

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 balance sheet as at 31 December 2008 and the consolidated income statement, 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. The consolidated financial statements of the Group for the year ended 31 December 2007 were audited by another auditor whose report dated 13 February 2008 expressed an unqualified opinion.

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

Group'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 Group'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 2008 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 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.

Firas Qoussous

of Ernst & Young
Auditor's Registration No. 236

18 February 2009
Doha, Qatar

consolidated balance sheet

at 31 December 2008

	Notes	2008 QR	2007 QR
ASSETS			
Non-current assets			
Property, plant and equipment	3	4,931,598,323	2,418,906,942
Project under development	4	1,352,590,814	1,267,435,006
Catalysts	5	25,087,826	18,663,236
		6,309,276,963	3,705,005,184
Current assets			
Inventories	6	307,093,108	282,811,224
Accounts receivable and prepayments	7	675,648,292	660,180,548
Other financial assets	16	161,006,487	-
Bank balances and cash	8	5,018,916,534	3,440,700,384
		6,162,664,421	4,383,692,156
TOTAL ASSETS		12,471,941,384	8,088,697,340
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	9	1,000,000,000	1,000,000,000
Legal reserve	10	204,258,219	203,559,400
Cumulative changes in fair values		(446,409,569)	-
Retained earnings		7,713,985,307	4,930,658,427
		8,471,833,957	6,134,217,827
Minority interest		15,324,657	14,728,199
Total equity		8,487,158,614	6,148,946,026
Non-current liabilities			
Term loan	12	1,780,273,519	-
Other financial liability	16	386,414,545	-
Employees' end of service benefits	13	64,502,340	62,287,673
		2,231,190,404	62,287,673
Current liabilities			
Accounts payable and accruals	14	1,286,421,161	1,748,856,671
Other financial liability	16	221,001,511	-
Income tax payable	15	246,169,694	128,606,970
		1,753,592,366	1,877,463,641
Total liabilities		3,984,782,770	1,939,751,314
TOTAL EQUITY AND LIABILITIES		12,471,941,384	8,088,697,340


Abdulla Hussein Salatt
Chairman of the Board


Khalifa Abdulla Al-Sowaidi
Managing Director

The attached notes 1 to 29 form part of these consolidated financial statements.



consolidated income statement

year ended 31 December 2008

	Notes	2008 QR	2007 QR
Sales -net	20	6,119,548,364	3,645,765,337
Cost of sales	21	(1,447,416,950)	(1,088,076,588)
GROSS PROFIT		4,672,131,414	2,557,688,749
Other income	22	312,840,221	210,042,947
Selling and distribution costs	23	(113,378,612)	(66,847,466)
Administrative expenses	24	(185,470,866)	(151,771,632)
PROFIT FOR THE YEAR	25	4,686,122,157	2,549,112,598
Attributable to:			
Equity holders of the parent		4,684,025,699	2,547,369,496
Minority interest		2,096,458	1,743,102
PROFIT FOR THE YEAR		4,686,122,157	2,549,112,598

The attached notes 1 to 29 form part of these consolidated financial statements.

consolidated statement of cash flows

year ended 31 December 2008

	Notes	2008 QR	2007 QR
OPERATING ACTIVITIES			
Profit for the year		4,686,122,157	2,549,112,598
Adjustment for:			
Depreciation of property, plant and equipment	3	260,163,356	303,862,070
Amortisation of catalysts	5	8,269,008	7,869,001
Provision for employees' end of service benefits	13	18,252,736	29,702,514
Interest income	22	(188,613,553)	(140,491,954)
Working capital changes:		4,784,193,704	2,750,054,229
Inventories		(24,281,884)	(52,236,028)
Accounts receivable and prepayments		102,094,980	4,393,221
Accounts payable and accruals		(462,435,510)	278,936,471
Cash from operating activities		4,399,571,290	2,981,147,893
Employees' end of service benefits paid	13	(13,082,738)	(9,390,663)
Advance paid against end of service benefits	13	(2,955,331)	(21,968,865)
Net cash from operating activities		4,383,533,221	2,949,788,365
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(2,548,334,505)	(515,576,812)
Contribution to project under development	4	(349,402,521)	(40,021,495)
Additions to catalysts	5	(14,693,598)	(14,090,162)
Movement in time deposits maturing after 90 days		(1,335,520,343)	(1,343,707,657)
Interest income	22	188,613,553	140,491,954
Net cash used in investing activities		(4,059,337,414)	(1,772,904,172)
FINANCING ACTIVITIES			
Proceeds from term loan	12	1,820,000,000	–
Finance arrangement changes paid		–	(42,360,606)
Dividend paid to equity holders of the parent	11	(1,900,000,000)	(1,300,000,000)
Dividend paid to minority interest		(1,500,000)	(3,000,000)
Net cash used in financing activities		(81,500,000)	(1,345,360,606)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		242,695,807	(168,476,413)
Cash and cash equivalents at 1 January		97,580,727	266,057,140
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	340,276,534	97,580,727

The attached notes 1 to 29 form part of these consolidated financial statements.

consolidated statement of changes in equity

year ended 31 December 2008

	Attributable to equity holders of the parent					
	Share capital QR	Legal reserve QR	Cumulative changes in fair values QR	Retained earnings QR	Minority Interest QR	Total QR
Balance at 1 January 2007	250,000,000	154,898,366	-	4,481,949,965	15,985,097	4,902,833,428
Profit for the year 2007	-	-	-	2,547,369,496	1,743,102	2,549,112,598
Increase in share capital	750,000,000	-	-	(750,000,000)	-	-
Transfer to legal reserve	-	48,661,034	-	(48,661,034)	-	-
Dividend paid to minority shareholders	-	-	-	-	(3,000,000)	(3,000,000)
Dividends paid (Note 11)	-	-	-	(1,300,000,000)	-	(1,300,000,000)
Balance at 31 December 2007	1,000,000,000	203,559,400	-	4,930,658,427	14,728,199	6,148,946,026
Net unrealised loss on cash flow hedges (Note 16)	-	-	(446,409,569)	-	-	(446,409,569)
Total expenses for the year recognised directly in equity	-	-	(446,409,569)	-	-	(446,409,569)
Profit for the year 2008	-	-	-	4,684,025,699	2,096,458	4,686,122,157
Total income and expenses for the year	-	-	(446,409,569)	4,684,025,699	2,096,458	4,239,712,588
Transfer to legal reserve	-	698,819	-	(698,819)	-	-
Dividend paid to minority shareholders	-	-	-	-	(1,500,000)	(1,500,000)
Dividends paid (Note 11)	-	-	-	(1,900,000,000)	-	(1,900,000,000)
Balance at 31 December 2008	1,000,000,000	204,258,219	(446,409,569)	7,713,985,307	15,324,657	8,487,158,614

The attached notes 1 to 29 form part of these consolidated financial statements.

notes to the consolidated financial statements

at 31 December 2008

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 of the Group for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 18 February 2009.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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 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.

Basis of preparation

The consolidated financial statements of Qatar Fertiliser Company and its Subsidiary, Gulf Formaldehyde Company, (together the "Group") have been prepared in accordance with International Financial Reporting Standards 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.

IASB Standards and Interpretations issued but not adopted

The following IASB standards have been revised and issued but are not yet mandatory and have not yet been adopted by the Group.

- **IAS 1 Presentation of Financial Statements (Revised)**
The application of revised IAS 1, which will be effective for the year ending 31 December 2009, will result in amendments to the presentation of the consolidated financial statements.

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	5-20 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 income statement as the expense is incurred.



notes to the consolidated financial statements

at 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 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 property, plant and equipment when the asset is ready for its intended use.

Project under development

Project under development will be transferred to property, plant and equipment upon commencement of commercial production of the relevant asset.

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 2 to 5 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 and goods for resale	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 balance sheet 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 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 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 a 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 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 income statement when the liabilities are derecognised.

notes to the consolidated financial statements

at 31 December 2008

Borrowing costs

Borrowing costs attributable to acquisition or construction of property, plant and equipment (qualifying assets) are capitalised as part of cost of the asset up to the date of the asset is ready for its intended use. Other borrowing costs are recognised as an expense in the period in which they are incurred.

Accounts payable and accruals

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

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 where:

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

b) Financial liabilities

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

Where 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 profit or loss.

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 balance sheet date. All differences are taken to profit or loss.

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 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.

notes to the consolidated financial statements

at 31 December 2008

2. SIGNIFICANT ACCOUNTING POLICIES (continued) Derivative financial instruments and hedging (continued)

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 income statement. 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 profit or loss.

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 balance sheet 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 income statement 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 in equity, while any ineffective portion is recognised immediately in the income statement.

The Group uses forward currency contracts to hedge its risks associated with foreign exchange rate fluctuations. These are included in the balance sheet at fair value and any subsequent resultant gain or loss on forward currency contracts is recognised in the consolidated income statement.

Use of estimates

The preparation of consolidated financial statements in conformity with International Financial Reporting 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 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 income statement on a straight-line basis over the lease term.

Income Taxes

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

notes to the consolidated financial statements

at 31 December 2008

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 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

Cost:

At 1 January 2007	1,115,319,289	4,376,123,937	11,178,310	255,645,924	5,758,267,460
Additions	1,200,277	38,468,111	971,725	474,936,699	515,576,812
Retirement and disposals	–	–	(649,319)	–	(649,319)
At 31 December 2007	1,116,519,566	4,414,592,048	11,500,716	730,582,623	6,273,194,953
Depreciation:					
At 1 January 2007	521,307,047	3,019,068,159	10,700,054	–	3,551,075,260
Charge for the year	41,674,952	261,564,335	622,783	–	303,862,070
Retirement and disposals	–	–	(649,319)	–	(649,319)
At 31 December 2007	562,981,999	3,280,632,494	10,673,518	–	3,854,288,011
Net carrying amount: At 31 December 2007	553,537,567	1,133,959,554	827,198	730,582,623	2,418,906,942

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 35,908,114 (2007: QR Nil) are included in capital work-in-progress.
- The depreciation charge has been allocated in the consolidated income statement as follows:

	2008 QR	2007 QR
Cost of sales	213,839,293	259,882,558
Administration expenses	46,324,063	43,979,512
	260,163,356	303,862,070

notes to the consolidated financial statements

at 31 December 2008

4. PROJECT UNDER DEVELOPMENT

	2008 QR	2007 QR
Advance for formation of a subsidiary	464,129,923	114,727,402
Advance for QAFCO-5	888,460,891	1,152,707,604
	1,352,590,814	1,267,435,006

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 will have as an objective the constructing facilities for the production of Melamine. The balance as at 31 December represents the contribution by the Group towards the construction of the facilities. The Group will own 60% shares of the Qatar Melamine Company, which will commence its operations in early 2009.

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

	2008 QR	2007 QR
Balance at 1 January	114,727,402	74,705,907
Additional fund contribution	349,402,521	40,021,495
Balance at 31 December	464,129,923	114,727,402

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 contract the Group made 10% advance payment to the main contractor and this amount will be recovered at the same percentage through the progress payments. The project is expected to be completed in mid 2011.

The Group also 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. For the arrangement of the loan, the Group paid QR 42 million as arrangement fees, which was included under project advances. During the year, the arrangement fees have been transferred to interest bearing loan as the loan with the commencement of the drawn for the loan.

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

	2008 QR	2007 QR
Balance at 1 January	1,152,707,604	-
Payments made	-	1,152,707,604
Transfer to term loan (Note 12)	(42,360,606)	-
Recovered during the year	(221,886,107)	-
Balance at 31 December	888,460,891	1,152,707,604

notes to the consolidated financial statements

at 31 December 2008

5. CATALYSTS

	2008 QR	2007 QR
Cost:		
Balance at 1 January	53,924,275	39,834,113
Additions	14,693,598	14,090,162
Balance at 31 December	68,617,873	53,924,275
Amortisation:		
Balance at 1 January	35,261,039	27,392,038
Charges for the year	8,269,008	7,869,001
Balance at 31 December	43,530,047	35,261,039
Net carrying amount at 31 December	25,087,826	18,663,236

6. INVENTORIES

	2008 QR	2007 QR
Finished goods	40,235,894	57,820,530
Goods in transit	27,296,632	7,728,111
Chemicals and catalysts	17,091,736	16,676,520
Packing materials, consumables and supplies	1,169,806	349,814
Spare parts	250,068,981	227,134,707
	335,863,049	309,709,682
Provision for obsolete and slow moving spare parts	(28,769,941)	(26,898,458)
	307,093,108	282,811,224

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

	2008 QR	2007 QR
At 1 January	26,898,458	23,956,718
Provided during the year (Note 21)	4,307,481	2,953,445
Amounts written off and reversed	(2,435,998)	(11,705)
At 31 December	28,769,941	26,898,458

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7. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2008 QR	2007 QR
Trade accounts receivable	147,129,765	128,067,298
Amounts due from related parties (Note 19)	423,508,944	468,093,583
Prepayments	15,475,122	13,534,820
Other receivables	89,534,461	50,484,847
	675,648,292	660,180,548

As at 31 December 2008, none of the trade receivable was impaired. (2007: Nil)

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
2008	660,173,170	660,173,170	–	–	–
2007	648,645,728	648,645,728	–	–	–

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

	2008 QR	2007 QR
Bank balances and cash	5,018,916,534	3,440,700,384
Time deposits maturing after 90 days	(4,678,640,000)	(3,343,119,657)
Cash and cash equivalents at 31 December	340,276,534	97,580,727

Included in the bank balances and cash are time deposits denominated in United States Dollars and Euros equivalent to QR 2,894,640,000 (2007: QR 72,330,000). In addition, bank balances and cash include call deposits of QR 27,209,849 (2007: QR 1,242,891) maintained in Qatar Riyals.

9. SHARE CAPITAL

	2008 QR	2007 QR
Authorised, issued and fully paid 10,000,000 ordinary shares of QR 100 each	1,000,000,000	1,000,000,000

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10. LEGAL RESERVE

As required by the Qatar Fertiliser Company's Articles of Association, 10% of the net 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. This reserve is not available for distribution, except in circumstances stipulated in the Company's Articles of Association and Qatar Commercial Companies' Law No. 5 of 2002.

In the books of the subsidiary Company, as required by Qatar Commercial Companies Law No. 5 of 2002 and the 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 reserve is not available for distribution except in the circumstances stipulated in the above law and the Company's Articles of Association.

11. DIVIDEND PAID AND PROPOSED

	2008 QR	2007 QR
Declared and paid during the year:		
Final dividends for 2007 QR 90 per share (2007: QR 130)	900,000,000	1,300,000,000
Interim dividends for 2008 QR 100 per share (2007: Nil)	1,000,000,000	–
	1,900,000,000	1,300,000,000

The Board of Directors has proposed a final cash dividend of QR 115 per share totaling QR 1,150,000,000 for 2008, which is subject to the approval of the shareholders at the Annual General Meeting.

12. INTEREST BEARING LOAN

	2008 QR	2007 QR
Term loan	1,820,000,000	–
Less: Deferred financing arrangement costs	(39,726,481)	–
	1,780,273,519	–
Presented in the balance sheet as follows:		
Current portion	–	–
Non current portion	1,780,273,519	–
	1,780,273,519	–



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12. INTEREST BEARING LOAN (continued)

- 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 first drawdown.

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;

	2008 QR	2007 QR
Transferred from project advances (Note 4)	42,360,606	-
Amortised during the year	(2,634,125)	-
At 31 December	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 its policy, the Group provides for end of service benefits for its employees. The movements in the provision recognised in the Balance Sheet are as follows:

	2008 QR	2007 QR
Balance as at 1 January	108,236,949	87,925,098
Provision during the year	18,252,736	29,702,514
End of service benefits paid	(13,082,738)	(9,390,663)
	113,406,947	108,236,949
Advances against end of service benefits	(48,904,607)	(45,949,276)
Balance as at 31 December	64,502,340	62,287,673

14. ACCOUNTS PAYABLE AND ACCRUALS

	2008 QR	2007 QR
Trade payables	552,286,223	1,320,008,509
Amounts due to related parties (Note 19)	650,978,591	380,255,418
Other payables	83,156,347	48,592,744
	1,286,421,161	1,748,856,671

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15. INCOME TAX PAYABLE

In accordance with the regulations of the Qatar Department of Public Revenues and Taxes, the Qatar Fertiliser Company Q.S.C.C 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 Plants 4 and 5.

For the purpose of these financial statements, the income tax obligations of the Qatar Fertiliser Company Q.S.C.C 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:

	2008 QR	2007 QR
Profit attributable to QAFCO Plants 1,2 & 3	2,810,677,584	1,467,781,432
Profit attributable to QAFCO Plants 4 and 5 (Exempt from tax)	1,811,961,356	1,082,520,826
Accounting profit	4,622,638,940	2,550,302,258
Accounting profit attributable for taxation	2,810,677,584	1,467,781,432
Expenses that are not deductible in determining taxable profit:		
Board of directors remuneration	988,305	1,326,000
Provision for slow moving inventory	3,230,611	2,215,084
Taxable profit	2,814,896,500	1,471,322,516
Effective tax rate for the share of profit attributable to foreign shareholders	8.75%	8.74%
Income tax payable	246,169,694	128,606,970

16. OTHER FINANCIAL ASSETS AND LIABILITIES

	2008 QR	2007 QR
Other financial assets		
Derivatives:		
Forward foreign exchange contract collar – Current	161,006,487	-
Other financial liabilities		
Derivatives:		
Interest rate swap	386,414,545	-
Forward foreign exchange contract collar	221,001,511	-
	607,416,056	-
Presented in the balance sheet as follows:		
Non current portion	386,414,545	-
Current portion	221,001,511	-
	607,416,056	-



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16. OTHER FINANCIAL ASSETS AND LIABILITIES (continued)

The maturity profile of the derivatives was as follows:

	Positive fair value	Negative fair value	Notional amount	3 – 12 months	1 – 5 years	More than 5 years
At 31 December 2008	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"	QR "Mn"
Interest rate swaps	–	386	2,548	–	1,019	1,529
Forward foreign exchange contract with collar	161	221	2,202	1,943	259	–
	161	607	4,750	1,943	1,278	1,529

Interest rate swaps:

As at 31 December 2008 the Qatar Fertiliser Company Q.S.C.C 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). As at 31 December 2008, the measurement of the fair values of the hedges resulted in a negative amount of QR 386 million (2007: QR Nil) 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, commodity or financial instrument at a pre-determined price. As at 31 December 2008, the measurement of the fair values of the collar resulted in a positive amount of QR 161 million and negative amount of QR 221 million (2007: QR Nil) which has been recognized in the equity as changes in fair values and as derivative assets and liabilities.

17. EXPENDITURE COMMITMENTS

	2008 QR	2007 QR
a) Capital expenditure commitments:		
Estimated capital expenditure contracted for at the balance sheet date but not provided for:		
QAFCO-5 expansion project (i)	9,875,143,895	10,966,344,169
Qatar Melamine project (ii)	230,531,277	431,286,919
Urea-1 Revamp project (iii)	139,073,803	296,283,494
Other contract commitments	7,571,343	9,664,994
	10,252,320,318	11,703,579,576

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- On 2 December 2007, the Group signed an agreement with Hyundai Construction & Engineering Co. Ltd. and Snamprogetti S.P.A for building a new Urea and Ammonia plant and Urea Formaldehyde Concentrate (UFC) plant –UFC 85. The value of the contract including variation orders is US\$ 3,515,467,000.
- 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 facilities to produce Melamine. The value of the contract is 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.
- The Group has signed and agreement with Urea Casale S.A for building new Urea- 1 Revamp project. The value of the contract including variation orders is US\$ 98,014,105.

	2008 QR	2007 QR
b) Operating lease commitments:		
Future minimum lease payments:		
Within one year	25,180,333	32,508,623
After one year but not more than five years	20,297,832	44,101,932
More than five years	11,496,762	12,872,995
Total operating lease expenditure contracted for at the balance sheet date	56,974,927	89,483,550

18. CONTINGENCIES

Contingent liabilities

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

	2008 QR	2007 QR
Letters of credit	236,786,114	667,104,481
Bank guarantees	5,157,352	3,770,367
	241,943,466	670,874,848

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

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 entered on 18 June 1994 with Yara International ASA (formally known as Hydro Asia Trade Pte Limited), 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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19. RELATED PARTY DISCLOSURE (continued)

- 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 entered with QP, on 18 June 1994, 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 income statement are as follows:

	2008 QR	2007 QR
Shareholder:		
Yara International ASA		
– Sale of Urea and Ammonia	3,309,694,515	1,971,710,902
– Sales commission	97,712,349	59,201,633
– Purchase of inventories	9,140,010	10,373,056
– Technical service charges	3,500,000	4,000,000
Other related party:		
Qatar Petroleum		
– Purchase of feed stock	756,704,230	488,651,416
– Purchase of Methanol	29,450,687	24,146,219
– Land lease and staff accommodation lease charges	7,432,623	7,432,623
– Training costs	4,876,359	7,356,584
– Insurance	16,664,424	1,992,274
– Other charges	889,070	1,158,435

Balances with related parties included in the balance sheet are as follows:

	2008		2007	
	Accounts receivable QR	Accounts payable QR	Accounts receivable QR	Accounts payable QR
Yara International A.S.A	310,032,416	32,061,667	415,741,119	38,898,903
Qatar Petroleum	15,008,650	618,916,924	909,676	341,356,515
Fertiliser Holding A.S.A	98,467,878	–	51,442,788	–
	423,508,944	650,978,591	468,093,583	380,255,418

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 was as follows:

	2008 QR	2007 QR
Short-term benefits	12,510,479	7,916,790
Remuneration for directors	1,592,103	1,805,256
Qatari employees' pension fund contribution	383,051	316,210
	14,485,633	10,038,256

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20. SALES- NET

	2008 QR	2007 QR
Sales –gross	6,218,413,290	3,701,109,761
Freight and insurance	(98,864,926)	(55,344,424)
Sales –net	6,119,548,364	3,645,765,337

21. COST OF SALES

	2008 QR	2007 QR
Raw materials	810,867,068	481,865,356
Salaries, wages and related expenses	265,802,006	204,484,973
Depreciation (Note 3)	213,839,293	259,882,558
Spares and equipment	84,987,160	76,227,014
External services	40,442,519	35,823,424
Insurance, rents and fees	35,817,348	26,674,667
Handling and bagging	10,218,563	4,246,208
Amortisation of catalysts (Note 5)	8,269,008	7,869,001
Provision for slow moving inventory (Note 6)	4,307,481	2,953,445
Amortization of shutdown costs	427,695	–
Maintenance allocated to general and administrative expenses (Note 24)	(27,561,191)	(11,950,058)
	1,447,416,950	1,088,076,588

22. OTHER INCOME

	2008 QR	2007 QR
Interest income	188,613,553	140,491,954
Foreign currency exchange gain	69,047,594	27,528,796
Miscellaneous income	24,094,927	11,302,941
Reversal of excess provision made during previous year	17,827,865	10,503,515
Demurrages and dispatch	8,385,123	6,360,244
Sale of gas	3,951,551	6,320,566
Club contribution	756,668	959,971
Rent income	192,176	118,300
Net (loss) gain from hiring of vessel	(1,212,989)	5,115,266
Contribution from Norwegian Government for QAFCO Norwegian school	1,183,753	1,341,394
	312,840,221	210,042,947



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23. SELLING AND DISTRIBUTION COSTS

	2008 QR	2007 QR
Sales commission	109,648,300	66,183,186
Other sales expenses	3,730,312	664,280
	113,378,612	66,847,466

24. ADMINISTRATIVE EXPENSES

	2008 QR	2007 QR
Salaries and related expenses	52,358,855	48,755,945
Depreciation (Note 3)	46,324,063	43,979,512
Maintenance (Note 21)	27,561,191	11,950,058
Spares and equipment	7,445,923	5,854,090
External services	17,046,416	7,968,848
Insurance, rents and fees	6,723,837	6,703,620
Travel expenses	6,396,423	4,832,959
Communication expenses	3,626,736	2,464,735
Public relations and gifts	6,268,121	5,675,705
Board of Directors remuneration (Note 19)	1,592,103	1,805,256
Miscellaneous expenses	10,127,198	11,780,904
	185,470,866	151,771,632

25. PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	2008 QR	2007 QR
Total staff cost	318,160,861	253,240,918
Rental – operating lease	30,885,882	11,397,423
Inventories recognised as expense upon sale of finished goods	906,072,791	562,338,579

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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).

Fixed interest rate instruments

	2008 QR	2007 QR
Short term bank deposits	4,678,640,000	3,343,119,657
Effective interest rate	4.03%	4.20%
Floating interest rate instruments		
Call deposits	27,209,849	1,242,891
Interest bearing loan	(1,820,000,000)	–
	(1,792,790,151)	1,242,891

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 interest cost 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 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 2008. 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
Year ended 31 December 2008			
Variable rate instruments			
Call deposits	68,024	–	–
Interest bearing loan	–	4,550,000	–
Interest rate swaps	–	–	(6,370,000)
	68,024	4,550,000	(6,370,000)

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26. FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk (continued)

	Profit +25b.p QR	Property, plant and equipment +25b.p QR	Equity +25 b.p QR
Year ended 31 December 2007			
Variable rate instruments			
Call deposits	3,107	-	-
Interest bearing loan	-	-	-
Interest rate swaps	-	-	-
	3,107	-	-

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 87% of outstanding receivable at 31 December 2008 (2007: 89%).

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;

	2008 QR	2007 QR
Bank balances	5,018,916,534	3,440,760,384
Trade accounts receivable	147,129,765	128,067,298
Amounts due from related parties	423,508,944	468,093,583
Other financial assets	89,534,461	50,484,847
	5,679,089,704	4,087,406,112

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.

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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
Other payables	83,156,347	-	-	-	83,156,347
Term loan	19,019,587	54,420,773	1,321,655,638	832,528,249	2,227,624,247
Total	1,305,440,748	54,420,773	1,321,655,638	832,528,249	3,514,045,408

Year ended 31 December 2007

Trade accounts payable	-	1,320,008,509	-	-	1,320,008,509
Amounts due to related parties	-	380,255,418	-	-	380,255,418
Other payables	-	48,592,744	-	-	48,592,744
Total	-	1,748,856,671	-	-	1,748,856,671

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 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
2008		
GBP	+5%	100,720
Euro	+5%	5,215,909
2007		
GBP	+5%	30,984
Euro	+5%	3,633,712

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 balance.

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 8,918,248,526 at 31 December 2008 (2007 : 6,134,217,827).



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27. FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances, amounts due from related parties, trade accounts receivable and other financial assets including positive fair value of derivatives. Financial liabilities consist of interest bearing loan, amounts due to related parties, trade accounts payable and other financial liabilities including negative fair value of derivatives.

The fair values of the financial instruments are not materially different from their carrying values.

28. 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.

29. COMPARATIVE FIGURES

Advances paid for the construction of QAFCO-5 project and the arrangement fee for the term loan included under the caption of capital work-in-progress in property, plant and equipment amounting to QR 1,152,707,604 have been reclassified and included as "project under development".

Provision for depreciation included in accounts payable and accruals as of 31 December 2007 amounting to QR 430,000 have been reclassified and included under the caption of accumulated depreciation in property, plant and equipment.

The tax liability attributable to foreign shareholders as of 31 December 2007 amounting to QR 128,606,970 paid by the Qatar Fertiliser Company Q.S.C.C on behalf of shareholders to the Department of Income Tax has been included as income tax payable and amounts due from related parties.

These changes have been made to improve the quality of information presented. However, these reclassifications did not have any effect on the profit for the year and total equity reported for the year ended 31 December 2007.