,748)	994,066
Net cash from operating activities		1,985,857,295	848,053,041
INVESTING ACTIVITIES			
Additions to property, plant and equipment		(3,472,506,578)	(4,624,290,062)
Movement in short term deposits maturing after 90 days		1,324,740,000	3,353,900,000
Contribution to project under development	4	(382,724,313)	(129,926,223)
Additions to catalysts	5	(17,437,145)	(28,178,995)
Interest income received	22	22,686,274	164,551,763
Proceeds from disposal of catalysts, property, plant and equipment		2,479,285	25,010
Net cash used in investing activities		(2,522,762,477)	(1,263,918,507)
FINANCING ACTIVITIES			
Proceeds from interest bearing loan		1,456,000,000	1,820,000,000
Dividends paid to equity holders of the parent	11	(1,000,000,000)	(1,150,000,000)
Finance arrangement changes paid	12	(3,051,685)	(9,850,371)
Dividends paid to non-controlling interest		(2,100,000)	(1,500,000)
Net cash from financing activities		450,848,315	658,649,629
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(86,056,867)	242,784,163
Cash and cash equivalents at 1 January		583,060,697	340,276,534
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	497,003,830	583,060,697

The attached notes 1 to 28 form part of these consolidated financial statements.

Consolidated statement of Changes in Equity

Year Ended 31 December 2010

Attributable to equity holders of the parent

	Share capital		Legal reserve		Cumulative changes in fair values		Retained earnings		Total		Non-controlling interest		Total equity	
	QR	QR	QR	QR	QR	QR	QR	QR	QR	QR	QR	QR	QR	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)	-	-	-	-	-	-	-
Dividends paid (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	
Profit for the year 2010	-	-	-	-	-	-	2,117,669,656	-	2,117,669,656	-	3,147,741	-	2,120,817,397	-
Other comprehensive loss	-	-	-	-	(179,548,972)	-	-	-	(179,548,972)	-	-	-	(179,548,972)	-
Total comprehensive income	-	-	-	-	(179,548,972)	-	2,117,669,656	-	1,938,120,684	-	3,147,741	-	1,941,268,425	-
Transfer to legal reserve	-	-	1,049,247	-	-	-	(1,049,247)	-	-	-	-	-	-	-
Dividends paid (Note 11)	-	-	-	-	-	-	(1,000,000,000)	-	(1,000,000,000)	-	(2,100,000)	-	(1,002,100,000)	-
Balance at 31 December 2010	1,000,000,000		206,403,954		(307,745,529)		9,372,252,014		10,270,910,439		18,161,862		10,289,072,301	

The attached notes 1 to 28 form part of these consolidated financial statements.

Notes to the consolidated financial statements

At 31 December 2010

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	25%

During the year, Fertiliser Holdings ASA transferred their 10% shareholding in the Company to Yara Netherland BV.

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 of the Group for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 9 February 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis modified to include the measurement at fair value of derivative financial instruments. The financial statements are presented in Qatari Riyals.

Statement of compliance

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the applicable requirements of Qatar Commercial Companies' Law No. 5 of 2002.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary, Gulf Formaldehyde Company (S.A.Q.) (together referred to as the "Group"). The Company has 70% interest in Gulf Formaldehyde Company (S.A.Q.), 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").

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously

recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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 statement of income 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.

Adoption of new and amended standards for the year

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the financial statements for the year ended 31 December 2009, except for the adoption of new and amended standards as of 1 January 2010 as noted below:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the standards or interpretations is described below:

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the

Notes to the consolidated financial statements

At 31 December 2010

designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to some accounting policies but did not have any impact on the financial position or performance of the group.

Issued in May 2008

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction.

Issued in April 2009

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in April 2009

- IFRS 2 Share-based Payment
- IAS 1 Presentation of Financial Statements
- IAS 17 Leases
- IAS 34 Interim Financial Reporting
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedge of a Net Investment in a Foreign Operation

Standards, amendments and interpretations issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate

inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

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 statement of income 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 statement of income 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 any accumulated impairment in value and will be transferred to property, plant and equipment 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 statement of income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously

recognised in the consolidated statement of income;

- (b) 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;

- (c) 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 statement of income 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 statement of income 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.

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

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At 31 December 2010

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 statement of income.

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 the consolidated statement of income.

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 statement of income.

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 statement of income 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 statement of income 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 statement of income 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 statement of income 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 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 consolidated 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 statement of income 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 2010	1,197,538,324	4,787,672,563	12,261,156	8,143,174,622	14,140,646,665
Additions	-	-	1,474,185	4,029,664,055	4,031,138,240
Transfers	806,682	245,344,515	-	(246,151,197)	-
Disposals	-	(121,479,863)	-	-	(121,479,863)
Write-off	-	-	-	(144,820)	(144,820)
At 31 December 2010	1,198,345,006	4,911,537,215	13,735,341	11,926,542,660	18,050,160,222
Depreciation:					
At 1 January 2010	651,325,011	3,528,615,504	11,593,507	-	4,191,534,022
Charge for the year	45,801,081	271,840,208	810,306	-	318,451,595
Relating to disposals	-	(121,479,562)	-	-	(121,479,562)
At 31 December 2010	697,126,092	3,678,976,150	12,403,813	-	4,388,506,055

Net carrying amount:

At 31 December 2010	501,218,914	1,232,561,065	1,331,528	11,926,542,660	13,661,654,167
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	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
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Notes:

- 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.
- Capitalised borrowing costs of QR 384,573,645 (2009: QR 191,032,196) are included in the capital work-in-progress.
- The depreciation charge has been allocated in the consolidated statement of income as follows:

	2010 QR	2009 QR
Cost of sales (Note 21)	290,431,124	265,940,660
Administrative expenses (Note 24)	28,020,471	26,906,101
	318,451,595	292,846,761

4 PROJECT UNDER DEVELOPMENT

	2010	2009
	QR	QR
Advance for formation of a subsidiary	754,740,459	594,056,146
Advance for QAFCO - 5	104,482,001	396,912,712
Advance for QAFCO - 6	155,980,770	-
	<u>1,015,203,230</u>	<u>990,968,858</u>

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 produce and sell 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 their plant facilities. The Group will own 60% of the shares of Qatar Melamine Company, the commercial operation of which is expected to commence early in 2011.

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

	2010	2009
	QR	QR
At 1 January	594,056,146	464,129,923
Additional fund contribution	160,684,313	129,926,223
At 31 December	<u>754,740,459</u>	<u>594,056,146</u>

Advance for QAFCO - 5

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

The Group also entered into an agreement with a consortium of banks led by Hongkong and Shanghai Banking Corporation ("HSBC") as the facility agent on 2 December 2007, to obtain a term loan facility amounting to USD 1.6 billion (See Note 12).

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

	2010	2009
	QR	QR
At 1 January	396,912,712	888,460,891
Recovered during the year	(292,430,711)	(491,548,179)
At 31 December	<u>104,482,001</u>	<u>396,912,712</u>

Advance for QAFCO - 6

The Group has signed an agreement with Hyundai Construction & Engineering Co Ltd. and Snamprogetti S.P.A. ("Main Contractors") to construct its plant expansion project namely, "QAFCO - 6". In accordance with the terms of the agreement, the Group made a 10% advance payment to the Main Contractors and this amount will be recovered at the same percentage through progress billings. The project is expected to be completed in September 2012.

The movement in the advance for QAFCO - 6 is as follows:

	2010	2009
	QR	QR
At 1 January	-	-
Paid during the year	222,040,000	-
Recovered during the year	(66,059,230)	-
At 31 December	<u>155,980,770</u>	<u>-</u>

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At 31 December 2010

5 CATALYSTS

	2010	2009
	QR	QR
Cost:		
At 1 January	94,136,050	68,617,873
Additions	17,437,145	28,178,995
Disposals	(31,233,160)	(2,660,818)
At 31 December	80,340,035	94,136,050
Amortisation:		
At 1 January	52,578,166	43,530,047
Charges for the year (Note 21)	12,982,873	11,708,937
Disposals	(31,233,160)	(2,660,818)
At 31 December	34,327,879	52,578,166
Net carrying amount at 31 December	46,012,156	41,557,884

6 INVENTORIES

	2010	2009
	QR	QR
Spare parts	297,439,944	282,939,722
Finished goods	99,763,341	52,156,492
Chemicals and catalysts	19,411,528	18,931,254
Goods in transit	9,622,259	9,476,742
Packing materials, consumables and supplies	2,114,086	503,304
	428,351,158	364,007,514
Less: Provision for obsolete and slow-moving inventories	(36,962,369)	(32,506,805)
	391,388,789	331,500,709

Movements in the provision for obsolete and slow-moving inventories are as follows:

	2010	2009
	QR	QR
At 1 January	32,506,805	28,769,941
Provided during the year (Note 21)	5,301,835	5,272,267
Amounts written off	(846,271)	(1,535,403)
At 31 December	36,962,369	32,506,805

7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2010	2009
	QR	QR
Trade accounts receivable	206,366,984	215,717,024
Amounts due from related parties (Note 19)	526,311,137	282,149,456
Prepayments and advances	44,758,539	48,941,873
Other receivables	885,241	18,203,533
	778,321,901	565,011,886
Less: Provision for impairment of receivables (Note 24)	-	(113,434)
	778,321,901	564,898,452

As at 31 December 2010, trade accounts receivable at nominal value of QR Nil (2009: 113,434) were impaired and fully provided for. Movement in the provision for impairment of receivables is as follows:

	2010 QR	2009 QR
At 1 January	113,434	-
Provided during the year (Note 24)	-	113,434
Recovered during the year	(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
2010	733,563,362	732,219,284	719,264	45,231	579,583
2009	515,956,579	515,956,579	-	-	-

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

8 CASH AND CASH EQUIVALENTS

	2010 QR	2009 QR
Bank balances and cash	497,003,830	1,907,800,697
Short term deposits maturing after 90 days	-	(1,324,740,000)
Cash and cash equivalents at 31 December	497,003,830	583,060,697

Bank balances and cash include call deposits of QR 300,000,000 (2009: QR 250,000,000) denominated in Qatari Riyals.

9 SHARE CAPITAL

	2010 QR	2009 QR
Authorised, issued and fully paid:		
10,000,000 ordinary shares of QR 100 each	1,000,000,000	1,000,000,000

10. LEGAL RESERVE

As required by the 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 Articles of Association.

11. DIVIDENDS PAID AND PROPOSED

	2010 QR	2009 QR
Declared and paid during the year:		
Final dividends for 2009 QR 100 per share (2008: QR 115)	1,000,000,000	1,150,000,000

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The Board of Directors has proposed a final cash dividend of QR50 per share totaling QR 500,000,000 for 2010, which is subject to the approval of the shareholders at the Annual General Meeting.

12. INTEREST BEARING LOAN

	2010	2009
	QR	QR
Term loan	5,096,000,000	3,640,000,000
Less: Deferred financing arrangement costs (ii)	(42,383,784)	(45,932,371)
	<u>5,053,616,216</u>	<u>3,594,067,629</u>

Presented in the statement of financial position as follows:

	2010	2009
	QR	QR
Current portion	1,228,493,146	-
Non-current portion	3,825,123,070	3,594,067,629
	<u>5,053,616,216</u>	<u>3,594,067,629</u>

Notes:

- (i) The Group has 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 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 explained more 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 obtaining the above loan represent arrangement, underwriting, participation and agency fees paid ("arrangement fees"). Movements in the arrangement fees are as follows:

	2010	2009
	QR	QR
At 1 January	45,932,371	39,726,481
Additions	3,051,685	9,850,371
Amortised during the year	(6,600,272)	(3,644,481)
At 31 December	<u>42,383,784</u>	<u>45,932,371</u>

The amortised arrangement fees were capitalised in the capital work-in-progress as borrowing costs (see Note 3).

13. EMPLOYEES' END OF SERVICE BENEFITS

The Group provides for end of service benefits for its employees. Movements in the provision are as follows:

	2010	2009
	QR	QR
At 1 January	117,700,498	113,406,947
Provision during the year	15,845,083	16,125,455
End of service benefits paid	(13,764,930)	(11,831,904)
	<u>119,780,651</u>	<u>117,700,498</u>
Less: Advances against end of service benefits	(50,230,289)	(47,910,541)
At 31 December	<u>69,550,362</u>	<u>69,789,957</u>

14. ACCOUNTS PAYABLE AND ACCRUALS

	2010 QR	2009 QR
Trade accounts payables	196,061,753	211,455,601
Amounts due to related parties (Note 19)	284,038,429	262,513,703
Other payables and accruals	80,945,890	101,605,005
	561,046,072	575,574,309

15. INCOME TAX PAYABLE

In accordance with the regulations of the Qatar Public Revenues and Taxes Department, 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 consolidated 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.

Effective from the taxable year beginning 1 January 2010, Law No. 21 of 2009 introduced a new corporate income tax rate of 10% on companies. The new income tax law is not clear on the tax rate applicable to the share of profit attributable to the foreign shareholders of the Company whether 10% or 35%. The Company has applied the rate of 35% in calculating the income tax obligation for the year ended 31 December 2010 as a conservative measure.

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

	2010 QR	2009 QR
Profit attributable to QAFCO Plants 1, 2 and 3	1,236,430,386	778,379,072
Profit attributable to QAFCO Plant 4 (Exempt from tax)	873,894,542	906,688,298
Profit from subsidiary (Exempt from tax)	10,492,469	10,964,880
	2,120,817,397	1,696,032,250
Accounting profit entitled for taxation	1,236,430,386	778,379,072
Expenses that are not deductible in determining taxable profit:		
Provision for impairment of receivables	-	66,522
Board of Directors remuneration	840,434	930,804
Provision for obsolete and slow moving inventories	3,976,376	3,954,200
	4,816,810	4,951,526
Expense that is deductible in determining taxable profit:		
Slow-moving inventories provision write-off	(634,703)	(1,151,552)
	1,240,612,493	782,179,046
Taxable profit	1,240,612,493	782,179,046
Effective tax rate for the share of profit attributable to foreign shareholders	8.75%	8.73%
Income tax payable	108,553,593	68,306,916

QAFCO Plant 5 and QAFCO Plant 6 are under construction and there are no operational activities for the year ended 31 December 2010.

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16. OTHER FINANCIAL ASSETS AND LIABILITIES

	2010	2009
	QR	QR
Other financial asset		
Derivative:		
Forward foreign exchange contract collar – Current	-	3,035,827
Other financial liabilities		
Derivatives:		
Interest rate swap	307,745,529	129,977,389
Forward foreign exchange contract collar	-	1,254,994
	307,745,529	131,232,383
Presented in the consolidated statement of financial position as follows:		
Non-current portion	307,745,529	129,977,389
Current portion	-	1,254,994
	307,745,529	131,232,383

The maturity profile of the derivatives is as follows:

At 31 December 2010	Positive fair value	Negative fair value	Notional amount	3 – 12 months	1 – 5 years	More than 5 years
	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"
Interest rate swaps	-	308	4,004	146	1,165	2,693
Forward foreign exchange contract with collar	-	-	-	-	-	-
Spot forward currency contract	-	-	-	-	-	-
	-	308	4,004	146	1,165	2,693
At 31 December 2009	Positive fair value	Negative fair value	Notional amount	3 – 12 months	1 – 5 years	More than 5 years
	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"
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

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 2010, the measurement of the fair values of the hedges resulted in a negative amount of QR 308 million (2009: QR 129 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 2010, the measurement of the fair values of the collar resulted in a positive amount of QR Nil (2009: QR 3 million) and negative amount of QR Nil (2009: QR 1 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 USD Nil (2009: USD 100 million) and buy Qatari Riyals at the spot rate of QR 3.6475.

The fair values of above derivative financial instruments as of 31 December 2010 amounted to QR Nil (2009: QR 212,101) which has been included in the consolidated statement of income as the transaction do not qualify for hedge accounting and the resultant asset has been disclosed as other receivables.

17. EXPENDITURE COMMITMENTS

	2010 QR	2009 QR
(a) Capital expenditure commitments:		
Estimated capital expenditure contracted for at the reporting date but not provided for:		
QAFCO - 5 expansion project (i)	2,091,930,954	5,227,424,519
QAFCO - 6 expansion project (ii)	1,590,430,598	2,256,800,000
Qatar Melamine project (iii)	79,469,110	306,155,333
Urea-1 Revamp project (iv)	6,330,881	24,612,897
Other contract commitments	250,309,989	188,759,803
	4,018,471,532	8,003,752,552

(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 USD 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 USD 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 USD 353,205,689. 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 a new Urea - 1 Revamp project. The value of the contract including variation orders is USD 95,153,395.

	2010 QR	2009 QR
(b) Operating lease commitments:		
Future minimum lease payments:		
Within one year	43,235,481	36,788,917
After one year but not more than five years	59,416,192	45,509,080
More than five years	184,520,881	100,329,169
Total operating lease expenditure contracted for at the reporting date	287,172,554	182,627,166

18. CONTINGENCIES

Contingent liabilities

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

	2010 QR	2009 QR
Letters of credit	71,387,071	95,020,056
Bank guarantees	264,264	3,504,401
	71,651,335	98,524,457

19. RELATED PARTY DISCLOSURES

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:

a) 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).

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- b) 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.
- c) 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 statement of income are as follows:

	2010 QR	2009 QR
Shareholder:		
Yara International A.S.A		
- Sale of Urea and Ammonia	1,707,940,627	1,539,956,679
- Sales commission	51,239,201	45,890,730
- Technical service charges	3,500,000	3,500,000
- Purchase of inventories	39,323	43,403
Ultimate parent:		
Qatar Petroleum		
- Purchase of feed stock	892,523,373	853,142,611
- Purchase of Methanol	21,701,913	13,918,604
- Insurance	20,200,270	18,753,236
- Land lease and staff accommodation lease charges	13,977,951	13,416,083
- Training costs	11,640,012	6,428,402
- Other charges	2,435,787	663,053

Related party balances

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

	2010		2009	
	Accounts receivable QR	Accounts payable QR	Accounts receivable QR	Accounts payable QR
Yara International A.S.A	508,141,543	22,768,055	237,568,605	17,639,496
Qatar Petroleum	18,169,594	258,677,118	17,258,085	241,419,458
Qatar Fuel Additives Q.S.C.C.	-	2,593,256	-	3,454,749
Fertiliser Holding A.S.A	-	-	27,322,766	-
	526,311,137	284,038,429	282,149,456	262,513,703

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

Compensation of key management personnel

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

	2010 QR	2009 QR
Short-term benefits	12,534,484	11,884,683
Remuneration for Directors (Note 24)	1,396,664	1,516,927
Qatari employees' pension fund contribution	398,363	379,349
	14,329,511	13,780,959

20. SALES - NET

	2010 QR	2009 QR
Sales – gross	3,924,277,692	3,395,371,787
Freight and insurance	(44,239,284)	(88,771,651)
Sales – net	3,880,038,408	3,306,600,136

21. COST OF SALES

	2010 QR	2009 QR
Raw materials consumed	926,109,875	877,433,399
Depreciation (Note 3)	290,431,124	265,940,660
Salaries, wages and related expenses	125,465,306	121,924,323
Spares and equipment consumed	38,698,319	41,953,336
External services	21,078,443	23,007,112
Insurance, rents and fees	16,862,017	10,861,389
Amortisation of catalysts (Note 5)	12,982,873	11,708,937
Provision for obsolete and slow moving inventories (Note 6)	5,301,835	5,272,267
Amortisation of shutdown costs	313,775	35,131
Others	1,264,119	1,485,473
	1,438,507,686	1,359,622,027

22. OTHER INCOME

	2010 QR	2009 QR
Foreign currency exchange gain	52,015,193	-
Interest income	22,686,274	164,551,763
Reversal of excess provision	11,434,789	18,460,720
Sale of gas	10,966,324	3,389,786
Demurrages and dispatch	5,660,173	4,137,479
Profit on disposal of catalysts, property, plant and equipment	2,478,983	25,010
Club contribution	1,278,119	2,696,458
Rent income	1,169,061	1,459,698
Contribution from Norwegian Government for QAFCO Norwegian School	6,969	11,548
Miscellaneous income	8,541,304	2,231,546
	116,237,189	196,964,008

23. SELLING AND DISTRIBUTION COSTS

	2010 QR	2009 QR
Sales commission	59,232,191	51,780,599
Other sales expenses	5,340,592	3,337,645
	64,572,783	55,118,244

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24. ADMINISTRATIVE EXPENSES

	2010 QR	2009 QR
Salaries and related expenses	206,406,931	205,457,041
Insurance, rents and fees	43,510,016	45,311,427
External services	42,504,793	34,110,244
Depreciation (Note 3)	28,020,471	26,906,101
Spares and equipment consumed	27,790,645	29,360,461
Travel expenses	7,598,440	7,195,304
Public relations and gifts	5,482,885	11,928,377
Communication expenses	4,129,879	3,825,498
Remuneration for Directors (Note 19)	1,396,664	1,516,927
Capital work-in-progress write-off (Note 3)	144,820	153,836
Foreign currency exchange loss	-	20,363,093
Provision for impairment of receivables (Note 7)	-	113,434
Miscellaneous expenses	5,392,187	6,549,880
	372,377,731	392,791,623

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	
	2010 QR	2009 QR	2010 QR	2009 QR
Financial assets				
Trade and other receivables	733,563,362	515,956,579	733,563,362	515,956,579
Other financial asset:				
Forward foreign currency collar	-	3,247,928	-	3,247,928
Bank balances and cash	497,003,830	1,907,800,697	497,003,830	1,907,800,697
Total	1,230,567,192	2,427,005,204	1,230,567,192	2,427,005,204
Financial liabilities				
Interest bearing loans				
Floating rate borrowings	5,096,000,000	3,640,000,000	5,096,000,000	3,640,000,000
Trade and other payables	480,100,182	473,969,304	480,100,182	473,969,304
Other financial liabilities:				
Interest rate swaps	307,745,529	129,977,389	307,745,529	129,977,389
Forward foreign currency collar	-	1,254,994	-	1,254,994
Total	5,883,845,711	4,245,201,687	5,883,845,711	4,245,201,687

The fair value of financial assets and liabilities is 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 balances 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, 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, the Group held the following financial instruments measured at fair value:

	31 December 2010	Level 1	Level 2	Level 3
	QR	QR	QR	QR
Assets measured at fair value				
Forward foreign currency collar	-	-	-	-
Spot forward currency contract	-	-	-	-
Liabilities measured at fair value				
Interest rate swaps	307,745,529	-	307,745,529	-
Forward foreign currency collar	-	-	-	-
	31 December 2009	Level 1	Level 2	Level 3
	QR	QR	QR	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 2010 and 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 is as follows:

	2010	2009
	QR	QR
Fixed interest rate instruments:		
Short term bank deposits	-	1,324,740,000
Effective interest rate		12.42%
Floating interest rate instruments:		
Call deposits	300,000,000	250,000,000
Interest bearing loan	(5,096,000,000)	(3,640,000,000)
	(4,796,000,000)	(3,390,000,000)

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 statement of income (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 statement of income, property, plant and equipment and equity is the effect of the assumed changes in

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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.

	Profit +25b.p. QR	Property, plant and equipment +25b.p. QR	Equity +25 b. p. QR
At 31 December 2010			
Variable rate instruments			
Call deposits	750,000	-	-
Interest bearing loan	-	12,740,000	-
Interest rate swaps	-	-	(10,010,000)
	750,000	12,740,000	(10,010,000)

	Profit +25b.p. QR	Property, plant and equipment +25b.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)

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 82 % of outstanding receivable at 31 December 2010 (2009: 78%).

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:

	2010 QR	2009 QR
Bank balances	497,003,830	1,907,800,697
Amounts due from related parties	526,311,137	282,149,456
Trade accounts receivable	206,366,984	215,603,590
Other financial assets	885,241	21,239,360
	1,230,567,192	2,426,793,103

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 profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

Year ended 31 December 2010	Less than 3 months QR	3 to 12 months QR	1 to 5 years QR	> 5 years QR	Total QR
Trade accounts payable	196,061,753	-	-	-	196,061,753
Amounts due to related parties	284,038,429	-	-	-	284,038,429
Derivative financial liabilities (net basis)	-	80,622,549	(69,321,979)	(26,558,835)	(15,258,265)
Interest bearing loan	48,703,306	1,383,629,839	1,851,116,635	2,969,920,043	6,253,369,823
Total	528,803,488	1,464,252,388	1,781,794,656	2,943,361,208	6,718,211,740

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

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 statement of income (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
2010		
GBP	+5%	(122,324)
Euro	+5%	(437,923)
2009		
GBP	+5%	(82,398)
Euro	+5%	(780,704)

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 2009, 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 10,578,655,968 at 31 December 2010 (2009: QR 9,460,986,312).

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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.

28. COMPARATIVE FIGURES

The net of certain expenses and income which were previously included under "Cost of sales" and "Other income" amounting to QR 190,148,265 and QR 17,412,735, respectively, have been reclassified to "Administrative expenses" of QR 172,735,480 for the year ended 31 December 2009.

However, these reclassifications did not have any effect on the profit and total equity of the prior period. These changes have been made to improve the quality of information presented.