

**QATAR SHIPPING COMPANY (S.P.C.)
DOHA – QATAR**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2010**

QATAR SHIPPING COMPANY (S.P.C.)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2010

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QR. 32205

INDEPENDENT AUDITOR'S REPORT

To The Owner
Qatar Shipping Company (S.P.C.)
Doha – Qatar

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Qatar Shipping Company (S.P.C.) (“the Company”), which comprise the consolidated statements of financial position as at December 31, 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's responsibility

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

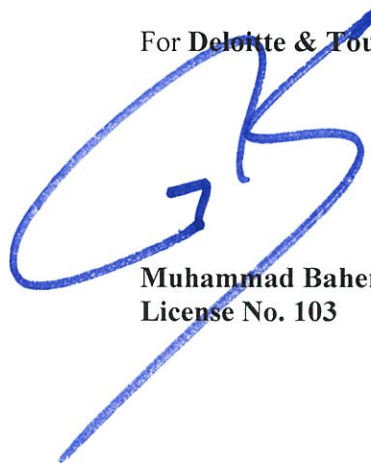
Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of Qatar Shipping Company (S.P.C.), as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Legal and Regulatory Requirements

Furthermore, in our opinion the consolidated financial statements provide the information required by the Qatar Commercial Law No (5) of 2002 and the Company's Articles of Association. We are also of the opinion that proper books of accounts were maintained by the Company. To the best of our knowledge and belief and according to information given to us, no contraventions of the law or the Company's Articles of Association were committed during the year which would materially affect the Company's activities or its financial position.

For Deloitte & Touche



Muhammad Bahemia
License No. 103

Doha – Qatar
March 16, 2011

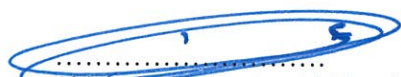
QATAR SHIPPING COMPANY (S.P.C.)


CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2010

| | Notes | 2010 QR'000 | 2009 QR'000 |
|--|--------|------------------|------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and bank balances | 5 | 360,926 | 628,263 |
| Trade receivables and prepayments | 6 | 152,998 | 137,293 |
| Financial assets at fair value through profit and loss | 7(a) | 116,618 | 71,960 |
| Inventories | 8 | 4,849 | 5,628 |
| | | <u>635,391</u> | <u>843,144</u> |
| Non current assets | | | |
| Loans to LNG and LPG companies | 9 | 382,244 | 467,085 |
| Investments available for sale | 7(b) | 197,948 | 2,180,713 |
| Investment in associate companies | 10 | 1,996,664 | 60,380 |
| Investment property | 11 | 15,720 | 16,683 |
| Vessels, property and equipment | 12 | 1,789,479 | 1,751,204 |
| | | <u>4,382,055</u> | <u>4,476,065</u> |
| Total assets | | <u>5,017,446</u> | <u>5,319,209</u> |
| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Trade payables and accruals | 13 | 97,295 | 96,378 |
| Term loans | 14 | 157,853 | 420,111 |
| | | <u>255,148</u> | <u>516,489</u> |
| Non current liabilities | | | |
| Term loans | 14 | 580,353 | 474,212 |
| Employees' terminal benefits | 15 | 7,356 | 6,996 |
| | | <u>587,709</u> | <u>481,208</u> |
| Total liabilities | | <u>842,857</u> | <u>997,697</u> |
| Equity | | | |
| Share capital | 16 (a) | 1,100,000 | 1,100,000 |
| Legal reserve | 16 (b) | 1,220,754 | 1,220,754 |
| Fair value reserve | 7 (c) | 1,257,080 | 1,203,020 |
| Hedging reserve | 23 | (207,553) | (51,851) |
| Proposed cash dividends | 16 (d) | -- | 440,000 |
| Retained earnings | | 804,308 | 409,589 |
| | | <u>4,174,589</u> | <u>4,321,512</u> |
| Total liabilities and equity | | <u>5,017,446</u> | <u>5,319,209</u> |

These consolidated financial statements were approved by the management on March 16, 2011 and signed on its behalf by the following:


 Shk. Ali Bin Jassim Al-Thani
 Authorized signatory


 K. K. Kothari
 Authorized signatory



QATAR SHIPPING COMPANY (S.P.C.)

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2010

| | <u>Notes</u> | <u>2010</u> QR'000 | <u>2009</u> QR'000 |
|---|--------------|-----------------------|-----------------------|
| Operating revenue | | 499,157 | 539,931 |
| Operating costs | 18 | <u>(293,398)</u> | <u>(290,357)</u> |
| Gross operating income | | 205,759 | 249,574 |
| General and administrative expenses | 19 | (71,617) | (50,467) |
| Finance costs | | (46,697) | (26,454) |
| Interest income | | 62,691 | 57,923 |
| Investment income/ (loss) | 20 | 230,807 | (4,442) |
| Other income | | 10,300 | 19,338 |
| Gain from sale of a subsidiary | 21 | -- | 327,947 |
| Gain on sale of vessels, property and equipment | | 3,476 | -- |
| Impairment loss on available-for-sale investments | 7 | <u>--</u> | <u>(23,208)</u> |
| Income before board of directors' remuneration and social contribution | | 394,719 | 550,211 |
| Proposed Board of Directors' remuneration | 16(c) | -- | (10,750) |
| Social contribution costs | | <u>--</u> | <u>(13,158)</u> |
| Net income for the year | | <u>394,719</u> | <u>526,303</u> |
| Basic earnings per share (expressed in QR per share) | | <u>3.58</u> | <u>4.78</u> |
| Par value of each share (expressed in QR per share) | 16 (a) | <u>10</u> | <u>10</u> |
| Weighted average number of shares (thousand) | 16 (a) | <u>110,000</u> | <u>110,000</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

QATAR SHIPPING COMPANY (S.P.C.)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2010

| | <u>2010</u> <u>QR'000</u> | <u>2009</u> <u>QR'000</u> |
|--|------------------------------|------------------------------|
| Net income for the year | <u>394,719</u> | <u>526,303</u> |
| Other comprehensive income | | |
| Net movement in fair value of available for sale investments | 54,060 | 231,535 |
| Net movement in fair value of effective cash flow hedges | <u>(155,702)</u> | <u>(35,231)</u> |
| Total comprehensive income for the year | <u><u>293,077</u></u> | <u><u>722,607</u></u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

QATAR SHIPPING COMPANY (S.P.C.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2010

| | Share capital | Legal Reserve | Fair value reserve | Hedging reserve | Proposed cash dividends | Retained earnings | Total |
|-------------------------------------|------------------|------------------|--------------------|------------------|-------------------------|-------------------|------------------|
| | QR '000 | QR '000 | QR '000 | QR '000 | QR '000 | QR '000 | QR '000 |
| Balance at January 1, 2009 | 1,100,000 | 1,220,754 | 971,485 | (16,620) | 385,000 | 323,286 | 3,983,905 |
| Dividend paid for 2008 | -- | -- | -- | -- | (385,000) | -- | (385,000) |
| Total comprehensive income | -- | -- | 231,535 | (35,231) | -- | 526,303 | 722,607 |
| Proposed cash dividends | -- | -- | -- | -- | 440,000 | (440,000) | -- |
| Balance at December 31, 2009 | 1,100,000 | 1,220,754 | 1,203,020 | (51,851) | 440,000 | 409,589 | 4,321,512 |
| Dividend paid for 2009 | -- | -- | -- | -- | (440,000) | -- | (440,000) |
| Total comprehensive income | -- | -- | 54,060 | (155,702) | -- | 394,719 | 293,077 |
| Balance at December 31, 2010 | 1,100,000 | 1,220,754 | 1,257,080 | (207,553) | -- | 804,308 | 4,174,589 |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

QATAR SHIPPING COMPANY (S.P.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

| | Note | 2010 QR'000 | 2009 QR'000 |
|--|------|------------------|------------------|
| OPERATING ACTIVITIES | | | |
| Net income for the year | | 394,719 | 526,303 |
| Adjustments for: | | | |
| Depreciation and amortization | | 86,085 | 80,629 |
| Finance costs | | 46,697 | 26,454 |
| Interest income | | (62,691) | (57,923) |
| Dividend income | | (77,271) | (7,631) |
| (Profit)/ Loss on sale of investments | | (4,977) | 11,238 |
| Unrealized profit on fair value of financial assets at fair value through profit or loss | | (33,314) | (2,963) |
| Impairment of available for sale investments | | -- | 23,208 |
| Increase in employees' terminal benefits | | 1,635 | 1,068 |
| Rental from investment property | | (4,178) | (4,178) |
| Gain on sale of vessels and equipment | | (3,476) | -- |
| Share of (loss)/income in investments in associate companies | | (115,245) | 3,798 |
| Profit from sale of subsidiary | | -- | (327,947) |
| | | <u>227,984</u> | <u>272,056</u> |
| Working Capital Changes: | | | |
| Inventories | | 779 | 1,730 |
| Accounts receivable and prepayments | | (171,407) | 312,901 |
| Retention receivables | | -- | 10,971 |
| Accounts payable and accruals | | 918 | (437,530) |
| Cash generated from operations | | <u>58,274</u> | <u>160,128</u> |
| Employees terminal benefits paid | | (1,275) | (12,869) |
| Net Cash from operating activities | | <u>56,999</u> | <u>147,259</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of vessels, property and equipment | | (123,827) | (75,823) |
| Sale of vessels, property and equipment | | 3,906 | 12 |
| Interest income received | | 37,699 | 29,691 |
| Purchase of investments | | (14,798) | - |
| Proceeds from sale of investments | | 29,256 | 37,080 |
| Proceeds from loans to LNG and LPG Companies | | 109,832 | 7,580 |
| Investment in associate companies | | 194,961 | 50,139 |
| Profit from sale of subsidiary | | -- | 327,947 |
| Rental from investment property | | 4,178 | 4,178 |
| Dividend income received | | 77,271 | 7,631 |
| Net Cash from investing activities | | <u>318,478</u> | <u>388,435</u> |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | (440,000) | (385,000) |
| Finance costs paid | | (46,697) | (26,454) |
| Term loans | | (156,117) | (4,146) |
| Finance lease repayment, net | | -- | (3,564) |
| Net cash used in financing activities | | <u>(642,814)</u> | <u>(419,164)</u> |
| Increase in cash and cash equivalents | | <u>(267,337)</u> | <u>116,530</u> |
| Cash and cash equivalents at the beginning of the year | | <u>628,263</u> | <u>511,733</u> |
| Cash and cash equivalents at the end of the year | 5 | <u>360,926</u> | <u>628,263</u> |
| Major Non-cash transactions | | | |
| Transfer of available for sale investment to investment in associate | | <u>2,016,000</u> | <u>--</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

Qatar Shipping Company (S.P.C.) (the "Company" or "Q-Ship") is a Single Person Company registered in the State of Qatar under commercial registration number 15318. The shareholders of Qatar Navigation and Qatar Shipping at their extraordinary general assembly held on April 8, 2010, approved the implementation of the agreement dated March 21, 2010 between Qatar Navigation and Qatar Shipping, pursuant to which each 2.2 shares of Qatar Shipping were exchanged for one newly issued share of Qatar Navigation. As a result, the Company became a Single Person Company wholly owned by Qatar Navigation effective from January 1, 2010.

The Company is engaged in international shipping. Its main objectives are hiring, selling, leasing and operation of ships and other means of marine transport.

The consolidated financial statements for the year ended December 31, 2010 comprise the financial statements of the Company, its subsidiaries and its joint ventures (together referred to as the "Group").

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

At the date of authorization of these financial statements, the following standards and interpretations were effective:

(i) Revised standards:

| | |
|--------------------|---|
| • IFRS 1 (Revised) | <i>First time adoption of International Financial Reporting Standards</i> |
| • IFRS 2 (Revised) | <i>Share-based Payment</i> |
| • IFRS 3 (Revised) | <i>Business combinations</i> |
| • IFRS 5 (Revised) | <i>Non Current assets Held for Sale & Discontinued Operations</i> |
| • IFRS 8 (Revised) | <i>Operating Segments</i> |
| • IAS 1 (Revised) | <i>Presentation of Financial Statements.</i> |
| • IAS 7 (Revised) | <i>Statement of cashflows</i> |
| • IAS 17 (Revised) | <i>Leases</i> |
| • IAS 27 (Revised) | <i>Consolidated and Separate Financial Statements</i> |
| • IAS 28 (Revised) | <i>Investment in associates</i> |
| • IAS 31 (Revised) | <i>Investment in joint ventures</i> |
| • IAS 36 (Revised) | <i>Impairment of Assets</i> |
| • IAS 38 (Revised) | <i>Intangible Assets</i> |
| • IAS 39 (Revised) | <i>Financial Instruments : Recognition and Measurement</i> |

(ii) Revised Interpretations

| | |
|------------|---|
| • IFRIC 9 | <i>Reassessment of Embedded Derivatives</i> |
| • IFRIC 16 | <i>Hedges of Net Investment in Foreign Operations</i> |

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.1 Standards and Interpretations effective in the current period (continued)

(iii) Withdrawn Interpretations

- IFRIC 8 *Scope of IFRS 2*
- IFRIC 11 *Group and Treasury Share Transactions*

(iv) New Interpretations

- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*

The adoption of these standards and Interpretations had no significant effect on the financial statements of the Group for the year ended December 31, 2010, other than certain presentation and disclosure changes.

2.2 Standards and Interpretations in issue not yet effective

At the date of authorization of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

(i) Revised Standards

Effective for annual periods beginning on or after February 1, 2010

- IAS 32 (Revised) *Financial Instruments : Presentation*

Effective for annual periods beginning on or after July 1, 2010

- IFRS 1 (Revised) *First time adoption of International Financial Reporting Standards.*
- IFRS 3 (Revised) *Business combinations*
- IAS 27 (Revised) *Consolidated and Separate Financial Statements*

Effective for annual periods beginning on or after January 1, 2011

- IFRS 1 (Revised) *First time adoption of International Financial Reporting Standards*
- IFRS 7 (Revised) *Financial Instruments disclosures* IAS 1 (Revised) – *Presentation of Financial Statements*
- IAS 24 (Revised) *Related Party Disclosures*
- IAS 34 (Revised) *Interim Financial Reporting.*

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

2.2 Standards and Interpretations in issue not yet effective (continued)

(ii) New Standard:

Effective for annual periods beginning on or after January 1, 2013 (Early adoption allowed)

- IFRS 9 *Financial Instruments – Classification and Measurement*

(iii) Revised Interpretations

Effective for annual periods beginning on or after January 1, 2011

- IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

(iv) New Interpretations

Effective for annual periods beginning on or after July 1, 2010

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group in the period of initial application, other than certain presentation and disclosure changes.

3. BASIS OF CONSOLIDATION

The consolidated financial statements of the Group include the financial statements of the Company, its controlled subsidiaries and its joint ventures listed below. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

a) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when control commences.

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries at the statement of financial position date:

- **Gulf Shipping Investment Company W.L.L., Qatar (Gulf Shipping)** is a limited liability company incorporated in Qatar on 26 December 2004 with a share capital of QR.200,000. The Company has a controlling interest of 99% in this subsidiary. The principal activity of Gulf Shipping is to carry out all shipping related activities. The financial statements of Gulf Shipping are immaterial to the Group and are included in the accompanying consolidated financial statements based on management accounts.

- **Qatar Shipping Company (India) Private Limited (“Q-Ship India”)** is a private limited company incorporated in India on 19 December 2008 with a share capital of INR 12,000,000 and is wholly owned by the Company. The principal activity of the company is to carry out all shipping related activities. The financial statements of Q-Ship India are immaterial to the Group and are included in the accompanying consolidated financial statements based on the management accounts.

3. BASIS OF CONSOLIDATION (CONTINUED)

- **Ocean Marine Services W.L.L (“Ocean Marine”)** is a limited liability company incorporated in Qatar on 6 September 2009 with a share capital of QR 2,000,000 and is wholly owned by the Group. The principal activity of the company is to carry out all shipping related activities. The financial statements of Ocean Marine are immaterial to the Group and are included in the accompanying consolidated financial statements based on the management accounts.

During the year 2009, the Group has sold Qatar Engineering & Construction W.L.L (“Q-Con”) for a price of US\$ 110 million. Management has de-consolidated the financial results of Q-Con effective 1 January 2009 (Note 21).

b) Joint ventures

Joint ventures are those entities over which activities the Company has joint control, established by contractual agreements. The consolidated financial statements include the Company’s proportionate share of the entities’ assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences.

Details of the joint ventures are shown in note 22.

Transactions eliminated on consolidation

Inter-group balances and transactions, and any unrealized gains arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are used in the preparation of these consolidated financial statements:

a) Statement of compliance

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

b) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention, except for available for sale investments, financial assets at fair value through profit or loss and derivatives financial instruments that have been measured at fair values.

The financial statements are presented in Qatari Riyals, which is the Group’s functional and presentation currency and all values are rounded to the nearest thousand (QR.’000) except when otherwise indicated.

c) Inventories

Inventories are stated at the lower of cost and net realisable value less allowance for obsolete and slow moving items. Cost of oil and lubricants is based on ‘first in first out’ principle and includes expenditures incurred in bringing each product to its present location and condition.

The cost of construction material spares and merchandise is based on the weighted average method. Net realisable value is based on estimated selling prices less any further costs expected to be incurred for disposal.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Trade receivables and other receivables

Trade receivables 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 when there is no possibility of recovery.

e) Investments

All investments are initially recognized at cost, being the fair value of the consideration given including transaction costs associated with the investment. The Group maintains the following different investment portfolios:

Financial assets at fair value through profit or loss

Investments are classified as financial assets at fair value through profit or loss if they are acquired for the purpose of selling in the near term. These investments are subsequently remeasured at fair value. All related unrealised gains or losses are included in the consolidated statement of income. Interest earned or dividends received are included in interest and dividend income respectively.

Available-for-sale investments

Available-for-sale investments are those investments that are designated as available-for-sale or are not classified in the preceding category.

After initial recognition, investments which are classified "available for sale-quoted equities and bonds" are remeasured at fair value, with any resultant gain or loss directly recognised as a separate component of other comprehensive income and accumulated in shareholders equity until the investment is sold, collected, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

Due to the nature of cash flows arising from the Group's unquoted investments, the fair value of such investments cannot be reliably measured and consequently, these investments are carried at cost, less provision for impairment losses, if any.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in the consolidated statement of income, is transferred from equity to the consolidated statement of income.

Investment in Associates

The Group's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate, less any impairment in value. The consolidated statement of income reflects the Group's share of the results of its associates.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and balance with banks under current, call and fixed deposits with original maturities of less than 90 days.

g) Investment property

Land and buildings are considered as investment properties only when they are being held to earn rentals or for long term capital appreciation or both.

Investment properties are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. The cost of property includes all directly attributable costs including borrowing costs that are directly attributable to the construction of the assets and excludes the cost of day-to-day servicing of an investment property.

Depreciation on building is calculated on straight line basis over the estimated useful life of 25 years.

The carrying values of investment properties 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.

An item of investment property 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.

h) Vessels, property and equipment

Vessels, property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Expenditures incurred to replace components of vessels, property and equipment (i.e major inspection and overhaul costs), are capitalised. Other subsequent expenditures are capitalised only when they increase the future economic benefits of the vessels, property and equipment. All other expenditures are recognised in the consolidated statement of income as an expense as and when incurred.

Depreciation is provided on a straight line basis on all vessels, property and equipment, other than freehold land, at rates calculated to write off the cost, less estimated recoverable value, of each asset over its estimated useful life.

The estimated useful lives of the assets are:

| | | | |
|--|-------------|----------------------|------------|
| Ocean going vessels | 20-30 years | Office equipment | 2-5 years |
| Offshore service vessels (new) | 20 years | Motor vehicles | 5 years |
| Buildings (including Portable buildings & camps) | 20 years | Furniture & fixtures | 5 years |
| Offshore service vessels (Second hand) | 3-10 years | Plant & Machinery | 2-10 years |
| Dry docking | 2.5-5 years | | |

The cost of used vessels is depreciated over their remaining useful lives.

The depreciation method and the useful lives of the vessels, property and equipment are re-assessed annually by management.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Trade payable and accruals

Accounts payable and accruals are recognised for amounts to be paid in the future for goods or services received, whether or not billed by suppliers.

j) Term loans

Interest bearing loans and borrowings are recognized initially at fair value of the amounts borrowed, less directly attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are measured at amortized cost using the effective interest method, with any differences between the cost and final settlement values being recognized in the consolidated statement of income over the period of borrowings. Installments due within one year at amortised cost are shown as a current liability. Gains or losses are recognised in the consolidated statement of income when the liabilities are derecognized.

k) Employees' terminal benefits

End of service benefits plan

The Group provides for end of service benefits determined in accordance with the applicable law and the Group regulations based on employees' salaries and the number of years of service at the reporting date. The expected costs of these benefits are accrued over the period of employment. Applicable benefits are paid to employees on termination of employment with the Group. The Group has no expectation of settling its employees' terminal benefits obligation in the near term and hence treated this obligation as a non-current liability.

Pension plan

Under Law No. 24 of 2002 on retirement and pensions, the Group is required to make contributions to Government pension fund scheme for Qatari employees calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions which are expensed when due and remitted to the Pension Authority on a monthly basis.

l) Borrowing Costs

Borrowing costs are recognized in the period in which they are incurred with unpaid amounts included in "accruals and other credit balances".

Borrowing costs that are directly attributable to the construction of investment properties and property, vessels and equipment are capitalized and form part of the cost of assets. The capitalization of borrowing costs ceases once the asset is ready for its intended use. All other borrowing costs are recognized as expenses. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

m) Revenue recognition

Voyage results are determined on a round voyage basis.

The revenue of each voyage is determined on the basis of estimates of its total revenues and voyage costs. For incomplete voyages at the year end, which have completed loading, estimated profits are taken to income on the basis of the proportion of voyage days lapsed to the total voyage days. Estimated losses on incomplete voyages are provided for in full. Revenue for time charter is recognised on the accrual method in line with agreements entered into with charter parties.

Income from investment property and interest income are recognised on accrual basis. Dividend income is recognised when the right to receive the dividend is established.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate. 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 during the year that do not qualify for hedge accounting are taken directly to the consolidated statement of income.

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.
- 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.

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 changes 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 of 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. 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.

Cash flow hedges

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

o) Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. All differences are taken to the consolidated statement of income.

The assets and liabilities of foreign joint venture operations are translated to Qatar Riyals at rates ruling at the reporting date. The revenue and expenses of joint venture operations are translated to Qatari Riyals at the foreign exchange rates ruling at the date of the transactions.

For the year ended December 31, 2010

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**p) Impairment**

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated statement of income whenever the carrying amount of an asset exceeds its recoverable amount.

q) Provisions

Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

5. CASH AND BANK BALANCES

| | 2010 QR'000 | 2009 QR'000 |
|--------------------------|----------------|----------------|
| Cash on hand | 34 | 31 |
| Bank balances | 360,892 | 628,232 |
| Cash and cash equivalent | <u>360,926</u> | <u>628,263</u> |

Included under balances with banks are bank deposits amounting to QR 25,649 thousand (2009: QR 28,086 thousand) which are denominated in United States Dollars.

Bank balances also include QR 18,328 thousand (2009: QR 17,264 thousand) held in escrow accounts relating to unclaimed dividends for prior years. The Group's recourse to funds maintained in such accounts is restricted to the specific purpose of settling dividend claims as they arise.

The average deposit interest rate on bank balances in 2010 was 3.5%. (2009: 6.6%)

6. TRADE RECEIVABLES AND PREPAYMENTS

| | 2010 QR'000 | 2009 QR'000 |
|--|----------------|----------------|
| Trade receivable | 49,853 | 66,052 |
| Due from related parties (note 17) | 31,511 | 16,763 |
| | <u>81,364</u> | <u>82,815</u> |
| Less: Provision for doubtful receivables | (3,751) | (3,558) |
| | <u>77,613</u> | <u>79,257</u> |
| Prepaid expenses | 16,897 | 18,870 |
| Advances to suppliers | 13,553 | -- |
| Accrued income | 27,856 | 26,275 |
| Other receivables | 15,215 | 11,090 |
| Refundable deposits | 1,864 | 1,801 |
| | <u>152,998</u> | <u>137,293</u> |

A significant portion of the accounts receivable for the Group relates to marine services provided to a small number of oil and gas companies.

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

6. TRADE RECEIVABLES AND PREPAYMENTS (CONTINUED)

The average credit period for sale of goods and rendering services is 30 to 60 days. No interest is charged on the overdue trade receivables. The Group provides full provision for doubtful debts for all receivables over 2 years old and all receivable under legal cases based on management's historical experience.

As at December 31, 2010 the aging of trade receivables and movement in the provision for doubtful debts are as follows:

(i) Aging of neither past due nor impaired

| | <u>2010</u> | <u>2009</u> |
|-------------------|---------------|---------------|
| | QR'000 | QR'000 |
| Less than 60 days | <u>45,238</u> | <u>14,409</u> |

(ii) Aging of past due but not impaired

| | <u>2010</u> | <u>2009</u> |
|--------------------|-------------|---------------|
| | QR'000 | QR'000 |
| 61-90 days | -- | 20,811 |
| 91-180 days | -- | 20,998 |
| More than 181 days | <u>864</u> | <u>6,276</u> |
| | <u>864</u> | <u>48,085</u> |

(iii) Aging of impaired trade receivables

| | <u>2010</u> | <u>2009</u> |
|--------------------|--------------|--------------|
| | QR'000 | QR'000 |
| More than 365 days | <u>3,751</u> | <u>3,558</u> |
| | <u>3,751</u> | <u>3,558</u> |

(iv) Movement in the provision of doubtful debts:

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|--------------|--------------|
| | QR'000 | QR'000 |
| Balance at the beginning of the year | 3,558 | 7,276 |
| Transfer of a subsidiary sold balance | -- | (3,718) |
| Additional provision during the year | <u>193</u> | <u>--</u> |
| | <u>3,751</u> | <u>3,558</u> |

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

7. INVESTMENTS

| | Notes | 2010 QR'000 | 2009 QR'000 |
|---|-------|----------------|------------------|
| Balance at beginning of the year at fair value | | 2,252,673 | 2,088,646 |
| Acquisition during the year | | 14,798 | -- |
| Disposal during the year | | (24,279) | (47,263) |
| Impairment loss on available for sale investment | | -- | (23,208) |
| Unrealized gain on financial assets at fair value through profit and loss | | 33,314 | 2,963 |
| Transfer from available for sale investments to investment in associate (note 10) | | (2,016,000) | -- |
| Net movement of fair value during the year | 7 (c) | 54,060 | 231,535 |
| Balance at ending of the year at fair value | | <u>314,566</u> | <u>2,252,673</u> |
| Classified as | | | |
| Financial assets at fair value through profit or loss | 7 (a) | 116,618 | 71,960 |
| Investment – Available for sale | 7 (b) | 197,948 | 2,180,713 |
| | | <u>314,566</u> | <u>2,252,673</u> |

7(a) FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2010 QR'000 | 2009 QR'000 |
|-----------------|----------------|----------------|
| Quoted equities | <u>116,618</u> | <u>71,960</u> |

Investments in quoted equities represent investments in shares listed on the Qatar Exchange and are valued at quoted market bid prices at the close of business at the reporting date.

7(b) INVESTMENTS AVAILABLE FOR SALE

| | 2010 QR'000 | 2009 QR'000 |
|---------------------------|----------------|------------------|
| Quoted equities and bonds | 197,948 | 2,180,630 |
| Unquoted equities | -- | 83 |
| | <u>197,948</u> | <u>2,180,713</u> |

Unquoted equities represent investments in LNG companies which are carried at cost less impairment provision, if any.

7(c) Fair value reserve

Fair value reserve at end of the year as shown in the consolidated statement of changes in shareholders equity can be reconciled as follows:

| | 2010 QR'000 | 2009 QR'000 |
|------------------------------|------------------|------------------|
| Balance at beginning of year | 1,203,020 | 971,485 |
| Net movement during the year | 54,060 | 231,535 |
| | <u>1,257,080</u> | <u>1,203,020</u> |

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

8. INVENTORIES

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|--------------|--------------|
| | QR'000 | QR'000 |
| Stores and spares (net of provisions) | 2,409 | 2,746 |
| Fuel oil, diesel oil and lubes | 2,440 | 2,882 |
| | <u>4,849</u> | <u>5,628</u> |

9. LOANS TO LNG AND LPG COMPANIES

The Company has provided loans to the following LNG and LPG companies. These loans carry annual interest rate of 6% to 8%.

| <u>Name of LNG/ LPG company</u> | <u>Company operating the LNG and LPG companies</u> |
|--|--|
| India LNG Transport Company No.1 Ltd, Malta | Shipping Corporation of India Ltd |
| Camartina Shipping Inc, Liberia | Mitsui OSK Lines |
| K S Membrane-I, Denmark | Maersk |
| Qatar LNG Transport Ltd., Liberia | Mitsui OSK Lines |
| India LNG Transport Company No.2 Ltd., Malta | Shipping Corporation of India Ltd |
| Peninsula LNG Transport No. 1 Ltd, Liberia | NYK |
| Peninsula LNG Transport No. 2 Ltd, Liberia | K Line |
| Peninsula LNG Transport No. 3 Ltd, Liberia | Mitsui OSK Lines |
| K S Membrane-II, Denmark | Maersk |
| Gulf LPG Transport W.L.L,Qatar | Qatar Gas Transportation Company |

The loans to the above LNG and LPG companies included the following:

| | <u>2010</u> | <u>2009</u> |
|------------------|----------------|----------------|
| | QR'000 | QR'000 |
| Loans | 182,539 | 292,371 |
| Accrued Interest | 199,705 | 174,714 |
| | <u>382,244</u> | <u>467,085</u> |

The loans do not have fixed repayment schedules and settlements occur as and when excess cash is available.

10. INVESTMENT IN ASSOCIATE COMPANIES

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences.

| | <u>Country of Incorporation</u> | <u>Ownership</u> | <u>2010</u> | <u>2009</u> |
|---|---|------------------|-------------|-------------|
| Qatar Quarries and Building Materials Co. W.L.L | Qatar | 25% | 25% | 25% |
| Qatar LNG Transport Ltd. | Liberia | 20% | 20% | 20% |
| Camartina Shipping Inc, | Liberia | 29.4% | 29.4% | 29.4% |
| Peninsula LNG Transport No. 1 Ltd, | Liberia | 29.4% | 29.4% | 29.4% |
| Peninsula LNG Transport No. 2 Ltd, | Liberia | 29.4% | 29.4% | 29.4% |
| Peninsula LNG Transport No. 3 Ltd. | Liberia | 29.4% | 29.4% | 29.4% |
| QIM Transport Inc | Panama | 33.33% | 33.33% | 33.33% |
| Qatar Gas Transport Company Limited (Nakilat) Q.S.C.* | Qatar | 15% | 15% | 15% |

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

10. INVESTMENT IN ASSOCIATE COMPANIES (CONTINUED)

Qatar Quarries and Building Materials Company W.L.L. was established to import and sell construction materials including aggregates in the local market.

The movement in the investment in associate companies was as follows:

| | <u>2010</u> | <u>2009</u> |
|--|------------------|---------------|
| | QR'000 | QR'000 |
| Opening balance | 60,380 | 114,317 |
| Transfer from available for sale investments to investment in associate (note 7) | 2,016,000 | -- |
| Share of income / (loss) for the year | 115,245 | (3,798) |
| Share of fair value reserve | 3,594 | 867 |
| Share of hedging reserve | (156,555) | (36,006) |
| Dividends received | (42,000) | (15,000) |
| | <u>1,996,664</u> | <u>60,380</u> |

Share of income from overseas associate companies are recognised based on the unaudited financial statements of these investees.

* In 2010 the Company changed its classification of the investment in Qatar Gas Transport Company Limited Q.S.C. (Nakilat) shares from available-for-sale investments to investment in associate as a result of the acquisition of the Company by Qatar Navigation Q.S.C. Following the acquisition the Company now exercises significant influence over Qatar Gas Transport Company Limited Q.S.C. (Nakilat). The results of operation of Qatar Gas Transport Company Limited Q.S.C. (Nakilat) have been accounted for under the equity method of accounting. The fair value of Qatar Gas Transport Company Limited Q.S.C. (Nakilat) as of the acquisition date is deemed the carrying amount at the date of the acquisition. The fair value reserve associated with Qatar Gas Transport Company Limited Q.S.C. (Nakilat) is kept as part of the consolidated statement of equity until the investment is sold, collected, or is determined to be impaired.

QATAR SHIPPING COMPANY (S.P.C.)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2010

11. INVESTMENT PROPERTY

| | <u>2010</u> | <u>2009</u> |
|--------------------------------------|---------------|---------------|
| | QR'000 | QR'000 |
| Cost | | |
| At January 1 | 26,241 | 26,241 |
| At December 31 | <u>26,241</u> | <u>26,241</u> |
| Depreciation | | |
| At January 1 | 9,558 | 8,595 |
| Charge for the year | 963 | 963 |
| At December 31 | <u>10,521</u> | <u>9,558</u> |
| Net book value at December 31 | <u>15,720</u> | <u>16,683</u> |

Notes:

- (i) Investment properties except land are carried at cost less accumulated depreciation and any impairment in value. Land is not depreciated.
- (ii) Investment properties are located in the State of Qatar.
- (iii) Investment properties with a carrying value of QR. 15,720 thousand were appraised by an accredited independent appraiser at a fair value of QR. 161 million as of December 31, 2010. The appraiser is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation.
- (iv) The depreciation charge of QR. 963 thousand (2009: QR. 963 thousand) has been charged under general and administration expenses.
- (v) The Group earned rental income amounting to QR. 4,178 thousand for the year ended December 31, 2010 (2009: QR. 4,178 thousand) and this has been reflected in the consolidated statement of income.

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

12. VESSELS, PROPERTY AND EQUIPMENT

| | Owned ocean going vessels | | Offshore services vessels | | Buildings | | Capital work in progress | | Plant and machinery | | Furniture | | Office equipment | | Motor vehicles | | Total | | |
|--|---------------------------|---------------|---------------------------|----------------|-----------|--------------|--------------------------|--------------|---------------------|--------|-----------|--------|------------------|--------|----------------|--------|--------|--------|--|
| | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | QR'000 | |
| Cost: | | | | | | | | | | | | | | | | | | | |
| At January 1, 2009 | 1,782,394 | 27,642 | 30,863 | 134,190 | 61,894 | 17,153 | 4,134 | 11,916 | 2,070,186 | | | | | | | | | | |
| Additions during the year | 12,527 | 1,833 | 905 | 126,856 | 6,199 | 459 | 247 | 344 | 149,370 | | | | | | | | | | |
| Disposals | -- | -- | -- | -- | (934) | (35) | -- | (24) | (993) | | | | | | | | | | |
| Disposal of a subsidiary balance (Note 21) | -- | -- | (30,427) | (9,987) | (67,159) | (12,953) | -- | (10,699) | (131,225) | | | | | | | | | | |
| Transfers | 200,986 | -- | -- | (200,986) | -- | -- | -- | -- | -- | | | | | | | | | | |
| At December 31, 2009 | 1,995,907 | 29,475 | 1,341 | 50,073 | -- | 4,624 | 4,381 | 1,537 | 2,087,338 | | | | | | | | | | |
| Additions during the year | 48,435 | 2,613 | -- | 69,240 | -- | 2,308 | 1,006 | 225 | 123,827 | | | | | | | | | | |
| Disposals | (7,380) | (440) | -- | -- | -- | (90) | -- | (131) | (8,041) | | | | | | | | | | |
| At December 31, 2010 | 2,036,962 | 31,648 | 1,341 | 119,313 | -- | 6,842 | 5,387 | 1,631 | 2,203,124 | | | | | | | | | | |
| Depreciation: | | | | | | | | | | | | | | | | | | | |
| At January 1, 2009 | 233,665 | 15,501 | 12,687 | -- | 33,634 | 10,487 | 3,618 | 5,618 | 315,210 | | | | | | | | | | |
| Charge for the year | 74,430 | 4,073 | 109 | -- | -- | 577 | 208 | 237 | 79,634 | | | | | | | | | | |
| Disposals | -- | -- | -- | -- | -- | (23) | -- | (23) | (46) | | | | | | | | | | |
| Disposal of a subsidiary balance (Note 21) | -- | -- | (12,511) | -- | (33,634) | (7,689) | -- | (4,830) | (58,664) | | | | | | | | | | |
| At December 31, 2009 | 308,095 | 19,574 | 285 | -- | -- | 3,352 | 3,826 | 1,002 | 336,134 | | | | | | | | | | |
| Charge for the year | 79,123 | 4,106 | 275 | -- | -- | 1,001 | 367 | 250 | 85,122 | | | | | | | | | | |
| Disposals | (7,038) | (403) | -- | -- | -- | (41) | -- | (129) | (7,611) | | | | | | | | | | |
| At December 31, 2010 | 380,180 | 23,277 | 560 | -- | -- | 4,312 | 4,193 | 1,123 | 413,645 | | | | | | | | | | |
| Net book value: | | | | | | | | | | | | | | | | | | | |
| At December 31, 2010 | 1,656,782 | 8,371 | 781 | 119,313 | -- | 2,530 | 1,194 | 508 | 1,789,479 | | | | | | | | | | |
| At December 31, 2009 | 1,687,812 | 9,901 | 1,056 | 50,073 | -- | 1,272 | 555 | 535 | 1,751,204 | | | | | | | | | | |

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

12. VESSELS, PROPERTY AND EQUIPMENT (CONTINUED)

(i) Owned ocean going vessels and offshore services vessels amounting to QR. 1,081,077 thousand (2009: QR 1,040,541 thousand) are mortgaged/revenue assigned on a first priority basis as security for term loans to finance these vessels (refer note 14).

(ii) Depreciation charge for the year is included in the consolidated statement of income as follows:

| | 2010 | 2009 |
|--------------------------------------|---------------|---------------|
| | QR'000 | QR'000 |
| Operating costs (note 18) | 82,562 | 78,646 |
| General and administration expenses* | 3,521 | 1,983 |
| | <u>86,083</u> | <u>80,629</u> |

* Includes depreciation on investment property amounting to QR. 963 thousand (2009: QR 963 thousand)

(iii) During 2009, the Company has sold its subsidiary (Q-Con). As a result of the sale, the balances relating to Q-Con have been removed from vessels, plant and equipment. (Note 21)

(iv) During the year, interest amounting to QR.417 thousand has been capitalized and included in the vessels under construction (2009: QR. 13,140 thousand).

(v) Ocean going and offshore services vessels include dry docking components with a net book value of QR. 35,904 thousand as of December 31, 2010 (2009: QR 20,768 thousand).

13. ACCOUNTS PAYABLE AND ACCRUALS

| | 2010 | 2009 |
|--|---------------|---------------|
| | QR'000 | QR'000 |
| Trade accounts payable | 37,431 | 11,887 |
| Advances from customers | 927 | -- |
| Due to related parties (note 17) | 1,155 | 1,363 |
| Unclaimed dividend | 18,328 | 17,157 |
| Accrued expenses | 36,428 | 38,468 |
| Directors' remuneration | -- | 10,750 |
| Deferred income | 713 | 412 |
| Fair value of interest rate swap contracts | 2,144 | 3,175 |
| Social contribution payable | -- | 13,158 |
| Other payables | 169 | 8 |
| | <u>97,295</u> | <u>96,378</u> |

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

14. TERM LOANS

The term loans consist of the following:

| | <u>2010</u> | <u>2009</u> |
|-----------------------|----------------|----------------|
| | QR'000 | QR'000 |
| Term loan (i) | 56,801 | 77,456 |
| Term loan (ii) | 245,413 | 294,500 |
| Term loan (iii) | -- | 254,800 |
| Term loan (iv) | 254,800 | -- |
| Term loan (v) | 57,956 | 109,101 |
| Term loan (vi) | 123,236 | 158,466 |
| | <u>738,206</u> | <u>894,323</u> |
| Classified as: | | |
| Current portion | 157,853 | 420,111 |
| Non-current portion | 580,353 | 474,212 |
| | <u>738,206</u> | <u>894,323</u> |

- i. The loan was drawn in 2002/2003 from Qatar National Bank/ Arab Bank to finance the construction of 2 clean product tankers namely, Jinan and Dukhan. It is secured by a first priority mortgage over the above tankers. It is repayable in equal quarterly installments of US \$ 1,419 thousands along with interest thereon from December 2004, the last installment being payable in September 2013. The Group entered into an Interest Rate Swap agreement on 27 January 2003, in order to hedge the risk of floating interest rate. This contract matches the outstanding floating rate loan obligations of the Group in respect of the loan. The Group has recognized the fair value of the Interest Rate Swap, which was a loss of QR 2,144 thousand (2009: QR 3,175 thousand loss), as an equity adjustment in the statement of changes in equity.
- ii. The loan was executed on 14 January 2004 to partially finance construction of two LPG/ Ammonia carrier and six Aframax size crude/ clean tankers. It is secured by a first priority mortgage over the vessels. The two Aframax size crude tankers and two Aframax size coated tankers were delivered and mortgaged during 2006. This facility has a fixed interest rate on 'The Export- Import of Korea' (KEXIM) portion by way of fixed 'Commercial Interest Reference Rate' (CIRR). The Company has restructured this facility to bring down the margin on the Commercial tranche from LIBOR+95 bps to LIBOR+75 bps effective October 2006. The facility is repayable in variable quarterly average installment, the last installment being payable in April 2016.
- iii. The loan from HYPO Vereinsbank Singapore was executed in April 2008 to finance the building of four VLGCs for an amount of \$ 70 million. It is secured by the company's investment in the shares of Nakilat. This facility carries an interest rate of 0.595 % + LIBOR. This facility is repayable in April 2010 or when Gulf LPG Company finances the VLGC's whichever is earlier.
- iv. This loan of US\$ 70 million was obtained by Qatar Navigation (Q.S.C.), the parent company, from International Bank of Qatar in June 2010. The net proceeds of the loan was transferred to the Company simultaneously to meet its working capital requirements. The loan is repayable in June 2012 and carries an interest of LIBOR plus a margin of 1.5% payable on half yearly basis.
- v. The loan was obtained from QIB for an amount of USD 30 million and is executed according to the Islamic banking principles and does not carry any interest. The Principal amount plus the profit are repayable in two equal installments amounting to USD 16.5 million each, paid in April 2010 and in April 2011 respectively. The collateral against this loan is the Company's investment in the shares of Nakilat. The loan is booked at amortized cost.

QATAR SHIPPING COMPANY (S.P.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

14. TERM LOANS (CONTINUED)

- vi. The following term loans taken by one of the joint ventures (Halul Offshore Services Company) are proportionately consolidated in these consolidated financial statements:

| | 2010 | 2009 |
|--------------|----------------|----------------|
| | QR'000 | QR'000 |
| Loan 1 (i) | 5,355 | 16,066 |
| Loan 2 (ii) | 7,229 | 10,443 |
| Loan 3 (iii) | 12,392 | 15,932 |
| Loan 4 (iv) | 13,709 | 17,137 |
| Loan 5 (v) | 16,273 | 19,231 |
| Loan 6 (vi) | 68,278 | 79,657 |
| | <u>123,236</u> | <u>158,466</u> |

Notes:

- (i) Loan 1 is repayable in 17 equal semi-annual installments of QR.10.7 million each commencing from February 2003 and carries interest at LIBOR plus a margin of 0.82%. The loan is obtained to finance the purchase and construction of vessels and is secured by a corporate guarantee of the shareholders of the Joint Venture.
- (ii) Loan 2 was obtained to finance the purchase of nine vessels. The loan is repayable in 34 equal quarterly installments of QR. 1.6 million each and carries interest at LIBOR plus a margin of 0.70%.
- (iii) Loan 3 was obtained to finance the purchase of two anchor handling tug vessels which are currently under construction. The loan is repayable in 18 equal installments of QR. 3.5 million each commencing from December 2006 and carries interest at LIBOR plus margin of 0.65%.
- (ii) Loan 4 was obtained to finance the purchase of two vessels. The loan is repayable in 17 equal semi-annual installments of QR. 3.40 million commencing from September 2006 and carries interest at LIBOR plus margin of 0.70%.
- (iii) Loan 5 was obtained to finance the purchase of 4 utility standby safety vessels. The loan is repayable in 16 semi-annual installments commencing from July 2008 and carries interest at LIBOR plus margin of 0.60%.
- (iv) Loan 6 was obtained to finance the purchase of two platform supply vessels. The loan is repayable in 16 annual installments commencing from April 2009 and carries interest at LIBOR plus a margin of 0.60%.

All the above loans are secured by assignment of the revenue from each vessel to an account held with the respective lending banks. Any insurance proceeds in respect of the vessels will be assigned to the lending banks.

As the term loans attract interest at rates, which vary with market movements, the fair value of the term loans approximates their carrying value.

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15. EMPLOYEES' TERMINAL BENEFITS

| | <u>2010</u> | <u>2009</u> |
|--|--------------|--------------|
| | QR'000 | QR'000 |
| Balance at 1 January | 6,996 | 18,797 |
| Less: Transfer of balances relating to subsidiary sold | -- | (12,674) |
| Add: Provisions made during the year | 1,635 | 1,067 |
| Less: Payments made during the year | (1,275) | (194) |
| Balance at 31 December | <u>7,356</u> | <u>6,996</u> |

16. SHAREHOLDERS' EQUITY

16(a) SHARE CAPITAL

| | <u>2010</u> | <u>2009</u> |
|--|------------------|------------------|
| | QR'000 | QR'000 |
| <u>Authorized</u> | | |
| 110,000,000 shares of QR 10 each fully paid up | <u>1,100,000</u> | <u>1,100,000</u> |
| <u>Issued & Paid Up Capital</u> | | |
| 110,000,000 shares of QR 10 each fully paid up | <u>1,100,000</u> | <u>1,100,000</u> |

16(b) LEGAL RESERVE

As required by Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association, a minimum of 10% of the net income for the year should be transferred to the legal reserve. However the management has proposed to discontinue such transfers as the legal reserve exceeds the stipulated 50% of the issued share capital. The reserve is not available for distribution, except in the circumstances stipulated by the above law. Included in retained earnings is an amount of QR. 49 million relating to legal reserve of consolidated subsidiaries. This amount is subject to restriction on distribution.

16(c) PROPOSED DIRECTORS REMUNERATION

The Board of directors has proposed a directors' remuneration of QR.Nil for the current year (2009: QR 10.75 million).

16(d) PROPOSED DIVIDENDS AND BONUS SHARES

The Board of Directors has proposed a cash dividend of Nil for the year 2010 (2009: QR 440 million).

17. RELATED PARTY TRANSACTIONS

a) Related parties transactions:

Related parties represent associate companies, major shareholders, directors and key management personnel of the Group. The transactions between related parties are at prices approved by the Group's management.

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

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|---------------|----------------|
| | QR'000 | QR'000 |
| Operating income | <u>90,855</u> | <u>103,519</u> |
| General and administration expenses | <u>3,129</u> | <u>1,099</u> |

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17. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Amounts due from and due to related parties are disclosed in Notes 6 and 13 respectively.

Significant related parties during the year include Qatar Navigation, Qatar Petroleum, Qatar Quarries and Building Material Company, Mobil Shipping and Transportation Company and Mobil Equipment Finance Company Inc.

c) Compensation of key management personnel.

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

| | <u>2010</u> | <u>2009</u> |
|------------------------------|--------------|--------------|
| | QR'000 | QR'000 |
| Short term benefits | 4,990 | 6,240 |
| Employees' terminal benefits | 1,649 | 1,407 |
| | <u>6,639</u> | <u>7,647</u> |

18. OPERATING COSTS

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|----------------|----------------|
| | QR'000 | QR'000 |
| Charter hire | 18,631 | 19,554 |
| Address commission and brokerage | 2,097 | 2,429 |
| Bunker cost | 59 | 1,400 |
| Port charges | 266 | 850 |
| Staff costs (including crew costs) | 109,796 | 117,016 |
| Repairs and maintenance | 23,113 | 36,513 |
| Depreciation on vessels and equipment | 82,562 | 78,646 |
| Insurance | 10,951 | 9,446 |
| Others | 45,923 | 24,503 |
| | <u>293,398</u> | <u>290,357</u> |

19. GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>2010</u> | <u>2009</u> |
|---------------------|---------------|---------------|
| | QR'000 | QR'000 |
| Staff related costs | 38,952 | 28,561 |
| Office expenses | 7,240 | 6,236 |
| General expenses | 21,902 | 13,687 |
| Depreciation | 3,523 | 1,983 |
| | <u>71,617</u> | <u>50,467</u> |

20. INVESTMENT INCOME / (LOSS)

| | <u>2010</u> | <u>2009</u> |
|---|----------------|----------------|
| | QR'000 | QR'000 |
| Dividends | 77,271 | 7,631 |
| Unrealized gain on financial assets at fair value through profit and loss | 33,314 | 2,963 |
| Gain / (loss) on sale of available for sale investments | 4,977 | (11,238) |
| Share of Income/ (loss) from associates | 115,245 | (3,798) |
| | <u>230,807</u> | <u>(4,442)</u> |

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21. GAIN FROM SALE OF A SUBSIDIARY

On 6 September 2009, the Group signed an agreement ("the agreement") to sell Qatar Engineering & Construction W.L.L ("Q-Con") for a consideration of \$ 110 million (QR 400.4 million).

As per the agreement, the benefits from the activities of Q-Con were transferred to the buyers with effect from 1 January 2009. Therefore management ascertained that control over Q-Con ceased effective 1 January 2009.

The group therefore deconsolidated the assets, liabilities, revenues and costs relating to Q-Con effective from 1 January 2009.

The interim consolidated financial results of the Group for the six months period ended June 30, 2009 included Q-Con's revenue amounting to QR 580 million and its net profit amounting to QR 42 million. For the purpose of the financial statements for the year ended 31 December 2009, these amounts were deconsolidated and adjusted in calculating the gain on sale of Q-Con as shown below.

| | <u>2010</u> | <u>2009</u> |
|----------------------|-------------|----------------|
| | QR'000 | QR'000 |
| Sale Consideration | -- | 400,400 |
| Less:- | | |
| Carrying amount | -- | (71,621) |
| Expenses on disposal | -- | (832) |
| | <u>--</u> | <u>327,947</u> |

22. INTERESTS IN JOINT VENTURES

The Group has following Joint Ventures as at 31 December 2010:

| | <u>Shareholding %</u> |
|--|-----------------------|
| QM Tanker Company L.L.C., Cayman Islands | 50 |
| Halul Offshore Services Company W.L.L., Qatar | 50 |
| Qatar Engineering and Technology Co. W.L.L., Qatar | 51 |
| Qatar Ship Management Co. W.L.L., Qatar | 51 |
| Gulf LPG Transport Company W.L.L, Qatar | 50 |

QM Tanker Company L.L.C. ("QM Tanker") is a Limited Life Company established with Exxon Mobil. QM Tanker was incorporated on 12 November 1997. During 2008, the Company sold its ships and become dormant since then.

Halul Offshore Services Company W.L.L. ("HOSC") is a Limited Liability Company established with Qatar Navigation Q.S.C. (holds 50% of the equity shares). HOSC was incorporated on 04 November 2000 with the objective of providing various offshore support services.

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22. INTERESTS IN JOINT VENTURES (CONTINUED)

Qatar Engineering and Technology Company W.L.L. (Q-Tech) is a Limited Liability Company established with Aban Constructions Pvt. Ltd., India. Q-Tech was incorporated on 27 April 2002 with the objective of carrying out engineering and other related services. The Company had decided on 11 January 2005 to terminate this Joint Venture agreement. However it was decided to postpone the termination till the completion of the ongoing project. The process of negotiation for recovery of its dues has commenced and is likely to fructify in 2011. The financial statements of Q-Tech are immaterial to the Group and are included in the accompanying consolidated financial statements based on management accounts.

Qatar Ship Management Company W.L.L. (QSMC) is a Limited Liability Company in which Q-ship has 51% holding and is established with Mitsui O.S.K. Lines Ltd, Japan(MOL) (16.5%), Nippon Yusen Kabushiki Kaisha, Japan(NYK) (16.5%), Kawasaki Kisen Kaisha Ltd, Japan (K-LINE) (8.25%) and Mitsui & Co. Japan (7.75%). QSMC was incorporated on 16 October 2003, with the objective of operating and managing LNG vessels.

Gulf LPG Transport Company W.L.L is a limited Liability company established with Qatar Gas Transport Company (NAKILAT), (holds 50 % of the equity shares). Gulf LPG aims to provide various activities of owning, managing and operating the ships of transporting liquid gas.

The following amounts reflect the Group's proportionate share of the assets, liabilities, revenues and expenses of joint ventures consolidated in these consolidated financial statements.

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|------------------|------------------|
| | QR'000 | QR'000 |
| Assets | | |
| Current assets | 200,689 | 195,273 |
| Non current assets | 1,047,101 | 989,052 |
| | <u>1,247,790</u> | <u>1,184,325</u> |
| Liabilities | | |
| Current liabilities | 69,548 | 68,452 |
| Non current liabilities | 610,630 | 626,054 |
| | <u>680,178</u> | <u>694,506</u> |
| Revenues | | |
| Operating revenue | 277,336 | 290,701 |
| Interest income | 11,109 | 2,824 |
| Investment (loss)/ income | 76,345 | 620 |
| Gain on sale of vessels | -- | 7 |
| Other income | 6,533 | 9,782 |
| | <u>371,323</u> | <u>303,934</u> |
| Expenses | | |
| Operating costs | 176,994 | 168,489 |
| General and administration expenses | 29,388 | 23,228 |
| Finance costs | 17,689 | 13,993 |
| | <u>224,071</u> | <u>205,710</u> |
| Net Profit for the year | <u>147,252</u> | <u>98,224</u> |

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23. DERIVATIVE FINANCIAL INSTRUMENTS

| | <u>2010</u> | <u>2009</u> |
|---|------------------|-----------------|
| | QR 000 | QR 000 |
| Fair value of interest rate swap contracts | (2,144) | (3,175) |
| Fair value of interest rate swap contract from associates | (205,409) | (48,676) |
| | <u>(207,553)</u> | <u>(51,851)</u> |

- The Group entered into Interest Rate Swap contracts with several financial institutions to hedge its exposure to interest rate fluctuations on some of its loans.

At December 31, 2010, the Company had an interest rate swap agreement in place with a notional amount of US\$ 15.605 million (QR. 56.801 million), whereby it receives a variable rate equal to LIBOR and pays a fixed rate of interest of 3.21% on the notional amount. The swap is being used to hedge the exposure to interest rate fluctuations on one of its loans. The term loan and interest rate swap have the same critical terms.

The Group has recognized the negative fair value of the interest rate swap amounting to QR 2.096 million as at December 31, 2010 (December 31, 2009: QR 2.628 million) in other payables with a corresponding entry to hedging reserve.

- The Group, through Halul Offshore Services Company W.L.L, has entered into an interest rate swap contract to hedge its exposure to interest rate risk.

At December 31, 2010, the Group's share in the notional amount of the interest rate swap amounting to US\$ 1.470 million (QR 5.355 million), whereby it receives a variable rate equal to LIBOR and pays a fixed rate of interest of 5.43% on the notional amount. The swap is being used to hedge the exposure to interest rate fluctuations on one of its loans. The term loan and interest rate swap have the same critical terms.

The Group has recognized the negative fair value of the interest rate swap amounting to QR 0.048 million as at December 31, 2010 (December 31, 2009: QR 0.273 million) in other payables with a corresponding entry to hedging reserve.

These cash flow hedges were assessed to be highly effective. The fair value of the interest rate swaps are calculated by reference to the market valuation of the swap agreements.

24. CAPITAL COMMITMENTS

The directors have authorised the following future capital expenditures:

| | <u>2010</u> | <u>2009</u> |
|---------------------------------------|--------------|--------------|
| | QR'000 | QR'000 |
| Purchase of offshore services vessels | 595 | 3,675 |
| Purchase of machinery and equipment | 4,515 | -- |
| | <u>6,510</u> | <u>5,775</u> |

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25. CONTINGENT LIABILITIES AND OPERATIONAL COMMITMENTS

The following bank guarantees given by the Group were outstanding at year end:

| | <u>2010</u> | <u>2009</u> |
|---|----------------|----------------|
| | QR'000 | QR'000 |
| Guarantees against performance bonds and tender bonds | <u>392,606</u> | <u>203,318</u> |
| Letters of credit | <u>52,598</u> | <u>3,489</u> |

The risk to the Group represents the contractual amount of the guarantees issued and letters of credit. However, the Group fully expects the guarantees to expire at the end of its term without being called upon. Hence the contractual amount of the guarantees against performance bonds and tender bonds is not an estimate of future cash flows.

26. INTEREST TRANSACTIONS

As required by Islamic Shariaa, information on interest paid and earned is provided below:

| | | <u>2010</u> | <u>2009</u> |
|---|-------|-----------------|-----------------|
| | | QR'000 | QR'000 |
| Interest Income | | 62,691 | 57,923 |
| Interest Cost: | | | |
| Expensed | | <u>(46,697)</u> | <u>(26,454)</u> |
| Net interest income | (a) | <u>15,994</u> | <u>31,469</u> |
| Total income | (b) | <u>394,719</u> | <u>526,303</u> |
| Net interest income as a % of total income | (a÷b) | <u>4.05%</u> | <u>5.97%</u> |

27. FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets, financial liabilities and derivative financial instruments.

The financial assets of the Group comprise mainly cash and bank balances, accounts receivables, available for sale investments, financial assets at fair value through profit or loss and loans to LNG companies. The financial liabilities of the Group comprise mainly accounts payable and term loans.

Fair value is the amount for which an asset can be exchanged or a liability settled, between knowledgeable and willing parties transacting at "arms length". The accounting convention under which the financial statements have been prepared is disclosed in Note 4(b) i.e. historical cost convention except for available for sale investments, financial assets at fair value through profit or loss and derivative financial instruments measured at fair values. In the opinion of the management, the carrying values of the financial assets and liabilities are not significantly different from their fair values.

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27. FINANCIAL INSTRUMENTS (CONTINUED)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-----------------------|------------------|------------------|-----------------------|
| | <u>QR'000</u> | <u>QR'000</u> | <u>QR'000</u> | <u>QR'000</u> |
| Trading investments financial assets | 116,618 | -- | -- | 116,618 |
| Available for sale financial assets | | | | |
| Quoted equities and bonds | <u>197,948</u> | <u>--</u> | <u>--</u> | <u>197,948</u> |
| | <u>314,566</u> | <u>--</u> | <u>--</u> | <u>314,566</u> |

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28. FINANCIAL RISK MANAGEMENT

Interest rate risk exposures

With the exception of certain term loans amounting to QR 62,156 thousand (2009 : QR 30,119 thousand), which are covered by interest rate swap contracts (Note 23), a significant portion of the Group's financial assets and liabilities as of December 31, 2010 are exposed to interest rate fluctuations. The Group's exposure to interest rate risk and the effective interest rates on its financial assets and liabilities are summarised below:

| | 2010 | | | | 2009 | | | |
|---------------------------------------|----------------------------|-------------------------------|-----------------------------|--------------|----------------------------|-------------------------------|-----------------------------|--------------|
| | Fixed interest rate QR'000 | Floating interest rate QR'000 | Non-interest bearing QR'000 | Total QR'000 | Fixed interest rate QR'000 | Floating interest rate QR'000 | Non-interest bearing QR'000 | Total QR'000 |
| Financial assets | | | | | | | | |
| Bank balances and cash | 360,892 | -- | 34 | 360,926 | 465,000 | 163,232 | 31 | 628,263 |
| Financial liabilities | | | | | | | | |
| Interest bearing loans and borrowings | 57,956 | 680,250 | -- | 738,206 | 109,102 | 785,221 | -- | 894,323 |
| Interest rate swap | 62,156 | (62,156) | -- | -- | 30,119 | (30,119) | -- | -- |
| | 120,112 | 618,094 | -- | 738,206 | 139,221 | 755,102 | -- | 894,323 |
| Net financial asset/ (liabilities) | 240,780 | (618,094) | 34 | (377,280) | 325,779 | (591,870) | 31 | (266,060) |

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk exposures (continued)

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed partially by the Group by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied through different interest rate cycles.

The following table demonstrates the sensitivity of the Group's profit to reasonably possible changes in interest rates, with all other variables held constant. The sensitivity of the profit is the effect of the assumed changes in interest rate on the Group's profit for one year, based on the floating rate financial assets and financial liabilities held.

| | <u>2010</u> | | <u>2009</u> | |
|-------------------------------------|-------------|-------|-------------|-------|
| | QR '000 | | QR '000 | |
| Increase / decrease in basis points | +25 | -25 | +25 | -25 |
| Effect on profit for the year | (1,545) | 1,545 | (1,480) | 1,480 |

Credit risk exposure

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 principally of bank balances, accounts receivable, loans to LNG companies, investments available for sale and financial assets at fair value through profit and loss. The balances with bank are with reputed banks and the receivables are shown net of provision for doubtful debts after reviewing their recoverability. Loans to LNG companies represent loans given for the construction of vessels and are considered good and realizable. The carrying value of the investments is reflective of the credit exposures relating to the investments.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management is of the opinion that the Group's exposure to currency risk is minimal.

Liquidity risk

The Group limits its liquidity risk by ensuring bank facilities are available. The Group's terms of service agreement require amounts to be paid within 30-60 days of the date of invoice. Trade payables are normally settled within 30 days of the date of purchase.

Capital risk

The Group manages its capital to ensure that it will be able to continue on a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2009.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Note 14, net of cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

Gearing ratio

The Group's management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end as follows:

| | <u>2010</u> QR'000 | <u>2009</u> QR'000 |
|---------------------------|-----------------------|-----------------------|
| Debt (i) | 738,206 | 894,323 |
| Cash and cash equivalents | <u>(360,926)</u> | <u>(628,263)</u> |
| Net debt | <u>377,280</u> | <u>266,060</u> |
| Equity (ii) | <u>4,174,589</u> | <u>4,321,512</u> |
| Net debt to equity ratio | <u>9.04%</u> | <u>6.16%</u> |

(i) Debt is defined as long and short term borrowing, as detailed in Note 14.

(ii) Equity includes all capital and reserves of the Group.

29. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes certain judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below.

Classification of investments

Management classified the Group's investments, either as held for trading or available for sale based on the intention of holding the investment. Where the purpose of acquiring the investment was principally for the purpose of selling in the near future and has a recent actual pattern of short-term profit-taking, management has classified those investments as financial assets at fair value through profit and loss. All other investments are classified as available for sale.

Dry docking and Special Survey costs

Dry docking and special survey costs with a net book value of QR 35,904 thousand as of December 31, 2010 (2009: QR 27,280 thousand) included within ocean going and offshore services vessels represents expenditures incurred to replace certain components of the vessels. The Group incurs these expenditures periodically to ensure the safety of the vessels and in order to renew their operating license.

The dry docking and special survey costs are capitalized and depreciated over a period of 2.5 to 5 years, which according to management is the expected useful life of those components.

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29. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Useful life of vessels

As described in note 4 (h), the Group's management reviews the estimated useful lives of vessels, property, and equipment at the end of each annual reporting period.

Management estimates the useful lives for the Group's vessels based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of available-for-sale investments

The Group considers that available-for-sale investments are impaired when there is objective evidence of impairment. Objective evidence for an investment includes information about significant changes with an adverse effect that have taken place in the economic market in which the company operates and indicates that the investment may have suffered a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates amongst other factors, the volatility in share prices, the financial strength of related companies and the environment in which the Group operates and the industry.

Hedge effectiveness

The Group reviews its hedging relationship between the interest rate swaps and the underlying loans on a regular basis. The hedge was found to be highly effective. As result, the fair value of the derivative is recorded in equity under hedging reserve.

Impairment of trade receivables

An estimate of the collectible amount of trade receivables 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.

30. COMPARATIVE FIGURES

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

31. APPROVAL OF FINANCIAL STATEMENT

The financial statements were approved by management and authorised for issue on March 16, 2011.