

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

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE SIX MONTH PERIOD ENDED
JUNE 30, 2009**

QATAR SHIPPING COMPANY Q.S.C

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the six month period ended June 30, 2009

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QR. 31247

INDEPENDENT AUDITOR'S REPORT

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

Report on the interim consolidated financial statements

We have audited the accompanying interim consolidated financial statements of Qatar Shipping Company Q.S.C. (the "Company"), which comprise the interim consolidated statement of financial position as at June 30 2009, interim consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the six month period 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 interim 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 interim 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 interim 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 interim consolidated financial statements are free from material misstatement.

The interim consolidated financial statements include the assets, liabilities and results of operations of a joint venture which has been audited by other auditors who have expressed unqualified audit opinion on the interim financial statements. This audit report was furnished to us, and our opinion in so far as it relates to the amounts included for this joint venture, is based solely on the report of other auditors. This joint venture with combined total assets of QR 457 million (December 31, 2008: QR 471 million), combined total liabilities of QR 200 million (December 31, 2008: QR 234 million) and net profit of QR 69 million (June 30, 2008: QR 50 million) is presented as part of these interim consolidated financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the interim 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 interim 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 interim consolidated financial statements.

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

Opinion

In our opinion and based on the report of other auditors, the accompanying interim consolidated financial statements give a true and fair view of the financial position of Qatar Shipping Company Q.S.C., as of June 30, 2009, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

Other Legal and Regulatory Requirements

Furthermore, in our opinion the interim 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 period which would materially affect the Company's activities or its financial position.

For **Deloitte & Touche**

**Doha – Qatar
August 12, 2009**

**Muhammed Bahemia
License No. 103**

QATAR SHIPPING COMPANY Q.S.C.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2009

| | Note | <u>June 30, 2009</u> QR'000 | <u>December 31, 2008</u> QR'000 |
|---|------|------------------------------------|--|
| ASSETS | | | |
| Current assets | | | |
| Cash and bank balances | 5 | 255,554 | 511,733 |
| Accounts receivable and prepayments | 6 | 476,028 | 485,425 |
| Investments held for trading | 7a | 66,411 | 68,981 |
| Inventories | 8 | 7,075 | 7,358 |
| | | <u>805,068</u> | <u>1,073,497</u> |
| Non current assets | | | |
| Loans to LNG and LPG companies | 9 | 463,413 | 446,433 |
| Investments available for sale | 7b | 2,174,161 | 2,020,720 |
| Investment in associate companies | 10 | 69,233 | 114,317 |
| Vessels, property and equipment | 11 | 1,824,068 | 1,755,059 |
| Retentions receivable | | 20,611 | 10,971 |
| Investment property | 12 | 17,169 | 17,646 |
| | | <u>4,568,655</u> | <u>4,365,146</u> |
| Total assets | | <u>5,373,723</u> | <u>5,438,643</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accruals | 13 | 472,549 | 533,908 |
| Term loans | 14 | 420,111 | 114,058 |
| Obligations under finance leases | 15 | 543 | 508 |
| | | <u>893,203</u> | <u>648,474</u> |
| Non current liabilities | | | |
| Term loans | 14 | 526,485 | 784,411 |
| Obligations under finance leases | 15 | 2,513 | 3,056 |
| Employees' terminal benefits | 16 | 22,016 | 18,797 |
| | | <u>551,014</u> | <u>806,264</u> |
| Total liabilities | | <u>1,444,217</u> | <u>1,454,738</u> |
| Shareholders' equity | | | |
| Share capital | 17.1 | 1,100,000 | 1,100,000 |
| Legal reserve | 17.2 | 1,220,754 | 1,220,754 |
| Fair value reserve | 7.c | 1,182,152 | 971,485 |
| Hedging revaluation reserve | 24 | (55,269) | (16,620) |
| Proposed cash dividends | | -- | 385,000 |
| Retained earnings | | 481,869 | 323,286 |
| | | <u>3,929,506</u> | <u>3,983,905</u> |
| Total liabilities and shareholders' equity | | <u>5,373,723</u> | <u>5,438,643</u> |

These interim consolidated financial statements were approved by the Board of Directors on August 12, 2009 and signed on its behalf by the following:

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

.....
Sheikh Nasser Bin Hamad Al-Thani
Member, Board of Directors

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

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

QATAR SHIPPING COMPANY Q.S.C.**INTERIM CONSOLIDATED STATEMENT OF INCOME**

For the six month period ended June 30, 2009

| | Note | June 30, 2009 QR'000 (Audited) | June 30, 2008 QR'000 (Unaudited) |
|---|-------------|---|---|
| Operating revenue | | 850,465 | 636,139 |
| Operating cost | 20 | <u>(644,587)</u> | <u>(422,318)</u> |
| Operating Income | | 205,878 | 213,821 |
| General and administration expenses | 21 | (56,405) | (48,245) |
| Finance costs | | (21,169) | (17,664) |
| Impairment loss | 7 | (5,425) | -- |
| Interest income | | 31,772 | 27,874 |
| Investment (loss) / income | 22 | (13,271) | 76,941 |
| Other income | | 17,203 | 8,051 |
| Gain on sale of vessels | | --- | <u>114,261</u> |
| Net Income for the Period | | <u>158,583</u> | <u>375,039</u> |
| Earnings per share (expressed in QR per share) | 17.3 | <u>1.44</u> | <u>3.41</u> |

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

QATAR SHIPPING COMPANY Q.S.C.

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six month period ended June 30, 2009

| | <u>June 30,</u> <u>2009</u> QR'000 (Audited) | <u>June 30,</u> <u>2008</u> QR'000 (Unaudited) |
|--|---|---|
| Net Income for the Period | <u>158,583</u> | <u>375,039</u> |
| Net movement in fair value of available for sale investments | 210,667 | 718,402 |
| Net loss in fair value of cash flow hedge | <u>(38,649)</u> | <u>(15,469)</u> |
| Total Other Comprehensive Income | <u>172,018</u> | <u>702,933</u> |
| Total Comprehensive Income for the Period | <u>330,601</u> | <u>1,077,972</u> |

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

QATAR SHIPPING COMPANY Q.S.C.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six month period ended June 30, 2009

| | <u>Share capital</u> QR '000 | <u>Legal reserve</u> QR '000 | <u>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, 2008 (Audited) | 1,000,000 | 1,220,754 | 1,856,059 | (2,584) | 350,000 | 100,000 | 190,420 | 4,714,649 |
| Dividend paid for year 2007 | - | - | - | - | (350,000) | - | - | (350,000) |
| Total comprehensive income for the period | - | - | 718,402 | (15,469) | - | - | 375,039 | 1,077,972 |
| Distributed bonus shares | 100,000 | - | - | - | - | (100,000) | - | - |
| Balance at June 30, 2008 (Unaudited) | 1,100,000 | 1,220,754 | 2,574,461 | (18,053) | - | - | 565,459 | 5,442,621 |
| Balance at January 1, 2009 (Audited) | 1,100,000 | 1,220,754 | 971,485 | (16,620) | 385,000 | - | 323,286 | 3,983,905 |
| Dividend paid for year 2008 | - | - | - | - | (385,000) | - | - | (385,000) |
| Total comprehensive income for the period | - | - | 210,667 | (38,649) | - | - | 158,583 | 330,601 |
| Balance at June 30, 2009 (Audited) | 1,100,000 | 1,220,754 | 1,182,152 | (55,269) | - | - | 481,869 | 3,929,506 |

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

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

For the six month period ended June 30, 2009

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> <u>(Audited)</u> | <u>June 30,</u> <u>2008</u> <u>QR'000</u> <u>(Unaudited)</u> |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net profit for the period | 158,583 | 375,039 |
| Adjustments for: | | |
| Depreciation | 51,816 | 35,624 |
| Finance costs | 21,169 | 17,664 |
| Interest income | (31,772) | (27,874) |
| Investment loss / (income) | 13,271 | (76,941) |
| Provision for impairment on available for sale | 5,425 | -- |
| Rental from investment property | (2,089) | (2,089) |
| Profit on sale of vessels, property and equipment | -- | (114,261) |
| Provision for employees' end of service benefits | <u>4,022</u> | <u>2,942</u> |
| | <u>220,425</u> | <u>210,104</u> |
| Movement in working capital: | | |
| Inventories | 283 | (2,181) |
| Accounts receivables and prepayments | 9,397 | (174,629) |
| Retention receivable | (9,640) | -- |
| Accounts payable and accruals | <u>(60,157)</u> | <u>113,075</u> |
| Cash Generated From Operations | 160,308 | 146,369 |
| Employee end of service benefit paid | <u>(803)</u> | <u>--</u> |
| Net Cash From Operating Activities | <u>159,505</u> | <u>146,369</u> |
| INVESTING ACTIVITIES | | |
| Purchase of vessels, property and equipment | (120,639) | (206,685) |
| Proceeds from sale of vessels, property and equipments | 291 | 222,587 |
| Interest income received | 9,856 | 8,678 |
| Purchase of investments | -- | (24,659) |
| Proceeds from loans to LNG and LPG companies | 4,936 | 18,604 |
| Rental from investment property | 2,089 | 2,089 |
| Investment income received | <u>46,333</u> | <u>149,640</u> |
| Net Cash (Used In) / From Investing Activities | <u>(57,134)</u> | <u>170,254</u> |
| FINANCING ACTIVITIES | | |
| Dividends paid | (385,000) | (350,000) |
| Movement in Term loans | 48,127 | 328,820 |
| Finance costs paid | (21,169) | (17,881) |
| Finance lease payable | <u>(508)</u> | <u>(679)</u> |
| Net Cash Used In financing activities | <u>(358,550)</u> | <u>(39,740)</u> |
| Decrease (Increase) in cash and cash equivalents | (256,179) | 276,883 |
| Cash and cash equivalents at the beginning of the period | <u>511,733</u> | <u>238,294</u> |
| Cash and Cash Equivalents at the End of the Period | <u>255,554</u> | <u>515,177</u> |

The attached notes 1 to 32 form an integral part of these interim 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 August 10, 1992 and was registered on December 6, 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 period

The following are the standards and interpretations effective for the current period.

Revised Standards

Effective for annual periods beginning on or after January 1, 2009

- IAS 1 (Revised) - *Presentation of Financial Statements*
- IAS 23 (Revised) - *Borrowing Costs*
- IAS 32 (Revised) - *Financial Instruments: Presentation*
- IFRS 1 (Revised) - *First time adoption*
- IFRS 2 (Revised) - *Share-based Payments*

New Standard

Effective for annual periods beginning on or after January 1, 2009

- IFRS 8 - *Operating Segments*

New Interpretations

Effective for annual periods beginning on or after July 1, 2008

- IFRIC 13 - *Customers loyalty programs*

Effective for annual periods beginning on or after January 1, 2009

- IFRIC 15 - *Agreement for Construction of Real Estate*

Effective for annual periods beginning on or after October 1, 2008

- IFRIC 16 - *Hedges of a Net Investment in Foreign Operation*

2.2 Standards and Interpretations in issue not yet effective

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

Revised Standards

Effective for annual periods beginning on or after July 1, 2009

- IAS 27 (Revised) - *Consolidated and Separate Financial Statements*
- IAS 28 (Revised) - *Investments in Associates*
- IAS 31 (Revised) - *Interests in Joint Ventures*
- IFRS 3 (Revised) - *Business Combinations*

New Interpretations

Effective for annual periods beginning on or after July 1, 2009

- IFRIC 17 - *Distributions of Non-Cash Assets to Owners*

Effective for transfers from customers received on or after July 1, 2009

- IFRIC 18 - *Transfers of Assets from Customers*

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the interim consolidated financial statements of the Company in the period of initial application.

3 BASIS OF CONSOLIDATION

The interim consolidated financial statements for the six month period ended June 30, 2009 comprise the interim 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 interim financial statements of the subsidiaries are included in the interim consolidated financial statements from the date when control commences.

The interim consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries at June 30, 2009:

- 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 interim financial statements of Gulf Shipping are immaterial to the Group and are included in the accompanying interim 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.

- Qatar Shipping Company (India) Private Limited ("Q-Ship India") is a limited liability company incorporated in India on 19 December 2008 with a share capital of Rs 7,001,000 and is wholly owned by the Company. The principal activity of the company is to carry out all shipping related activities. Q-Ship India is yet to allot the shares due to administrative reasons.

b) Joint ventures

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

Transactions eliminated on consolidation

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

a) Statement of compliance

The interim consolidated financial statements have been prepared in accordance with the IAS 34 "Interim Financial Reporting" and applicable requirements of Qatar Commercial Companies Law No.5 of 2002.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Basis of preparation

The interim 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 interim 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:

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 interim 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 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 interim consolidated statement of income for the period.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Investments (continued)

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 interim statement of income, is transferred from equity to the interim consolidated statement of income.

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 interim consolidated statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in value. The interim consolidated statement of income 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.

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 interim consolidated statement of income in the period 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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**h) Vessels, property and equipment (continued)**

Expenditures are recognised in the interim 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 | 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 interim 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 interim consolidated statement of income when the liabilities are derecognized.

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 interim consolidated statement of financial position 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of financial position 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 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 period 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 period in which they first become determinable.

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 period that do not qualify for hedge accounting are taken directly to the interim 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Derivative financial instruments and hedging (continued)

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 interim 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 interim consolidated statement of income.

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 financial position date. All differences are taken to the interim consolidated statement of income.

The assets and liabilities of foreign joint venture operations are translated to Qatar Riyals at rates ruling at the interim consolidated statement of financial position 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.

q) Impairment

The carrying amounts of the Group's assets are reviewed at each interim consolidated statement of financial position 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 interim consolidated statement of income 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.

For the six month period ended June 30, 2009

5 CASH AND BANK BALANCES

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|---|---|---|
| Cash on hand | 1,700 | 1,139 |
| Balances with banks | <u>253,854</u> | <u>510,594</u> |
| Cash and cash equivalent as per cash flow statement | <u>255,554</u> | <u>511,733</u> |

Included under balances with banks are bank deposits and call accounts amounting to QR 50,728 thousand (December 31, 2008: QR 7,716 thousand) which are denominated in United States Dollars.

Bank balances also include QR 24,370 thousand (December 31, 2008: QR 17,264 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 during the period was 6.7%. (December 31, 2008: 6.6%)

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|--|---|---|
| Accounts receivable | 215,698 | 252,427 |
| Due from related parties (note 18) | <u>3,711</u> | <u>6,985</u> |
| | 219,409 | 259,412 |
| Less: Provision for doubtful receivables | <u>(7,336)</u> | <u>(7,276)</u> |
| | 212,073 | 252,136 |
| Prepaid expenses | 17,973 | 6,563 |
| Advances to suppliers | 79,498 | 56,523 |
| Retention receivables | 12,845 | 7,544 |
| Accrued income | 13,764 | 30,331 |
| Gross amount due from customers for contract work (refer note 6.1) | 121,108 | 111,516 |
| Other receivables | 17,054 | 19,290 |
| Deposits | <u>1,713</u> | <u>1,522</u> |
| | <u>476,028</u> | <u>485,425</u> |

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

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 June 30, 2009 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>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|-------------------|---|---|
| Less than 60 days | <u>130,190</u> | <u>126,985</u> |

For the six month period ended June 30, 2009

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)*(ii) Aging of past due but not impaired*

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|--------------------|--|--|
| 31-90 days | 28,086 | 76,079 |
| 91-180 days | 46,887 | 25,903 |
| More than 181 days | <u>6,910</u> | <u>23,169</u> |
| | <u>81,883</u> | <u>125,151</u> |

(iii) Aging of impaired trade receivables

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|--------------------|--|--|
| 91-180 days | - | 412 |
| 180 days-365 days | 3,778 | 365 |
| 365 days and above | <u>3,558</u> | <u>6,499</u> |
| | <u>7,336</u> | <u>7,276</u> |

(iv) Movement in the provision of doubtful debts:

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|---|--|--|
| Balance at the beginning of the period/year | 7,276 | 3,749 |
| Amounts written off as uncollectible | (1,054) | (649) |
| Additional provision during the period/year | <u>1,114</u> | <u>4,176</u> |
| | <u>7,336</u> | <u>7,276</u> |

6.1 GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|--|--|--|
| Value of work performed at cost plus attributable profit | 304,291 | 274,820 |
| Less: Progress billings and recognized losses | <u>(183,183)</u> | <u>(163,304)</u> |
| | <u>121,108</u> | <u>111,516</u> |

7 INVESTMENTS

| | Note | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|---|-------------|---|---|
| At Cost | | | |
| Balance at beginning of the period/ year | | 1,117,161 | 1,243,491 |
| Acquisition during the period/ year | | -- | 28,272 |
| Disposal during the period/ year | | (50,974) | (124,120) |
| Impairment loss on available for sale investment | | (5,425) | (11,154) |
| Fair value change recognized in the interim consolidated statement of income. | | <u>(2,586)</u> | <u>(19,328)</u> |
| Balance at end of the period/ year | | <u>1,058,176</u> | <u>1,117,161</u> |
| Fair Value Reserve | | | |
| Balance at beginning of the period/ year | | 972,540 | 1,856,059 |
| Net movement during the period/ year | | <u>209,856</u> | <u>(883,519)</u> |
| Balance at end of the period/ year | 7c | <u>1,182,396</u> | <u>972,540</u> |
| At Fair Value | | | |
| Balance at end of the period/ year | | <u>2,240,572</u> | <u>2,089,701</u> |
| Classified as | | | |
| Investment – Held for Trading | 7a | 66,411 | 68,981 |
| Investment – Available for sale | 7b | <u>2,174,161</u> | <u>2,020,720</u> |
| | | <u>2,240,572</u> | <u>2,089,701</u> |

7a INVESTMENTS HELD FOR TRADING

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|-----------------|---|---|
| Quoted equities | <u>66,411</u> | <u>68,981</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 on the interim consolidated statement of financial position date.

7b INVESTMENTS AVAILABLE FOR SALE

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|---------------------------|---|---|
| Quoted equities and bonds | 2,174,125 | 2,020,682 |
| Unquoted equities | <u>36</u> | <u>38</u> |
| | <u>2,174,161</u> | <u>2,020,720</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. 2,049 million as of June 30, 2009 (December 31, 2008: QR 1,836 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.

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

7 INVESTMENTS (continued)

7c Fair value reserve

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

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|---|---|---|
| Investment fair value reserve of the Group | 1,182,396 | 972,540 |
| Share of investment fair value reserve from associate | <u>(244)</u> | <u>(1,055)</u> |
| | <u>1,182,152</u> | <u>971,485</u> |

8 INVENTORIES

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|---------------------------------------|---|---|
| Stores and spares (net of provisions) | 2,691 | 2,830 |
| Construction materials | 1,602 | 1,839 |
| Fuel oil, diesel oil and lubes | <u>2,782</u> | <u>2,689</u> |
| | <u>7,075</u> | <u>7,358</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 | Shipping Corporation of India |
| Camartina Shipping INC, Bahamas | Shipping Corporation of India |
| K S Membrane-I, Denmark | Maersk |
| Qatar LNG Transport Ltd., Liberia | Shipping Corporation of India |
| 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 | Shipping Corporation of India |
| 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>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|------------------|---|---|
| Loans | 295,015 | 299,951 |
| Accrued Interest | <u>168,398</u> | <u>146,482</u> |
| | <u>463,413</u> | <u>446,433</u> |

For the six month period ended June 30, 2009

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 interim 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>June 30,</u> <u>2009</u> | <u>December 31,</u> <u>2008</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 during the period was as follows:

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|---|--|--|
| Opening balance | 114,317 | 95,685 |
| Share of income for the period/year | (6,044) | 42,623 |
| Share of the net movement in fair value reserve | 811 | (1,055) |
| Share of the net loss in hedging reserve | (39,851) | (12,670) |
| Dividends received | -- | (10,266) |
| | <u>69,233</u> | <u>114,317</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 INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

11 VESSELS, PROPERTY AND EQUIPMENT

| | Owned ocean going vessels QR'000 | Offshore services vessels QR'000 | Buildings QR'000 | Plant and machinery QR'000 | Capital work in progress QR'000 | Furniture QR'000 | Office equipment QR'000 | Motor vehicles QR'000 | Total QR'000 |
|-----------------------------|--|---|---------------------|----------------------------------|--|---------------------|-------------------------------|-----------------------------|------------------|
| Cost: | | | | | | | | | |
| At January 1, 2008 | 978,110 | 351,510 | 28,795 | 55,008 | 310,299 | 9,063 | 4,177 | 9,336 | 1,746,298 |
| Additions during the year | 326,590 | 10,094 | 2,153 | 25,340 | 127,505 | 6,153 | 338 | 2,911 | 501,084 |
| Disposals during the year | (208,763) | -- | -- | (311) | -- | (255) | -- | (471) | (209,800) |
| Transfers during the year | 242,890 | -- | -- | -- | (242,890) | -- | -- | -- | -- |
| At January 1, 2009 | 1,338,827 | 361,604 | 30,948 | 80,037 | 194,914 | 14,961 | 4,515 | 11,776 | 2,037,582 |
| Additions during the period | 9,052 | 3,078 | 695 | 6,199 | 98,594 | 2,138 | 189 | 694 | 120,639 |
| Disposals during the period | (47) | -- | -- | (934) | -- | (45) | -- | (92) | (1,118) |
| Transfers | 168,655 | -- | 1,231 | -- | (169,942) | 56 | -- | -- | -- |
| At June 30 , 2009 | 1,516,487 | 364,682 | 32,874 | 85,302 | 123,566 | 17,110 | 4,704 | 12,378 | 2,157,103 |
| Depreciation: | | | | | | | | | |
| At January 1, 2008 | 115,666 | 80,770 | 9,765 | 31,831 | -- | 5,396 | 4,109 | 3,092 | 250,629 |
| Charge for the year | 61,104 | 2,247 | 3,095 | 7,619 | -- | 3,490 | 174 | 2,310 | 80,039 |
| Disposals for the year | (47,280) | -- | -- | (356) | -- | (204) | -- | (305) | (48,145) |
| At January 1, 2009 | 129,490 | 83,017 | 12,860 | 39,094 | -- | 8,682 | 4,283 | 5,097 | 282,523 |
| Charge for the period | 36,959 | 4,519 | 1,699 | 5,053 | -- | 1,775 | 85 | 1,249 | 51,339 |
| Disposals for the period | -- | -- | -- | (713) | -- | (44) | -- | (70) | (827) |
| At June 30, 2009 | 166,449 | 87,536 | 14,559 | 43,434 | -- | 10,413 | 4,368 | 6,276 | 333,035 |
| Net book value: | | | | | | | | | |
| At June 30, 2009 | 1,350,038 | 277,146 | 18,315 | 41,868 | 123,566 | 6,697 | 336 | 6,102 | 1,824,068 |
| At December 31, 2008 | 1,209,337 | 278,587 | 18,088 | 40,943 | 194,914 | 6,279 | 232 | 6,679 | 1,755,059 |

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

11 VESSELS, PROPERTY AND EQUIPMENT (CONTINUED)

(i) Owned ocean going vessels amounting to QR. 1,350,038 thousand (December 31, 2008: QR 1,209,337 thousand) and offshore service vessels amounting to QR. 277,146 thousand (December 31, 2008: QR 278,587 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 period is included in the interim consolidated statement of income as follows:

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> <u>(Audited)</u> | <u>June 30,</u> <u>2008</u> <u>QR'000</u> <u>(Unaudited)</u> |
|---|---|---|
| Operating costs (note 20) | 47,340 | 30,696 |
| General and administration expenses(note 21)* | <u>4,476</u> | <u>4,928</u> |
| | <u>51,816</u> | <u>35,624</u> |

* Includes depreciation on investment property amounting to QR. 477 thousand (June 30, 2008: QR 481 thousand)

(iii) During 2008, 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 interim consolidated statement of income for the six month period ended June 30, 2008.

(iv) During the period, interest amounting to QR. 6,136 thousand has been capitalized and included in the capital work in progress (December 31, 2008: QR. 9,815 thousand).

(v) Ocean going and off shore services vessels include dry docking components with a net book value of QR 29,542 Thousand as of June 30, 2009 (December 31, 2008: QR 18,030 thousand).

12 INVESTMENT PROPERTY

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|----------------------------------|---|---|
| Cost | | |
| At 1 January | <u>26,241</u> | <u>26,241</u> |
| At June 30 / December 31 | <u>26,241</u> | <u>26,241</u> |
| Depreciation | | |
| At 1 January | 8,595 | 7,631 |
| Charge for the period / year | <u>477</u> | <u>964</u> |
| At June 30 / December 31 | <u>9,072</u> | <u>8,595</u> |
| Net book value at June 30 | <u>17,169</u> | <u>17,646</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 17,169 (June 30, 2008:18,129) thousand were appraised by an accredited independent appraiser at a fair value of 126,861 thousand as of June 30, 2009 (June 30, 2008:137,635). 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.

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

12 INVESTMENT PROPERTY (CONTINUED)

- (iv) The depreciation charge of QR.477 thousand (June 30, 2008: QR. 481 thousand) has been charged under general and administration expenses.
- (v) The Company earned rental income amounting to QR. 2,089 thousand for the six month period ended June 30, 2009 (June 30, 2008: QR. 2,089 thousand) and this has been reflected in the interim consolidated statement of income.

13 ACCOUNTS PAYABLE AND ACCRUALS

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|--|---|---|
| Trade accounts payable | 56,970 | 52,674 |
| Advances from customers | 41,065 | 73,702 |
| Due to related parties (note 18) | -- | 2,937 |
| Unclaimed dividend | 19,985 | 15,173 |
| Gross amounts due to customers for contract work (note 13.1) | 256,881 | 255,163 |
| Accrued expenses | 90,565 | 110,989 |
| Directors' remuneration | -- | 10,750 |
| Deferred income | 1,745 | 5,732 |
| Fair value of interest rate swap contracts | 2,748 | 3,950 |
| Other payables | 2,590 | 2,838 |
| | <u>472,549</u> | <u>533,908</u> |

13.1 GROSS AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|--|---|---|
| Progress billings and recognised losses | 579,552 | 643,625 |
| Less: Value of work performed at cost plus attributable profit | <u>(322,671)</u> | <u>(388,462)</u> |
| | <u>256,881</u> | <u>255,163</u> |

14 TERM LOANS

The term loans consist of the following:

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|-----------------------|---|---|
| Term loan (i) | 87,783 | 98,110 |
| Term loan (ii) | 318,831 | 343,057 |
| Term loan (iii) | 254,800 | 254,800 |
| Term loan (iv) | 109,102 | -- |
| Term loan (v) | 176,080 | 202,502 |
| | <u>946,596</u> | <u>898,469</u> |
| Classified as: | | |
| Current portion | 420,111 | 114,058 |
| Non-current portion | <u>526,485</u> | <u>784,411</u> |
| | <u>946,596</u> | <u>898,469</u> |

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

14 TERM LOANS (CONTINUED)

- 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 2,748 thousands (December 31, 2008: QR 3,950 thousands loss), as an equity adjustment in the interim consolidated statement of changes in equity.

- ii. The loan was executed on Jan 14, 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 VLGCs whichever is earlier.
- iv. 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 on April 2010 and April 2011 respectively. The collateral against this loan is the Company's investment in the shares of Nakilat.
- v. The following term loans taken by one of the joint ventures (Halul Offshore Services Company) are proportionately consolidated in these interim consolidated financial statements:

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|--------------|---|---|
| Loan 1 (i) | 21,421 | 26,776 |
| Loan 2 (ii) | 12,049 | 13,656 |
| Loan 3 (iii) | 17,702 | 19,471 |
| Loan 4 (iv) | 18,850 | 20,564 |
| Loan 5 (v) | 20,711 | 22,190 |
| Loan 6 (vi) | <u>85,348</u> | <u>91,038</u> |
| | <u>176,081</u> | <u>193,695</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.

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

14 TERM LOANS (CONTINUED)

- (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 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 2009 and carries interest at LIBOR plus margin of 0.60%.
- (vi) Loan 6 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>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|---|--|--|
| Payable within 1 year | 543 | 508 |
| Payable in 2 to 5 years | 2,513 | 2,376 |
| Payable after 5 years | -- | 680 |
| Present value of future lease obligations | <u>3,056</u> | <u>3,564</u> |
| Classified as: | | |
| Current portion | 543 | 508 |
| Non-current portion | <u>2,513</u> | <u>3,056</u> |
| | <u>3,056</u> | <u>3,564</u> |

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

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16 EMPLOYEES' TERMINAL BENEFITS

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|--|--|--|
| Balance at beginning of the period/ year | 18,797 | 12,227 |
| Add: Provisions made during the period/ year | 4,022 | 8,753 |
| Less: Payments made during the period/ year | <u>(803)</u> | <u>(2,183)</u> |
| Balance at the end of the period/ year | <u>22,016</u> | <u>18,797</u> |

17 SHAREHOLDERS' EQUITY**17.1 SHARE CAPITAL**

| | <u>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|---|--|--|
| 110,000,000 shares (December 31, 2008: 110,000,000 shares) of QR 10 each | <u>1,100,000</u> | <u>1,100,000</u> |
| <u>Issued & Paid Up Capital</u> 110,000,000 shares (December 31, 2008: 110,000,000 shares) of QR 10 each fully paid up | <u>1,100,000</u> | <u>1,100,000</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. 44 million relating to legal reserve of consolidated subsidiaries. This amount is subject to restriction on distribution.

17.3 EARNINGS PER SHARE

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

| | <u>June 30,</u> <u>2009</u> (Audited) | <u>June 30,</u> <u>2008</u> (Unaudited) |
|-----------------------------------|---|---|
| Net income for the period QR'000. | 158,583 | 375,039 |
| Weighted average number of shares | <u>110,000</u> | <u>110,000</u> |
| Basic share per QR. | <u>1.44</u> | <u>3.41</u> |

The Company does not have any dilutive instruments and hence diluted earnings per share is the same as basic earnings per share.

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

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 interim consolidated statement of income are as follows:

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> <u>(Audited)</u> | <u>June 30,</u> <u>2008</u> <u>QR'000</u> <u>(Unaudited)</u> |
|---|---|---|
| Operating revenue | <u>23,050</u> | 35,366 |
| Interest income | <u>21,916</u> | <u>19,375</u> |
| | <u>44,966</u> | <u>54,741</u> |
| Operating and General and Administrative expenses | <u>1,340</u> | <u>9,631</u> |

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

Significant related parties during the period include Qatar Petroleum and Qatar Navigation.

c) Compensation of key management personnel.

The remuneration of key management personnel during the six month period was as follows:

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> <u>(Audited)</u> | <u>June 30,</u> <u>2008</u> <u>QR'000</u> <u>(Unaudited)</u> |
|------------------------------|---|---|
| Short term benefits | <u>5,324</u> | 3,457 |
| Employees' terminal benefits | <u>1,010</u> | <u>431</u> |
| | <u>6,334</u> | <u>3,888</u> |

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

19 SEGMENT INFORMATION

(a) Income Generated by Business Segments:

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 six month period ended June 30, 2009 | | | For the six month period ended June 30, 2008 | | |
|--|---|--------------------------|-------------|---|--------------------------|-------------|
| | Revenue QR '000 | Net Income QR '000 | % | Revenue QR '000 | Net Income QR '000 | % |
| | (Audited) | | | (Unaudited) | | |
| Deep Sea Transportation | | | | | | |
| <u>Liquid / Oil</u> | | | | | | |
| <u>Crude/Dirty Products (DPP)</u> | | | | | | |
| Fully Owned | 36,293 | 19,931 | 13% | 44,278 | 23,289 | 6% |
| Partly Owned | -- | -- | | 2,705 | 318 | -- |
| | 36,293 | 19,931 | 13% | 46,983 | 23,607 | 6% |
| <u>LPG</u> | | | | | | |
| Fully Owned | 29,084 | 17,761 | 11% | 30,136 | 16,393 | 4% |
| 50% Owned | 3,218 | (13,890) | (9%) | 3,694 | 1,943 | 1% |
| | 32,302 | 3,871 | 2% | 33,830 | 18,336 | 5% |
| <u>Clean Products (CPP)</u> | | | | | | |
| Fully Owned | 44,486 | 26,894 | 17% | 44,430 | 21,404 | 6% |
| | 44,486 | 26,894 | 17% | 44,430 | 21,404 | 6% |
| Offshore Support Services | | | | | | |
| Fully Owned | 12,644 | 6,338 | 4% | 24,302 | 18,925 | 5% |
| Partly Owned | 140,762 | 75,066 | 47% | 124,951 | 56,588 | 15% |
| | 153,406 | 81,404 | 51% | 149,253 | 75,513 | 20% |
| Construction Services | | | | | | |
| Fully Owned | 583,978 | 73,778 | 47% | 361,643 | 74,961 | 20% |
| | 850,465 | 205,878 | 130% | 636,139 | 213,821 | 57% |
| Investment, Interest & Other Income | | | | | | |
| Interest from loan to LNG & LPG Cos. | 21,916 | 21,916 | 15% | 19,375 | 19,375 | 5% |
| Interest from bonds and deposits | 9,856 | 9,856 | 6% | 8,612 | 8,612 | 2% |
| (Loss) Gain on sale of bonds and equities | (13,824) | (13,824) | (9%) | 40,969 | 40,969 | 11% |
| Dividends | 6,597 | 6,597 | 4% | 7,683 | 7,683 | 2% |
| Investment property | 2,089 | 2,089 | 1% | 2,089 | 2,089 | 1% |
| Other | 15,113 | (17,524) | (11)% | 13,517 | 130,735 | 35% |
| | 41,747 | 9,110 | 6% | 92,245 | 209,463 | 56% |
| Less: Indirect general and administrative expenses | -- | (56,405) | (36%) | -- | (48,245) | (13%) |
| Total | 892,212 | 158,583 | 100% | 728,384 | 375,039 | 100% |

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

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 June 30, 2009 | | As at December 31, 2008 | |
|--|---------------------------|-------------|---------------------------|-------------|
| | Net book value QR '000 | % | Net book value QR '000 | % |
| <u>Vessels, property and equipments</u> | | | | |
| Marine Vessels / Tankers | | | | |
| Crude/Dirty Products (DPP) Fully Owned | 154,020 | 3% | 155,587 | 3% |
| | 154,020 | 3% | 155,587 | 3% |
| Clean Products (CPP) Fully Owned | 373,093 | 7% | 374,546 | 7% |
| | 373,093 | 7% | 374,546 | 7% |
| LPG Fully Owned | 196,698 | 4% | 198,874 | 5% |
| 50% Owned | 658,461 | 12% | 586,150 | 11% |
| | 855,159 | 16% | 785,024 | 16% |
| Offshore Services Vessels/Equipment | | | | |
| Fully Owned | 63,386 | 1% | 64,296 | 1% |
| Partly Owned | 305,566 | 6% | 306,030 | 6% |
| | 368,952 | 7% | 370,326 | 7% |
| Construction Services Assets | | | | |
| Fully Owned | 72,569 | 1% | 69,301 | 1% |
| Partly Owned | 275 | 0% | 275 | 0% |
| | 72,844 | 1% | 69,576 | 1% |
| Total | 1,824,068 | 34% | 1,755,059 | 34% |
| <u>Other Assets</u> | | | | |
| Available for sale investments | 2,174,161 | 41% | 2,020,720 | 37% |
| Loans to LNG and LPG companies | 463,413 | 9% | 446,433 | 8% |
| Bank balances | 255,554 | 5% | 511,733 | 9% |
| Held for trading investments | 66,411 | 1% | 68,981 | 1% |
| Investment property | 17,169 | 0% | 17,646 | 0% |
| Inventories | 7,075 | 0% | 7,358 | 0% |
| Accounts receivable and prepayments | 476,028 | 9% | 485,425 | 9% |
| Security Deposits | 20,611 | 0% | 10,971 | 0% |
| Investment in associates | 69,233 | 1% | 114,317 | 2% |
| | 3,549,655 | 66% | 3,683,584 | 66% |
| Total | 5,373,723 | 100% | 5,438,643 | 100% |

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

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20 OPERATING COST

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> (Audited) | June 30, 2008 QR'000 (Unaudited) |
|---------------------------------------|--|---|
| Charter hire | 12,032 | 23,469 |
| Address commission and brokerage | 894 | 874 |
| Bunker cost | 1,400 | 3,196 |
| Port charges | 153 | 995 |
| Staff costs (incl. crew costs) | 50,664 | 43,215 |
| Construction direct cost | 500,136 | 285,000 |
| Repairs and maintenance | 10,846 | 9,326 |
| Depreciation on vessels and equipment | 47,340 | 30,696 |
| Insurance | 5,173 | 4,620 |
| Others | <u>15,949</u> | <u>20,927</u> |
| | <u>644,587</u> | <u>422,318</u> |

21 GENERAL AND ADMINISTRATIVE EXPENSES

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> (Audited) | June 30, 2008 QR'000 (Unaudited) |
|---------------------|--|---|
| Staff related costs | 29,867 | 28,336 |
| Office expenses | 11,293 | 8,401 |
| General expenses | 10,769 | 6,580 |
| Depreciation | <u>4,476</u> | <u>4,928</u> |
| | <u>56,405</u> | <u>48,245</u> |

22 INVESTMENT (LOSS) / INCOME

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> (Audited) | June 30, 2008 QR'000 (Unaudited) |
|--|--|---|
| Dividends | 6,597 | 8,321 |
| (Loss) profit on sale of investments | (11,238) | 19,732 |
| Unrealized (loss) Gain on investments held for trading | (2,586) | 28,267 |
| Share of (loss) income for associates | <u>(6,044)</u> | <u>20,621</u> |
| | <u>(13,271)</u> | <u>76,941</u> |

23 INTERESTS IN JOINT VENTURES

The Group has following Joint Ventures as at June 30, 2009:

| | 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 INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

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 November 12, 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 March 23, 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 June 22, 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.

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 November 04, 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 April 27, 2002 with the objective of carrying out engineering and other related services. The Company had decided on January 11, 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 2009 after recovering all dues to the joint venture. The interim financial statements of Q-Tech are immaterial to the Group and are included in the accompanying interim 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 October 16, 2003, with the objective of operating and managing LNG vessels. There were no significant activities undertaken by the QSMC since its incorporation. The interim financial statements of QSMC are immaterial to the Group and are included in the accompanying interim consolidated financial statements based on the management accounts.

- 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 interim consolidated financial statements.

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|-------------------------|---|---|
| Assets | | |
| Current assets | 159,659 | 167,725 |
| Non current assets | 9,919 | 9,868 |
| Vessels and equipment | <u>964,301</u> | <u>883,640</u> |
| | <u>1,133,879</u> | <u>1,061,233</u> |
| Liabilities | | |
| Current liabilities | 64,716 | 77,495 |
| Non current liabilities | <u>630,000</u> | <u>542,248</u> |
| | <u>694,716</u> | <u>619,743</u> |

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

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23 INTERESTS IN JOINT VENTURES (CONTINUED)

| Revenues | <u>June 30,</u> <u>2009</u> <u>QR'000</u> <u>(Audited)</u> | <u>June 30,</u> <u>2008</u> <u>QR'000</u> <u>(Unaudited)</u> |
|-------------------------------------|---|---|
| Operating revenue | 143,980 | 133,819 |
| Interest income | 1,245 | 292 |
| Investment income | 887 | 1,917 |
| Gain on sale of vessels | -- | 114,261 |
| Other income | <u>598</u> | <u>246</u> |
| | <u>146,710</u> | <u>250,535</u> |
| Expenses | | |
| Operating costs | 82,805 | 71,552 |
| General and administration expenses | 7,754 | 10,519 |
| Finance costs | <u>7,572</u> | <u>3,135</u> |
| | <u>98,131</u> | <u>85,206</u> |
| Net Profit for the period | <u>48,579</u> | <u>165,329</u> |

24 DERIVATIVE FINANCIAL INSTRUMENTS

| | <u>June 30,</u> <u>2009</u> <u>QR 000</u> | <u>December 31,</u> <u>2008</u> <u>QR 000</u> |
|--|--|--|
| Fair value of interest rate swap contracts* | (2,748) | (3,950) |
| Fair value of interest rate swap contract from associate | <u>(52,521)</u> | <u>(12,670)</u> |
| | <u>(55,269)</u> | <u>(16,620)</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>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|---------------------------------------|--|--|
| Capital contribution in an Associate | 2,461 | 3,000 |
| Purchase of Offshore services vessels | 1,650 | 1,560 |
| Purchase of machinery and equipment | 22,543 | 10,610 |
| Purchase of Very Large Gas Carriers | -- | 1,059,851 |
| | <u>26,654</u> | <u>1,075,021</u> |

QATAR SHIPPING COMPANY Q.S.C.

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26 CONTINGENT LIABILITIES AND OPERATIONAL COMMITMENTS

The following bank guarantees and letters of credit given by the Group were outstanding at the period/year end:

| | <u>June 30,</u> <u>2009</u> <u>QR'000</u> | <u>December 31,</u> <u>2008</u> <u>QR'000</u> |
|---|---|---|
| Guarantees against performance bonds and tender bonds | <u>566,663</u> | <u>387,871</u> |
| Letters of Credit | <u>43,350</u> | <u>98,607</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>June 30,</u> <u>2009</u> <u>QR'000</u> <u>(Audited)</u> | <u>June 30,</u> <u>2008</u> <u>QR'000</u> <u>(Unaudited)</u> |
|---|---|---|
| Interest Income | 31,772 | 27,874 |
| Interest Cost: | | |
| Expensed | <u>(21,169)</u> | <u>(17,664)</u> |
| Net interest income | (a) <u>10,603</u> | <u>10,210</u> |
| Total income | (b) <u>158,583</u> | <u>375,039</u> |
| Net interest income as a % of total income | (a÷b) 7% | 3% |

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 INTERIM CONSOLIDATED FINANCIAL STATEMENT

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29 FINANCIAL RISK MANAGEMENT

Interest rate risk exposures

With the exception of certain term loans amounting to QR 87,782 thousand (December 31, 2008 : QR 98,110 thousand), which are covered by interest rate swap contracts (Note 24), a significant portion of the Company's financial assets and liabilities as of June 30, 2009 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 summarized below:

| | June 30, 2009 | | | | December 31, 2008 | | | |
|---------------------------------------|-------------------------------|----------------------------------|--------------------------------|------------------|-------------------------------|----------------------------------|--------------------------------|------------------|
| | 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 | <u>78,000</u> | <u>175,854</u> | <u>1,700</u> | <u>255,554</u> | 180,000 | <u>330,594</u> | <u>1,139</u> | <u>511,733</u> |
| Financial liabilities | | | | | | | | |
| Interest bearing loans and borrowings | -- | <u>837,494</u> | <u>109,102 *</u> | <u>946,596</u> | -- | 898,469 | -- | 898,469 |
| Interest rate swap | <u>87,782</u> | <u>(87,782)</u> | -- | -- | 98,110 | <u>(98,110)</u> | -- | -- |
| | <u>87,782</u> | <u>749,712</u> | <u>109,102</u> | <u>946,596</u> | <u>98,110</u> | <u>800,359</u> | -- | <u>898,469</u> |
| Net financial asset/ (liabilities) | <u>(9,782)</u> | <u>(573,858)</u> | <u>(107,402)</u> | <u>(691,042)</u> | 81,890 | <u>(469,765)</u> | <u>1,139</u> | <u>(386,736)</u> |

* This represents Loans according to Islamic Banking Principles.

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

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.

| | June 30, 2009 | | December 31, 2008 | |
|--|---------------|-------|-------------------|-------|
| | QR '000 | | QR '000 | |
| Increase / decrease in basis points | +25 | -25 | +25 | -25 |
| Effect on net profit for the period/year | (1,435) | 1,435 | (1,174) | 1,174 |

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 and LPG 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 and LPG 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 INTERIM CONSOLIDATED FINANCIAL STATEMENT

For the six month period ended June 30, 2009

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 2008.

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>June 30,</u> <u>2009</u> QR'000 | <u>December 31,</u> <u>2008</u> QR'000 |
|---------------------------------|--|--|
| Debt (i) | 946,596 | 898,469 |
| Cash and cash equivalents | <u>(255,554)</u> | <u>(511,733)</u> |
| Net debt | <u>691,042</u> | <u>386,736</u> |
| Equity (ii) | <u>3,929,506</u> | <u>3,983,905</u> |
| Net debt to equity ratio | 17.6% | 9.71% |

- (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 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 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 29,542 thousand as of June 30, 2009 (December 31, 2008: QR 18,030 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 second half of 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 period.