

**QATAR SHIPPING COMPANY Q.S.C  
DOHA – QATAR**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED  
31 DECEMBER 2008**

**QATAR SHIPPING COMPANY Q.S.C**

**CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT**

For the year ended December 31, 2008

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QR. 31247

## INDEPENDENT AUDITOR'S REPORT

To The Shareholders  
Qatar Shipping Company Q.S.C.  
Doha – Qatar

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Qatar Shipping Company Q.S.C. ("the Company"), which comprise the consolidated balance sheet as at 31 December 2008, consolidated income statement, consolidated statement of changes in shareholders' equity and the consolidated cash flows statement 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

#### *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.

The consolidated financial statements include the assets, liabilities and results of operations of the joint ventures which have been audited by other auditors who have expressed unqualified audit opinions on the respective financial statements. These audit reports were furnished to us, and our opinion in so far as it relates to the amounts included for these joint ventures, is based solely on the reports of other auditors. These joint ventures with combined total assets of QR 1,061 million (December 31, 2007: QR 671 million), combined total liabilities of QR 620 million (December 31, 2007: QR 257 million) and net profit of QR 226 million (December 31, 2007: QR 56 million) are presented in these consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. 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.

We believe that the audit evidence we have obtained and the reports of other auditors are sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion and based on the reports of other auditors, the accompanying consolidated financial statements give a true and fair view of the financial position of Qatar Shipping Company Q.S.C., as of 31 December 2008, 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 and the financial information included in the annual report of the Board of Directors is in agreement with the Company's financial statements. 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**

**Doha – Qatar  
February 9, 2009**

**Samer Jaghoub  
License No. 88**

**QATAR SHIPPING COMPANY Q.S.C.**

**CONSOLIDATED BALANCE SHEET**

As of December 31, 2008

	Note	<u>2008</u> QR'000	<u>2007</u> QR'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and bank balances	5	511,733	238,294
Accounts receivable and prepayments	6	485,425	266,517
Investments held for trading	7a	68,981	157,543
Inventories	8	7,358	5,136
		<u>1,073,497</u>	<u>667,490</u>
<b>Non current assets</b>			
Loans to LNG and LPG companies	9	446,433	459,019
Investments available for sale	7b	2,020,720	2,942,007
Investment in associate companies	10	114,317	95,685
Vessels, property and equipment	11	1,755,059	1,495,669
Retentions receivable		10,971	953
Investment property	12	17,646	18,610
		<u>4,365,146</u>	<u>5,011,943</u>
<b>Total assets</b>		<u>5,438,643</u>	<u>5,679,433</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accruals	13	533,908	269,759
Term loans	14	114,058	96,707
Obligations under finance leases	15	508	474
		<u>648,474</u>	<u>366,940</u>
<b>Non current liabilities</b>			
Term loans	14	784,411	582,053
Obligations under finance leases	15	3,056	3,564
Employees' terminal benefits	16	18,797	12,227
		<u>806,264</u>	<u>597,844</u>
<b>Total liabilities</b>		<u>1,454,738</u>	<u>964,784</u>
<b>Shareholders' equity</b>			
Share capital	17.1	1,100,000	1,000,000
Legal reserve	17.2	1,220,754	1,220,754
Fair value reserve		971,485	1,856,059
Hedging revaluation reserve		(16,620)	(2,584)
Proposed cash dividends	17.4	385,000	350,000
Proposed bonus shares	17.4	--	100,000
Retained earnings		323,286	190,420
		<u>3,983,905</u>	<u>4,714,649</u>
<b>Total liabilities and shareholders' equity</b>		<u>5,438,643</u>	<u>5,679,433</u>

These consolidated financial statements were approved by the Board of Directors on February 9, 2009 and signed on its behalf by the following:

.....  
Salem Butti Al Naimi  
Chairman & Managing Director

.....  
Ali Sultan Al- Ali Al-Maadid  
Vice Chairman

.....  
K. K. Kothari  
Chief Executive Officer

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

**QATAR SHIPPING COMPANY Q.S.C.**

## CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2008

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	Note	<u>2008</u> QR'000	<u>2007</u> QR'000
Operating revenue	19	<b>1,458,967</b>	839,139
Operating costs	20	<b><u>(998,111)</u></b>	<u>(496,977)</u>
<b>Gross operating income</b>		<b>460,856</b>	342,162
General and administrative expenses	21	<b>(137,776)</b>	(83,407)
Finance costs		<b>(41,848)</b>	(53,888)
Interest income		<b>64,332</b>	57,455
Impairment loss on available-for-sale investments	7	<b>(11,154)</b>	--
Investment income	22	<b>51,346</b>	123,795
Other income		<b>28,599</b>	6,991
Gain on sale of vessels	11	<b><u>114,261</u></b>	<u>228,258</u>
<b>Income before provision for board of directors' remuneration</b>		<b>528,616</b>	621,366
Proposed Board of Directors' remuneration	17.3	<b><u>(10,750)</u></b>	<u>(10,750)</u>
<b>Net income for the year</b>		<b><u>517,866</u></b>	<u>610,616</u>
Adjusted basic earnings per share (expressed in QR per share)	17.5	<b><u>4.71</u></b>	<u>5.55</u>
Nominal value of each share (expressed in QR per share)	17.1	<b><u>10</u></b>	<u>10</u>

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

**QATAR SHIPPING COMPANY Q.S.C.**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended 31 December 2008

	<u>Share capital</u> QR '000	<u>Legal Reserve</u> QR '000	<u>Investments fair value reserve</u> QR '000	<u>Hedging revaluation reserve</u> QR '000	<u>Proposed cash dividends</u> QR'000	<u>Proposed bonus shares</u> QR'000	<u>Retained earnings</u> QR '000	<u>Total</u> QR '000
Balance at January 1, 2007	1,000,000	1,220,754	721,473	5,216	450,000	-	29,804	3,427,247
Dividend paid for year 2006	-	-	-	-	(450,000)	-	-	(450,000)
Net income for the year 2007	-	-	-	-	-	-	610,616	610,616
Investments available for sale re-measured to fair value	-	-	1,134,586	-	-	-	-	1,134,586
Hedging reserve re-measurement	-	-	-	(7,800)	-	-	-	(7,800)
Proposed cash dividends	-	-	-	-	350,000	-	(350,000)	-
Proposed bonus shares	-	-	-	-	-	100,000	(100,000)	-
<b>Balance at December 31, 2007</b>	<b>1,000,000</b>	<b>1,220,754</b>	<b>1,856,059</b>	<b>(2,584)</b>	<b>350,000</b>	<b>100,000</b>	<b>190,420</b>	<b>4,714,649</b>
Dividend paid for year 2007	-	-	-	-	(350,000)	-	-	(350,000)
Net income for the year 2008	-	-	-	-	-	-	517,866	517,866
Distributed bonus shares	100,000	-	-	-	-	(100,000)	-	-
Investments available for sale re-measured to fair value	-	-	(884,574)	-	-	-	-	(884,574)
Hedging reserve re-measurement	-	-	-	(14,036)	-	-	-	(14,036)
Proposed cash dividends	-	-	-	-	385,000	-	(385,000)	-
<b>Balance at December 31, 2008</b>	<b>1,100,000</b>	<b>1,220,754</b>	<b>971,485</b>	<b>(16,620)</b>	<b>385,000</b>	<b>-</b>	<b>323,286</b>	<b>3,983,905</b>

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

**QATAR SHIPPING COMPANY Q.S.C.**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended 31 December 2008

	<u>Notes</u>	<u>2008</u> QR'000	<u>2007</u> QR'000
<b>OPERATING ACTIVITIES</b>			
Net income for the year		517,866	610,616
Adjustments for:			
Depreciation and amortization		81,002	65,088
Finance costs		41,848	53,888
Interest income		(64,332)	(57,455)
Dividend income		(8,321)	(11,988)
Profit on sale of investments		(19,730)	(16,591)
Unrealized losses on investments "held for trading"		19,328	(33,824)
Provision for impairment on available for sale investments		11,154	--
Increase in employees' terminal benefits		8,753	5,143
Rental from investment property		(4,178)	(4,178)
Share of income in investments in associate LNG companies		(42,623)	(61,392)
Profit on sale of vessels		<u>(114,261)</u>	<u>(228,256)</u>
		426,506	321,051
Working Capital Changes:			
Inventories		(2,222)	2,335
Accounts receivable and prepayments		(232,944)	(59,731)
Retention receivables		(10,018)	(953)
Accounts payable and accruals		<u>264,149</u>	<u>62,485</u>
Cash generated from operations		445,471	325,187
Employees terminal benefits paid		<u>(2,183)</u>	<u>(286)</u>
<b>Net Cash from operating activities</b>		<b><u>443,288</u></b>	<b><u>324,901</u></b>
<b>INVESTING ACTIVITIES</b>			
Purchase of vessels, property and equipment		(501,084)	(384,929)
Sale of vessels, property and equipment		275,916	664,479
Interest income received		29,423	32,983
Purchase of investments		(28,272)	(477,266)
Proceeds from sale of investments		143,852	93,395
Proceeds from loans to LNG and LPG Companies		47,494	--
Investment in associate companies		22,936	5,000
Rental from investment property		4,178	4,178
Dividend income received		8,321	9,689
Security deposits		-	4,924
<b>Net Cash from (used in) investing activities</b>		<b><u>2,764</u></b>	<b><u>(47,547)</u></b>
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(350,000)	(446,550)
Finance costs paid		(41,848)	(50,387)
Term loans		219,709	(159,263)
Increase in secured notes payable		--	(88,979)
Finance Lease repayment, net		<u>(474)</u>	<u>(441)</u>
<b>Net cash used in financing activities</b>		<b><u>(172,613)</u></b>	<b><u>(745,620)</u></b>
<b>Increase (Decrease) in cash and cash equivalents</b>		<b>273,439</b>	<b>(468,266)</b>
Cash and cash equivalents at the beginning of the year		<u>238,294</u>	<u>706,560</u>
<b>Cash and cash equivalents at the end of the year</b>	<b>5</b>	<b><u>511,733</u></b>	<b><u>238,294</u></b>

The attached notes 1 to 32 form an integral part of these consolidated financial statements.

**1 CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES**

Qatar Shipping Company Q.S.C. (the "Company" or "Q-Ship") is a public Qatari Shareholding Company registered in the State of Qatar. The Company was formed in accordance with Emiri Decree No.84 of 1992, issued on 10 August 1992 and was registered on 6 December 1992. The Company is engaged in international shipping. Its main objectives are hiring, selling, leasing and operation of ships and other means of marine transport and construction services.

**2. ADOPTION OF NEW AND REVISED STANDARDS**

**2.1 Interpretations effective in the current year**

Three Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are: IFRIC 11 *IFRS 2: Group and Treasury Share Transactions* which is effective for annual periods beginning on or after 1 March 2007, IFRIC 12 *Service Concession Arrangements* which is effective for annual periods beginning on or after 1 January 2008 and IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* which is effective for annual periods beginning on or after 1 January 2008

The adoption of these three Interpretations had no significant effect on the consolidated financial statements of the Company for the year ended December 31, 2008.

**2.2 Standards and Interpretations in issue not yet effective**

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

Revised Standards

- |  |   |
|--|---|
| • IAS 1 (Revised) <i>Presentation of Financial Statements</i>            | Effective for annual periods beginning on or after 1 January 2009 |
| • IAS 23 (Revised) <i>Borrowing Costs</i>                                | Effective for annual periods beginning on or after 1 January 2009 |
| • IAS 27 (Revised) <i>Consolidated and Separate Financial Statements</i> | Effective for annual periods beginning on or after 1 July 2009    |
| • IAS 28 (Revised) <i>Investments in Associates</i>                      | Effective for annual periods beginning on or after 1 July 2009    |
| • IAS 31 (Revised) <i>Interests in Joint Ventures</i>                    | Effective for annual periods beginning on or after 1 July 2009    |
| • IAS 32 (Revised) <i>Financial Instruments: Presentation</i>            | Effective for annual periods beginning on or after 1 January 2009 |
| • IFRS 1 (Revised) <i>First time adoption</i>                            | Effective for annual periods beginning on or after 1 January 2009 |
| • IFRS 2 (Revised) <i>Share-based Payments</i>                           | Effective for annual periods beginning on or after 1 January 2009 |
| • IFRS 3 (Revised) <i>Business Combinations</i>                          | Effective for annual periods beginning on or after 1 July 2009    |

New Standard

- |                                    |   |
|------------------------------------|---|
| • IFRS 8 <i>Operating Segments</i> | Effective for annual periods beginning on or after 1 January 2009 |
|------------------------------------|---|

**2. ADOPTION OF NEW AND REVISED STANDARDS (continued)**

New Interpretations

- |  |  |
|--|--|
| • IFRIC 13 – <i>Customer loyalty Programmes</i>                    | Effective for annual periods beginning on or after July 1, 2008    |
| • IFRIC 15 - <i>Agreement for Construction of Real Estate</i>      | Effective for annual periods beginning on or after 1 January 2009  |
| • IFRIC 16 – <i>Hedges of Net Investment in Foreign Operations</i> | Effective for annual periods beginning on or after October 1, 2008 |

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 Company in the period of initial application, other than certain presentation and disclosure changes.

**3 BASIS OF CONSOLIDATION**

The consolidated financial statements for the year ended 31 December 2008 comprise the financial statements of the Company, its subsidiaries and its joint ventures (together referred to as the "Group").

**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 balance sheet 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 the management accounts.

- Qatar Engineering and Construction Company W.L.L. ("Q-Con") is a Limited Liability Company in Qatar and is wholly owned by the Company. The principal activities of Q-Con are to carry out engineering, construction and maintenance contracting for oil, gas and petrochemical industries.

**b) Joint ventures**

Joint ventures are those entities over which activities the Company has joint control, established by contractual agreement. 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 23.

**3 BASIS OF CONSOLIDATION (CONTINUED)**

**Transactions eliminated on consolidation**

Inter-company 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 the 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, investments held for trading and derivatives financial instruments that have been measured at fair values.

The financial statements are presented in Qatari Riyals, which is the Company'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 expenditure 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.

**d) Accounts receivable 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.

Gross amount due from customers for contract work in progress is stated at cost plus attributable profit less progress payments received/receivable. When the progress payments received/receivable exceed the cost plus attributable profit, the excess is reflected as gross amount due to customers.

**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 Company maintains the following different investment portfolios:

**4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**e) Investments (CONTINUED)**

*Investment held for trading*

Investments are classified as held for trading 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 income statement. 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 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 income statement for the year.

Due to the nature of cash flows arising from the Company'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 income statement, is transferred from equity to the income statement.

*Investment in Associates*

The Company's investments in its associates are accounted for under the equity method of accounting. An associate is an entity in which the Company 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 balance sheet at cost plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects the Company's share of the results of its associates.

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

**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.

**4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**g) Investment property (CONTINUED)**

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 income statement 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 expenditure is capitalised only when it increases the future economic benefits embodied in the item of vessels, property and equipment. All other expenditures are recognised in the consolidated income statement 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	1-5 years
Offshore service vessels (new)	20 years	Motor vehicles	2-5 years
Investment Property	25 years	Furniture & fixtures	1-10 years
Buildings (incl. Portable buildings & camps)	1-10 years	Plant & Machinery	2-10 years
Offshore service vessels (Second hand)	3-10 years	(incl. Diving Equipments)	

Subsequent expenditure to replace a component of vessels and equipment is depreciated over 2.5 years to 5 years. The cost less salvage value of used vessels is depreciated over their remaining useful lives.

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

**i) Accounts 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 income statement 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 income statement when the liabilities are derecognized.

#### **4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **k) Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held as finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessee is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the assets or the term of the lease.

##### **l) 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 balance sheet 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.

##### **m) Borrowing Costs**

Borrowing costs attributable to acquisition or construction of vessels, property and equipment are capitalized as part of cost of the asset up to the date at which the asset becomes ready to be put into use. Other borrowing costs are recognized as an expense in the period in which they are incurred.

##### **n) 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.

The revenue from construction activities, where the outcome of a long term contract can be estimated reliably, is recognized under the percentage of completion method by reference to the stage of completion achieved, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Where the outcome of a contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred that will be recovered. Costs include material, labor and other direct costs plus an appropriate allocation of overheads. Provision for anticipated losses is made in the year in which they first become determinable.

#### **4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **o) 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 income statement.

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 Company formally designates and documents the hedge relationship to which the Company 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 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 the income statement.

##### **Cash flow hedges**

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

##### **p) 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 balance sheet date. All differences are taken to the statement of income.

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

**4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****q) Impairment**

The carrying amounts of the Group's assets are reviewed at each consolidated balance sheet 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 income statement whenever the carrying amount of an asset exceeds its recoverable amount.

**r) Provisions**

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

**s) Maintenance Costs**

Anticipated costs during the warranty period for completed jobs are provided for based on the management's prior experience.

**5 CASH AND BANK BALANCES**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Cash on hand	1,139	470
Balances with banks	<u>510,594</u>	<u>237,824</u>
Cash and cash equivalent as per cash flow statement	<u>511,733</u>	<u>238,294</u>

Included under balances with banks are bank deposits amounting to QR 7,716 thousand (2007: QR 35,000 thousand) which are denominated in United States Dollars.

Bank balances also include QR 17,264 thousand (2007: QR 12,654 thousand) held in escrow accounts relating to unclaimed dividends for prior years. The Company'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 2008 was 6.6%. (2007: 5.47%)

**6 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Accounts receivable	259,971	152,365
Due from related parties (note 18)	<u>6,985</u>	<u>18,957</u>
	<u>266,956</u>	171,322
Less: Provision for doubtful receivables	<u>(7,276)</u>	<u>(3,749)</u>
	<u>259,680</u>	167,573
Prepaid expenses	6,563	3,517
Advances to suppliers	56,523	7,370
Accrued income	30,331	38,124
Gross amount due from customers for contract work (refer note 6.1)	111,516	23,482
Other receivables	19,290	25,075
Deposits	<u>1,522</u>	<u>1,376</u>
	<u>485,425</u>	<u>266,517</u>

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

**6 ACCOUNTS RECEIVABLE 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 fully 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, 2008 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>2008</u> QR'000	<u>2007</u> QR'000
Less than 60 days	<u>126,985</u>	<u>65,745</u>

*(ii) Aging of past due but not impaired*

	<u>2008</u> QR'000	<u>2007</u> QR'000
31-90 days	76,079	81,759
91-180 days	25,903	15,352
More than 181 days	<u>30,713</u>	<u>4,717</u>
	<u>132,695</u>	<u>101,828</u>

*(iii) Aging of impaired trade receivables*

	<u>2008</u> QR'000	<u>2007</u> QR'000
91-180 days	412	57
180 days-365 days	365	2,466
365 days and above	<u>6,499</u>	<u>1,226</u>
	<u>7,276</u>	<u>3,749</u>

*(iv) Movement in the provision of doubtful debts:*

	<u>2008</u> QR'000	<u>2007</u> QR'000
Balance at the beginning of the year	3,749	1,483
Amounts written off as uncollectible	(649)	(137)
Additional provision during the year	<u>4,176</u>	<u>2,403</u>
	<u>7,276</u>	<u>3,749</u>

**6.1 GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Value of work performed at cost plus attributable profit	274,820	191,619
Less: Progress billings and recognised losses	<u>(163,304)</u>	<u>(168,137)</u>
	<u>111,516</u>	<u>23,482</u>

**7 INVESTMENTS**

	Note	<u>2008</u> QR'000	<u>2007</u> QR'000
<b>At Cost</b>			
<b>Balance at beginning of year</b>		1,243,491	809,205
Acquisition during the year		28,272	477,266
Disposal during the year		(124,120)	(76,804)
Impairment loss on available for sale investment		(11,154)	--
Fair value change recognized in the consolidated income statement		<u>(19,328)</u>	33,824
<b>Balance at end of year</b>		<u>1,117,161</u>	<u>1,243,491</u>
<b>Fair Value Reserve</b>			
Balance at beginning of year		1,856,059	721,473
Net movement during the year		<u>(883,519)</u>	1,134,586
<b>Balance at end of year</b>	7c	<u>972,540</u>	<u>1,856,059</u>
<b>At Fair Value</b>			
<b>Balance at end of year</b>		<u>2,089,701</u>	<u>3,099,550</u>
<b>Classified as</b>			
Investment – Held for Trading	7a	68,981	157,543
Investment – Available for sale	7b	<u>2,020,720</u>	<u>2,942,007</u>
		<u>2,089,701</u>	<u>3,099,550</u>

**7a INVESTMENTS HELD FOR TRADING**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Quoted equities	<u>68,971</u>	<u>157,543</u>

Investments in quoted equities represent investments in shares listed on the Doha Securities Market and are valued at quoted market bid prices at the close of business on the balance sheet date.

**7b INVESTMENTS AVAILABLE FOR SALE**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Quoted equities and bonds	2,020,682	2,941,952
Unquoted equities	<u>38</u>	<u>55</u>
	<u>2,020,720</u>	<u>2,942,007</u>

Quoted equity investments include the Group's investments in Qatar Gas Transport Company Q.S.C and Al-Rayyan Bank Q.S.C with collective fair value of QR. 1,836 million as of December 31, 2008 (2007: QR 2,650 million). The Group intends to hold these investments as strategic long term investments.

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

**7 INVESTMENTS (continued)****7c 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:

	<u>2008</u> QR'000	<u>2007</u> QR'000
Investment fair value reserve of the Group	972,540	1,856,059
Share of investment fair value reserve from associate	<u>(1,055)</u>	--
	<u>971,485</u>	<u>1,856,059</u>

**8 INVENTORIES**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Stores and spares (net of provisions)	2,830	399
Construction materials	1,839	3,903
Fuel oil, diesel oil and lubes	<u>2,689</u>	834
	<u>7,358</u>	<u>5,136</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%.

Name of LNG/ LPG company	Company operating the LNG and LPG companies
India LNG Transport Company No.1 Ltd, Malta	Mitsui OSK Lines
Camartina Shipping INC, Bahamas	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	NYK
Peninsula LNG Transport No. 1 Ltd, Bahamas	NYK
Peninsula LNG Transport No. 2 Ltd, Bahamas	K Line
Peninsula LNG Transport No. 3 Ltd, Bahamas	Mitsui OSK Lines
K S Membrane-II, Denmark	Maersk
Gulf LPG Transport W.L.L	Nakilat

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

	<u>2008</u> QR'000	<u>2007</u> QR'000
Loans	299,951	347,445
Accrued Interest	<u>146,482</u>	111,574
	<u>446,433</u>	<u>459,019</u>

**10 INVESTMENT IN ASSOCIATE COMPANIES**

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

	Country of Incorporation	Ownership	
		<u>2008</u>	<u>2007</u>
Qatar Quarries and Building Materials Co. W.L.L	Qatar	25%	25%
Qatar LNG Transport Ltd.	Liberia	20%	20%
Camartina Shipping INC,	Bahamas	29.4%	29.4%
Peninsula LNG Transport No. 1 Ltd,	Bahamas	29.4%	29.4%
Peninsula LNG Transport No. 2 Ltd,	Bahamas	29.4%	29.4%
Peninsula LNG Transport No. 3 Ltd.	Bahamas	29.4%	29.4%

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>Note</u>	<u>2008</u> QR'000	<u>2007</u> QR'000
Opening balance		95,685	39,293
Share of income for the year		42,623	61,392
Share of fair value reserve	7c	(1,055)	--
Share of hedging reserve	25	(12,670)	--
Dividends received		(10,266)	(5,000)
		<u>114,317</u>	<u>95,685</u>

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

**QATAR SHIPPING COMPANY Q.S.C.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

**11 VESSELS, PROPERTY AND EQUIPMENT**

	<b>Owned ocean going vessels QR'000</b>	<b>Offshore Services vessels QR'000</b>	<b>Buildings QR'000</b>	<b>Plant and machinery QR'000</b>	<b>Capital work in progress QR'000</b>	<b>Furniture QR'000</b>	<b>Office equipment QR'000</b>	<b>Motor vehicles QR'000</b>	<b>Total QR'000</b>
<b>Cost:</b>									
At 1 January 2007	1,011,486	277,030	18,529	48,342	257,809	6,310	4,126	4,159	1,627,791
Additions during the year	197,995	99,858	10,266	7,177	61,131	2,869	154	5,479	384,929
Disposals	(231,371)	(25,378)	--	(511)	(8,641)	(116)	(103)	(302)	(266,422)
<b>At 31 December 2007</b>	<b>978,110</b>	<b>351,510</b>	<b>28,795</b>	<b>55,008</b>	<b>310,299</b>	<b>9,063</b>	<b>4,177</b>	<b>9,336</b>	<b>1,746,298</b>
Additions during the year	326,590	10,094	2,153	25,340	127,505	6,153	338	2,911	501,084
Disposals	(208,763)	--	--	(311)	--	(255)	--	(471)	(209,800)
Transfers	242,890	--	--	--	(242,890)	--	--	--	--
<b>At 31 December 2008</b>	<b><u>1,338,827</u></b>	<b><u>361,604</u></b>	<b><u>30,948</u></b>	<b><u>80,037</u></b>	<b><u>194,914</u></b>	<b><u>14,961</u></b>	<b><u>4,515</u></b>	<b><u>11,776</u></b>	<b><u>2,037,582</u></b>
<b>Depreciation:</b>									
At 1 January 2007	108,309	76,237	5,991	26,412	--	3,679	3,644	2,211	226,483
Charge for the year	32,300	18,720	3,774	5,903	--	1,801	465	1,162	64,125
Disposals	(24,943)	(14,187)	--	(484)	--	(84)	--	(281)	(39,979)
<b>At 31 December 2007</b>	<b>115,666</b>	<b>80,770</b>	<b>9,765</b>	<b>31,831</b>	<b>--</b>	<b>5,396</b>	<b>4,109</b>	<b>3,092</b>	<b>250,629</b>
Charge for the year	61,104	2,247	3,095	7,619	--	3,490	174	2,310	80,039
Disposals	(47,280)	--	--	(356)	--	(204)	--	(305)	(48,145)
<b>At 31 December 2008</b>	<b><u>129,490</u></b>	<b><u>83,017</u></b>	<b><u>12,860</u></b>	<b><u>39,094</u></b>	<b><u>--</u></b>	<b><u>8,682</u></b>	<b><u>4,283</u></b>	<b><u>5,097</u></b>	<b><u>282,523</u></b>
<b>Net book value:</b>									
<b>At 31 December 2008</b>	<b><u>1,209,337</u></b>	<b><u>278,587</u></b>	<b><u>18,088</u></b>	<b><u>40,943</u></b>	<b><u>194,914</u></b>	<b><u>6,279</u></b>	<b><u>232</u></b>	<b><u>6,679</u></b>	<b><u>1,755,059</u></b>
At 31 December 2007	<u>862,444</u>	<u>270,740</u>	<u>19,030</u>	<u>23,177</u>	<u>310,299</u>	<u>3,667</u>	<u>68</u>	<u>6,244</u>	<u>1,495,669</u>

**QATAR SHIPPING COMPANY Q.S.C.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

**11 VESSELS, PROPERTY AND EQUIPMENT (CONTINUED)**

(i) Owned ocean going vessels amounting to QR. 632,002 thousand (2007: 862,444 QR thousand) and offshore service vessels amounting to QR. 263,234 thousand (2007: QR 270,740 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:

	<u>2008</u> QR'000	<u>2007</u> QR'000
Operating costs (note 20)	63,539	57,131
General and administration expenses*	<u>17,463</u>	<u>7,957</u>
	<u>81,002</u>	<u>65,088</u>

\* Includes depreciation on investment property amounting to QR. 964 thousand (2007: QR 963 thousand)

(iii) During the year an owned ocean going vessel owned by one of the joint ventures was sold. The gain on sale of this vessel of QR. 114 million is included in the consolidated statement of income.

(iv) During the year, interest amounting to QR. 9,815 thousand has been capitalized and included in the vessels under construction (2007: QR. 4,293 thousand).

(v) Ocean going and off shore services vessels include dry docking components with a net book value of QR. 18,030 thousand as of December 31, 2008 (2007: QR 10,098 thousand).

**12 INVESTMENT PROPERTY**

	<u>2008</u> QR'000	<u>2007</u> QR'000
<b>Cost</b>		
At 1 January	<u>26,241</u>	<u>26,241</u>
At 31 December	<u>26,241</u>	<u>26,241</u>
<b>Depreciation</b>		
At 1 January	7,631	6,668
Charge for the year	<u>964</u>	<u>963</u>
At 31 December	<u>8,595</u>	<u>7,631</u>
<b>Net book value at 31 December</b>	<u>17,646</u>	<u>18,610</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. 17,646 thousand were appraised by an accredited independent appraiser at a fair value of QR. 137,635 thousand as of December 31, 2008. 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. 964 thousand (2007: QR. 963 thousand) has been charged under general and administration expenses.

**QATAR SHIPPING COMPANY Q.S.C.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

**12 INVESTMENT PROPERTY (CONTINUED)**

- (v) The Company earned rental income amounting to QR. 4,178 thousand for the year ended December 31, 2008 (2007: QR. 4,178 thousand) and this has been reflected in the consolidated income statement.

**13 ACCOUNTS PAYABLE AND ACCRUALS**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Trade accounts payable	52,674	85,034
Advances from customers	73,702	10,929
Due to related parties (note 18)	2,937	3,355
Unclaimed dividend	15,173	11,712
Gross amounts due to customers for contract work (note 13.1)	255,163	70,620
Accrued expenses	110,989	67,649
Directors' remuneration	10,750	10,750
Deferred income	5,732	398
Fair value of interest rate swap contracts	3,950	2,584
Other payables	2,838	6,728
	<u>533,908</u>	<u>269,759</u>

**13.1 GROSS AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Progress billings and recognised losses	643,625	160,091
Less: Value of work performed at cost plus attributable profit	<u>(388,462)</u>	<u>(89,471)</u>
	<u>255,163</u>	<u>70,620</u>

**14 TERM LOANS**

The term loans consist of the following:

	<u>2008</u> QR'000	<u>2007</u> QR'000
Term loan (i)	98,110	118,765
Term loan (ii)	343,057	391,026
Term loan (iii)	254,800	--
Term loan (iv)	8,807	5,706
Term loan (v)	193,695	163,263
	<u>898,469</u>	<u>678,760</u>
<b>Classified as:</b>		
Current portion	114,058	96,707
Non-current portion	784,411	582,053
	<u>898,469</u>	<u>678,760</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 Company has recognized the fair value of the Interest Rate Swap, which was a loss of QR 3,950 thousand (2007: QR 2,584 thousand gain), as an equity adjustment in the statement of changes in equity.

**QATAR SHIPPING COMPANY Q.S.C.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

**14 TERM LOANS (CONTINUED)**

- ii. The loan was executed on 14 Jan 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 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 95 bps to 75 bps effective Oct 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. Working capital loan of QR. 8,807 thousand (2007: QR. 5,706 thousand) is availed by Q-con (a subsidiary).
- v. The following term loans taken by one of the joint ventures (Halul Offshore Services Company) are proportionately consolidated in these consolidated financial statements:

	<u>2008</u> QR'000	<u>2007</u> QR'000
Loan 1 (i)	26,776	37,486
Loan 2 (ii)	13,656	16,869
Loan 3 (iii)	19,471	23,012
Loan 4 (iv)	20,564	23,990
Loan 5 (v)	22,190	23,670
Loan 6 (vi)	<u>91,038</u>	<u>38,236</u>
	<u>193,695</u>	<u>163,263</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 Company.
- (ii) Loan 2 has been obtained to finance the purchase of nine vessels. The loan is repayable in 34 equal quarterly installments of QR. 1.6 million each and loan carries at LIBOR plus a margin of 0.70%.
- (iii) Loan 3 has been 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%.
- (iv) Loan 4 has been obtained to finance the purchase of two vessels. The loan is repayable in

## QATAR SHIPPING COMPANY Q.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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#### 14 TERM LOANS (CONTINUED)

17 equal semi-annual installments of QR. 3.40 million commencing from September 2006 and carries interest at LIBOR plus margin of 0.70%.

- (v) Loan 5 has been 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%.
- (vi) Loan has been 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.

#### 15 OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases relate to a subsidiary of the Company.

Finance leases are capitalized under Vessels, Property and Equipment. They are stated at the present value of the future minimum lease payments. The interest portion of the lease payments is included in finance cost.

The Company's share of the obligations under the terms of the lease agreement is as follows:

	<u>2008</u>	<u>2007</u>
	QR'000	QR'000
Payable within 1 year	508	474
Payable in 2 to 5 years	2,376	1,627
Payable after 5 years	680	1,937
Present value of future lease obligations	<u>3,564</u>	<u>4,038</u>
Classified as:		
Current portion	508	474
Non-current portion	<u>3,056</u>	<u>3,564</u>
	<u>3,564</u>	<u>4,038</u>

**QATAR SHIPPING COMPANY Q.S.C.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

**16 EMPLOYEES' TERMINAL BENEFITS**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Balance at 1 January	12,227	7,370
Add: Provisions made during the year	8,753	5,143
Less: Payments made during the year	<u>(2,183)</u>	<u>(286)</u>
Balance at 31 December	<u>18,797</u>	<u>12,227</u>

**17 SHAREHOLDERS' EQUITY****17.1 SHARE CAPITAL**

	<u>2008</u> QR'000	<u>2007</u> QR'000
<u>Authorized</u> 110,000,000 shares (Year 2007: 100,000,000 shares) of QR 10 each	<u>1,100,000</u>	<u>1,000,000</u>
<u>Issued &amp; Paid Up Capital</u> 110,000,000 shares (Year 2007: 100,000,000 shares) of QR 10 each fully paid up	<u>1,100,000</u>	<u>1,000,000</u>

**17.2 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 Directors have 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. 41 million relating to legal reserve of consolidated subsidiaries. This amount is subject to restriction on distribution.

**17.3 PROPOSED DIRECTORS REMUNERATION**

The Board of directors has proposed a directors' remuneration of QR. 10.75 million for the current year (2007: QR 10.75 million), which is subject to the approval of the shareholders in the Annual General Meeting.

**17.4 PROPOSED DIVIDENDS AND BONUS SHARES**

The Board of Directors has proposed a cash dividend of QR 385 million for the year 2008 (2007: QR 350 million). This proposal is subject to the approval of the shareholders in the Annual General Assembly Meeting.

The Board of Directors has proposed bonus shares of QR. nil for the year 2008 (2007: QR 100 million).

**17.5 ADJUSTED BASIC EARNINGS PER SHARE**

Earnings per share are calculated by dividing the net income for the year by the weighted average number of ordinary shares outstanding during the year as follows:

	<u>2008</u>	<u>2007</u>
Profit for the year QR'000.	517,866	610,616
Weighted average number of shares (adjusted for bonus issue)	<u>110,000</u>	<u>110,000</u>
Adjusted basic share per QR.	<u>4.71</u>	<u>5.55</u>

**QATAR SHIPPING COMPANY Q.S.C.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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**18 RELATED PARTY TRANSACTIONS****a) Related parties transactions:**

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

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

	<u>2008</u> QR'000	<u>2007</u> QR'000
Operating income	<u>103,519</u>	<u>164,417</u>
General and administration expenses	<u>1,099</u>	<u>68,437</u>

**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 Petroleum, Qatar Quarries and Building Material Company, Qatar Navigation, 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>2008</u> QR'000	<u>2007</u> QR'000
Short term benefits	<u>18,219</u>	11,034
Employees' terminal benefits	<u>4,721</u>	<u>443</u>
	<u>22,940</u>	<u>11,477</u>

**QATAR SHIPPING COMPANY Q.S.C.**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**19 SEGMENT INFORMATION**

- (a) The primary segments of the Group are the business segments, since the risks and returns are affected predominantly by difference in the various forms of services offered by the Group. The Group's main business segments are deep-sea transportation, offshore support services, construction services and investments. Income generated by business segments are:

	For the year ended 31 December 2008			For the year ended 31 December 2007		
	Revenue QR '000	Net Income QR '000	%	Revenue QR '000	Net Income QR '000	%
<b>Deep Sea Transportation</b>						
<u>Liquid / Oil</u>						
<u>Crude/Dirty Products (DPP)</u>						
Fully Owned	82,517	43,593	9%	35,795	27,812	5%
Partly Owned	1,626	1,099	--%	22,313	4,165	1%
	<b>84,143</b>	<b>44,692</b>	<b>9%</b>	<b>58,108</b>	<b>31,977</b>	<b>6%</b>
<u>LPG</u>						
Fully Owned	60,287	32,148	6%	59,838	34,182	5%
50% Owned	19,250	7,718	2%	--	--	--
	<b>79,537</b>	<b>39,866</b>	<b>8%</b>	<b>59,838</b>	<b>34,182</b>	<b>5%</b>
<u>Clean Products (CPP)</u>						
Fully Owned	90,342	44,123	8%	126,615	72,249	12%
	<b>90,342</b>	<b>44,123</b>	<b>8%</b>	<b>126,615</b>	<b>72,249</b>	<b>12%</b>
<b>Offshore Support Services</b>						
Fully Owned	25,761	24,415	5%	36,615	22,798	4%
Partly Owned	282,240	134,763	26%	189,101	55,732	9%
Chartered in	10,021	504	--%			
	<b>318,022</b>	<b>159,682</b>	<b>31%</b>	<b>225,716</b>	<b>78,530</b>	<b>13%</b>
<b>Construction Services</b>						
Fully Owned	886,923	172,726	33%	368,862	71,569	12%
Partly Owned	-	(233)	-	-	(233)	-
	<b>886,923</b>	<b>172,493</b>	<b>33%</b>	<b>368,862</b>	<b>71,336</b>	<b>12%</b>
<b>Operating Revenue</b>	<b>1,458,967</b>	<b>460,855</b>	<b>89%</b>	<b>839,139</b>	<b>288,274</b>	<b>48%</b>
<b>Investment, Interest &amp; other Income</b>						
Interest from loan to LNG Cos.	43,387	43,387	8%	31,264	31,264	5%
Interest from Bonds & deposits	21,709	21,709	4%	26,191	26,191	4%
(Loss) Gain on sale of Bonds & equities	(10,114)	(10,114)	(2)%	54,744	54,744	9%
Dividends	7,683	7,683	2%	10,885	10,885	2%
Investment property	4,178	4,178	2%	4,178	4,178	1%
Other	138,694	138,693	26%	288,875	288,875	47%
	<b>205,537</b>	<b>205,536</b>	<b>40%</b>	<b>416,137</b>	<b>416,137</b>	<b>68%</b>
Less: Indirect general and administrative expenses	-	(137,776)	(27)%	-	(83,045)	(14)%
Less: Proposed Board of Directors remuneration	-	(10,750)	(2)%		(10,750)	(2)%
<b>Total</b>	<b>1,664,504</b>	<b>517,866</b>	<b>100%</b>	<b>1,255,276</b>	<b>610,616</b>	<b>100%</b>

**QATAR SHIPPING COMPANY Q.S.C.**

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**19 SEGMENT INFORMATION (CONTINUED)**

b) Assets employed by business segments

The Group's income generating assets are marine vessels, offshore services vessels, construction equipments, real estate, investments and cash. The marine vessels are of three different types, Crude oil carriers, Clean product carriers & Gas carriers. Offshore service assets include vessels such as harbor towage, pilot boats, tug boats, standby safety vessels, anchor handling tugs & supply vessels and other equipments. The carrying value of these assets are as follows:

	As at 31 December 2008		As at 31 December 2007	
	Net book value QR '000	%	Net book value QR '000	%
<b><u>Vessels, property and equipments</u></b>				
<b>Marine Vessels / Tankers</b>				
Crude/Dirty Products (DPP)				
Fully Owned	155,587	3%	160,399	3%
Partly Owned	-	-	112,882	2%
	<b>155,587</b>	<b>3%</b>	<b>273,281</b>	<b>5%</b>
Clean Products (CPP)				
Fully Owned	<b>374,546</b>	<b>7%</b>	<b>386,130</b>	<b>7%</b>
LPG				
Fully Owned	198,874	4%	205,025	4%
50% owned	586,150	11%	255,046	4%
	<b>785,024</b>	<b>15%</b>	<b>460,071</b>	<b>8%</b>
<b>Offshore Services</b>				
<b>Vessels/Equipment</b>				
Fully Owned	64,296	1%	64,703	1%
Partly Owned	306,030	6%	241,942	5%
	<b>370,326</b>	<b>7%</b>	<b>306,645</b>	<b>6%</b>
<b>Construction Services Assets</b>				
Fully Owned	69,301	1%	69,267	1%
Partly Owned	275	0%	275	0%
	<b>69,576</b>	<b>1%</b>	<b>69,542</b>	<b>1%</b>
<b>Total</b>	<b>1,755,059</b>	<b>33%</b>	<b>1,495,669</b>	<b>26%</b>
<b><u>Other Assets</u></b>				
Available for sale investments	2,020,720	37%	2,942,007	51%
Loans to LNG companies	446,433	8%	459,019	8%
Bank balances	511,733	9%	238,294	4%
Held for trading investments	68,981	1%	157,543	3%
Investment property	17,646	1%	18,610	0%
Retention receivable	10,971	0%	953	0%
Inventories	7,358	0%	5,136	0%
Accounts receivable and prepayments	485,425	9%	266,517	6%
Investment in associates	114,317	2%	95,685	2%
	<b>3,683,584</b>	<b>67%</b>	<b>4,183,764</b>	<b>74%</b>
<b>Total</b>	<b>5,438,643</b>	<b>100%</b>	<b>5,679,433</b>	<b>100%</b>

**QATAR SHIPPING COMPANY Q.S.C.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**20 OPERATING COSTS**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Charter hire	47,528	52,127
Address commission and brokerage	1,920	3,280
Bunker cost	3,233	6,734
Port charges	993	3,096
Staff costs (incl. crew costs)	90,109	173,084
Construction direct cost	712,777	107,804
Repairs and maintenance	20,810	14,867
Depreciation on vessels and equipment	63,539	57,131
Insurance	9,443	8,558
Others	47,759	70,296
	<u>998,111</u>	<u>496,977</u>

**21 GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Staff related costs	74,259	53,876
Office expenses	18,412	12,175
General expenses	27,642	9,399
Depreciation	17,463	7,957
	<u>137,776</u>	<u>83,407</u>

**22 INVESTMENT INCOME**

	<u>2008</u> QR'000	<u>2007</u> QR'000
Dividends	8,321	11,988
Profit on sale of investments	19,730	16,591
Unrealized (loss) Gain on investments held for trading	(19,328)	33,824
Share of Income from associates	42,623	61,392
	<u>51,346</u>	<u>123,795</u>

**23 INTERESTS IN JOINT VENTURES**

The Group has following Joint Ventures as at 31 December 2008:

	Shareholding %
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

## QATAR SHIPPING COMPANY Q.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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#### 23 INTERESTS IN JOINT VENTURES (CONTINUED)

- 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 with the objective of acquiring the rights to lease two LR1 class crude oil tankers, the title to which was held by Abbey National December Leasing (4) Limited. On 23 March 2005, Abbey National December Leasing (4) Limited was sold by Abbey National Treasury Services Plc to West LB AG ("Lessor"). There were no changes in the terms and conditions of the lease. On 22 June 2005, the Company exercised the option to terminate the leases and purchase the Ras Laffan and Valiant from the lessor. Both these ships were sold in 2008.

Equipment Finance Company Inc. in December 1999. QM Tanker does not have employees and administrative support is provided by Exxon Mobil employees.

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.

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 dissolution of this company is expected to be taken up in 2008 after recovering all dues to the joint venture. The financial statements of QSMC are immaterial to the Group and are included in the accompanying consolidated financial statements based on the 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. There were no significant activities undertaken by the QSMC since its incorporation.

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>2008</u> QR'000	<u>2007</u> QR'000
<b>Assets</b>		
Current assets	167,725	146,567
Non current assets	9,868	--
Vessels and equipment	<u>883,640</u>	<u>525,166</u>
	<u>1,061,233</u>	<u>671,733</u>
<b>Liabilities</b>		
Current liabilities	77,495	114,197
Non current liabilities	<u>542,248</u>	<u>142,453</u>
	<u>619,743</u>	<u>256,650</u>

**QATAR SHIPPING COMPANY Q.S.C.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

**23 INTERESTS IN JOINT VENTURES (CONTINUED)**

<b>Revenues</b>	<u>2008</u> QR'000	<u>2007</u> QR'000
Operating revenue	303,116	211,414
Interest income	1,423	688
Investment (loss)/ income	(1,428)	589
Gain on sale of vessels	114,261	--
Other income	9,394	14,365
	<u>426,766</u>	<u>227,056</u>
<b>Expenses</b>		
Operating costs	159,536	134,656
General and administration expenses	30,486	12,470
Finance costs	10,440	24,044
	<u>200,462</u>	<u>171,170</u>
<b>Net Profit for the year</b>	<u>226,304</u>	<u>55,886</u>

**24 DERIVATIVE FINANCIAL INSTRUMENTS**

	<u>2008</u> QR 000	<u>2007</u> QR 000
Fair value of interest rate swap contracts*	(3,950)	(2,584)
Fair value of interest rate swap contract from associate	(12,670)	--
	<u>(16,620)</u>	<u>(2,584)</u>

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

These derivatives are designated as being effective cash flow hedges.

**25 CAPITAL COMMITMENTS**

The directors have authorised the following future capital expenditures:

	<u>2008</u> QR'000	<u>2007</u> QR'000
Capital contribution in an Associate	3,000	5,000
Purchase of Offshore services vessels	1,560	-
Purchase of machinery and equipment	10,610	16,650
Purchase of four Very Large Gas Carriers	1,059,851	2,250,000
	<u>1,075,021</u>	<u>2,271,650</u>

## QATAR SHIPPING COMPANY Q.S.C.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

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#### 26 CONTINGENT LIABILITIES AND OPERATIONAL COMMITMENTS

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

	<u>2008</u> QR'000	<u>2007</u> QR'000
Guarantees against performance bonds and tender bonds	<u>387,871</u>	<u>120,546</u>
Letters of Credit	<u>98,607</u>	<u>3,679</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.

#### 27 INTEREST TRANSACTIONS

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

	<u>2008</u> QR'000	<u>2007</u> QR'000
Interest Income	64,332	57,455
Interest Cost:		
Expensed	<u>(41,848)</u>	<u>(53,888)</u>
<b>Net interest income</b>	(a) <u>22,484</u>	<u>3,567</u>
<b>Total income</b>	(b) <b>517,866</b>	610,616
<b>Net interest income as a % of total income</b>	(a÷b) <b>4.34%</b>	0.6%

#### 28 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, investments available for sale, investments held for trading and loans to LNG companies. The financial liabilities of the Group comprise mainly accounts payable and accruals, term loans and obligations under finance leases.

##### Fair values of financial assets and liabilities

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 investments available for sale, investments held for trading 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.

**QATAR SHIPPING COMPANY Q.S.C.**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2008

**29 FINANCIAL RISK MANAGEMENT**

**Interest rate risk exposures**

With the exception of certain term loans amounting to QR 98,110 thousand (2007 : QR 118,765 thousand), which are covered by interest rate swap contracts (Note 24), a significant portion of the Company's financial assets and liabilities as of 31 December 2008 are exposed to interest rate fluctuations. The Company's exposure to interest rate risk and the effective interest rates on its financial assets and liabilities are summarised below:

	2008				2007			
	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
<b>Financial assets</b>								
Bank balances and cash	<b>180,000</b>	<b>330,594</b>	<b>1,139</b>	<b>511,733</b>	35,000	167,316	35,978	238,294
<b>Financial liabilities</b>								
Interest bearing loans and borrowings	--	<b>898,469</b>	--	<b>898,469</b>	--	678,760	--	678,760
Interest rate swap	<b>98,110</b>	<b>(98,110)</b>	--	--	118,765	(118,765)	--	--
	<b>98,110</b>	<b>800,359</b>	--	<b>898,469</b>	118,765	559,995	--	678,760
Net financial asset/ (liabilities)	<b>81,890</b>	<b>(469,765)</b>	<b>1,139</b>	<b>(386,736)</b>	<b>(83,765)</b>	<b>(392,679)</b>	<b>35,978</b>	<b>(440,466)</b>

## **QATAR SHIPPING COMPANY Q.S.C.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2008

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#### **29 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>2008</u>		<u>2007</u>	
	<u>QR '000</u>		<u>QR '000</u>	
Increase / decrease in basis points	<b>+25</b>	<b>-25</b>	<b>+25</b>	<b>-25</b>
Effect on profit for the year	<b>(1,174)</b>	<b>1,174</b>	<b>(981)</b>	<b>981</b>

##### **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 investments held for trading. 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 on 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.

## **QATAR SHIPPING COMPANY Q.S.C.**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 31 December 2008

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#### **29 FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Capital risk**

The Group manages its capital to ensure that it will be able to continue 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 2007.

The capital structure of the Company 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.

##### ***Gearing ratio***

The company'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>2008</u> QR'000	<u>2007</u> QR'000
Debt (i)	898,469	678,760
Cash and cash equivalents	<u>(511,733)</u>	<u>(238,294)</u>
Net debt	<u>386,736</u>	<u>440,466</u>
Equity (ii)	<u>3,983,905</u>	<u>4,714,649</u>
<b>Net debt to equity ratio</b>	<b>9.71%</b>	<b>9.34%</b>

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

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

#### **30 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

The Group makes certain judgements, 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 held for trading. All other investments are classified as available for sale.

**30 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)**

**Dry docking and Special Survey costs**

Dry docking and special survey costs with a net book value of QR 24,431 thousand as of December 31, 2008 (2007: QR 16,718 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.

**Useful life of vessels**

As described in note 4 (h), the Group's management reviews the estimated useful lives of property, plant 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 company operates and the industry.

**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.

**31 SUBSEQUENT EVENTS**

The Board of Directors of the Company and Qatar Navigation Company Q.S.C., decided to explore the possibilities of merging both companies during the financial year 2009. A consultant is under process of being appointed to evaluate the companies and propose a merger structure.

**32 COMPARATIVE FIGURES**

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