

QATAR SHIPPING COMPANY Q.S.C
DOHA – QATAR

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2007

TOGETHER WITH AUDITOR'S REPORT

QATAR SHIPPING COMPANY S.A.Q
DOHA - QATAR
31 DECEMBER 2007

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QR. 31247

AUDITOR'S REPORT

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

Report on financial statements

We have audited the accompanying consolidated financial statements of **Qatar Shipping Company Q.S.C.** (“the **Company**”), which comprises the consolidated balance sheet as at 31 December 2007, 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 preparation 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 issued their unqualified audit reports 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. The joint venture balances included comprise a combined total assets of QR 518.57 million (December 31, 2006: QR 299.74 million), combined total liabilities of QR 246.48 million (December 31, 2006: QR 300.15 million) and net profit of QR 56.11 million (December 31, 2006: QR 10.97 million).

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 2007, 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. 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 contravention of the law or the Company's Articles of Association were committed during the year which would materially affect the Company's activities to its financial position.

For **Deloitte & Touche**

Doha – Qatar
February 25, 2008

Samer Jaghoub
License No. 88

Qatar Shipping Company Q.S.C.

**Consolidated Balance Sheet
As at 31 December 2007**

| | Note | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---|------|-------------------------|-------------------------|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and bank balances | 5 | 238,294 | 706,560 |
| Investments held for trading | 7a | 157,543 | 180,324 |
| Accounts receivable and prepayments | 6 | 267,470 | 204,487 |
| Inventories | 8 | 5,136 | 7,471 |
| | | <u>668,443</u> | <u>1,098,842</u> |
| Non-current assets classified as held for sale | 25 | -- | 209,780 |
| | | <u>668,443</u> | <u>1,308,622</u> |
| NON CURRENT ASSETS | | | |
| Loans to LNG Companies | 9 | 459,019 | 434,547 |
| Investments available for sale | 7b | 2,942,007 | 1,350,354 |
| Investment in associate companies | 10 | 95,685 | 39,293 |
| Security deposit | 11 | -- | 4,924 |
| Vessels, property and equipment | 12 | 1,495,669 | 1,401,308 |
| Investment property | 13 | 18,610 | 19,573 |
| | | <u>5,010,990</u> | <u>3,249,999</u> |
| TOTAL ASSETS | | <u>5,679,433</u> | <u>4,558,621</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accruals | 14 | 268,644 | 191,408 |
| Term loans | 15 | 96,707 | 119,524 |
| Obligations under finance leases | 16 | 474 | 440 |
| Secured notes payable | 17 | -- | 8,056 |
| | | <u>365,825</u> | <u>319,428</u> |
| NON CURRENT LIABILITIES | | | |
| Term loans | 15 | 582,053 | 718,499 |
| Obligations under finance leases | 16 | 3,564 | 4,039 |
| Secured notes payable | 17 | -- | 80,923 |
| Employees' terminal benefits | 18 | 13,342 | 8,485 |
| | | <u>598,959</u> | <u>811,946</u> |
| SHAREHOLDERS' EQUITY | | | |
| Share capital | 19.1 | 1,000,000 | 1,000,000 |
| Legal reserve | 19.2 | 1,220,754 | 1,220,754 |
| Fair value reserve | | 1,856,059 | 721,473 |
| Hedging revaluation reserve | | (2,584) | 5,216 |
| Proposed cash dividends | 19.4 | 350,000 | 450,000 |
| Proposed Bonus shares | 19.4 | 100,000 | -- |
| Retained earnings | | 190,420 | 29,804 |
| | | <u>4,714,649</u> | <u>3,427,247</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | <u>5,679,433</u> | <u>4,558,621</u> |

These consolidated financial statements were approved by the Board of Directors on 25 February 2008 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 33 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 2007**

| | Note | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---|------|-----------------------|-----------------------|
| Operating Revenue | 21 | 839,139 | 887,849 |
| Operating costs | 22 | <u>(496,977)</u> | <u>(636,131)</u> |
| GROSS OPERATING INCOME | | 342,162 | 251,718 |
| General and Administration expenses | 23 | (83,405) | (48,197) |
| Finance costs | | (53,888) | (53,402) |
| Interest income | | 57,455 | 71,226 |
| Investment (loss) / income | 24 | 123,795 | (42,113) |
| Other income | | 6,991 | 11,769 |
| Gain on sale of vessels | 12 | <u>228,256</u> | <u>267,587</u> |
| INCOME BEFORE PROVISION FOR BOARD OF DIRECTORS' REMUNERATION | | <u>621,366</u> | <u>458,588</u> |
| Proposed board of directors' remuneration | 19.3 | (10,750) | (10,750) |
| NET INCOME FOR THE YEAR | | <u>610,616</u> | <u>447,838</u> |
| Weighted average number of shares outstanding during the year | | <u>100,000,000</u> | <u>100,000,000</u> |
| Adjusted basic earnings per share (expressed in QR per share) | | <u>6.11</u> | <u>4.48</u> |
| Nominal value of each share (expressed in QR per share) | 19.1 | <u>10</u> | <u>10</u> |

The attached notes 1 to 33 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 2007**

| | Note | Share capital QR '000 | Legal reserve QR '000 | Investments fair value reserve QR '000 | Hedging revaluation reserve QR '000 | Proposed cash dividends QR'000 | Proposed Bonus shares QR'000 | Retained earnings QR '000 | Total QR '000 |
|---|------|-----------------------------|-----------------------------|---|--|---|---------------------------------------|---------------------------------|------------------|
| Balance at January 1, 2006 | | 1,000,000 | 1,220,754 | 3,748,930 | 8,718 | 450,000 | - | 31,966 | 6,460,368 |
| Dividend paid for year 2005 | | - | - | - | - | (450,000) | - | - | (450,000) |
| Net income for the year 2006 | | - | - | - | - | - | - | 447,838 | 447,838 |
| Investments available for sale re-measured to fair value | | - | - | (3,027,457) | - | - | - | - | (3,027,457) |
| Hedging reserve re-measurement | | - | - | - | (3,502) | - | - | - | (3,502) |
| Proposed cash dividends | | - | - | - | - | 450,000 | - | (450,000) | - |
| Balance at December 31,2006 | | 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) | - |
| Balance at December 31, 2007 | | 1,000,000 | 1,220,754 | 1,856,059 | (2,584) | 350,000 | 100,000 | 190,420 | 4,714,649 |

The attached notes 1 to 33 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 2007

| | Note | <u>2007</u> | <u>2006</u> |
|--|----------|-------------------------|-------------------------|
| | | QR'000 | QR'000 |
| OPERATING ACTIVITIES | | | |
| Net income for the year | | 610,616 | 447,838 |
| Adjustments for: | | | |
| Depreciation and amortization | | 65,088 | 89,506 |
| Finance costs | | 53,888 | 53,402 |
| Interest income | | (57,455) | (71,226) |
| Dividend income | | (11,988) | (6,492) |
| Profit on sale of investments | | (16,591) | (263) |
| Unrealized losses on investments "held for trading" | | (33,824) | 57,693 |
| Provision for impairment on available for sale investments | | -- | 8,580 |
| Increase in employees' terminal benefits | | 5,143 | 4,339 |
| Rental from investment property | | (4,178) | (4,178) |
| Share of income in investments in associate LNG companies | | (61,392) | (3,300) |
| Profit on sale of vessel | | <u>(228,256)</u> | <u>(267,587)</u> |
| | | 321,051 | 308,312 |
| Working Capital Changes: | | | |
| Inventories | | 2,335 | 3,159 |
| (Increase) / Decrease in accounts receivable and prepayments | | (60,684) | 51,247 |
| Accounts payable and accruals | | <u>62,485</u> | <u>1,941</u> |
| Cash generated from operations | | 325,187 | 364,659 |
| Employees terminal benefits paid | | <u>(286)</u> | <u>(776)</u> |
| Net cash from operating activities | | <u>324,901</u> | <u>363,883</u> |
| INVESTING ACTIVITIES | | | |
| Purchase of vessels, property and equipment | | (384,929) | (405,126) |
| Sale of vessels, property and equipment | | 664,479 | 579,244 |
| Interest income received | | 32,983 | 44,223 |
| Movement in deposit maturing more than 90 days | | -- | 910 |
| Purchase of investments | | (477,266) | (13,520) |
| Proceeds from sale of investments | | 93,395 | 1,953 |
| Investment in associate companies | | 5,000 | (12,856) |
| Rental from investment property | | 4,178 | 4,178 |
| Dividend income received | | 9,689 | 6,492 |
| Decrease / (increase) in security deposits | | <u>4,924</u> | <u>(1,546)</u> |
| Net (used in) cash from investing activities | | <u>(47,547)</u> | <u>203,952</u> |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | (446,550) | (445,189) |
| Finance costs paid | | (50,387) | (52,409) |
| Term loan repayments | | (159,263) | (4,262) |
| Increase in secured notes payable | | (88,979) | (1,968) |
| Finance Lease repayment, net | | <u>(441)</u> | <u>(405)</u> |
| Net cash used in financing activities | | <u>(745,620)</u> | <u>(504,233)</u> |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (468,266) | 63,502 |
| Cash and cash equivalents at the beginning of the year | | <u>706,560</u> | <u>642,958</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 5 | <u>238,294</u> | <u>706,560</u> |

The attached notes 1 to 33 form an integral part of these consolidated financial statements.

Qatar Shipping Company Q.S.C.

Notes to the consolidated financial statements For the year ended 31 December 2007

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 INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Standards and Interpretations Effective in the Current Year:

In the current year, the Company has adopted IFRS 7 Financial Instruments: Disclosures which are effective for annual reporting periods beginning on or after January 1, 2007, and the consequential amendments to *IAS 1 Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these consolidated financial statements regarding the Company's financial instruments and management of capital.

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to changes in the Company's accounting policies.

2.2 Standards and Interpretations in Issue Not Yet Adopted:

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

Amendments to standards

IAS 23 (Revised) *Borrowing Costs* (effective on or after January 1, 2009);

IAS 1 Presentation of Financial Statements – Comprehensive revision including requiring a statement of comprehensive income (effective for accounting periods beginning on or after January 1, 2009);

New standards

IFRS 8 Operating Segments (effective for accounting periods beginning on or after January 1, 2009);

New interpretation

IFRIC 11 IFRS 2: *Group and Treasury Share Transactions* (effective March 1, 2007);

IFRIC 12 *Service Concession Arrangements* (effective January 1, 2008);

IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after July 1, 2008)

IFRIC 14 IAS 19 – *The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction* (effective January 1, 2008).

Management anticipates that all of the above standards and interpretation as applicable will be adopted in the Company's consolidated financial statements in future periods and that the adoption of those Interpretations and Standards may result in certain additional disclosures in the consolidated financial statements of the Company in the period of initial application.

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

2.3 Changes in Accounting Policy:

Effective this year, the Company changed its accounting policy with regard to the treatment of the Board of Directors remuneration. Previously, the remuneration was shown as an appropriation. This year the remuneration has been expensed and prior year numbers were reclassified accordingly.

3 BASIS OF CONSOLIDATION

The consolidated financial statements for the year ended 31 December 2007 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.

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.

b) Joint ventures

Joint ventures are those entities over whose 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 venture companies are shown in Note 26.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The accounting policies are consistent with those used in the previous year except as mentioned in Note 2.3.

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. Where the contracts are in early stages and the profit cannot be reasonably estimated, work in progress is valued at cost. Provisions are considered for any anticipated loss on contracts.

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 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 income statement for the year.

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 balance sheet at cost plus post acquisition changes in the Company's share of net assets of the associate, less any impairment in value, if any. The 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 in hand and balance with banks under current, call and fixed deposits having a maturity 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 the 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 20 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 income statement in the year the asset is derecognised.

h) Vessels, property and equipment

Vessels, property and equipment are recorded at cost. 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 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Vessels, property and equipment (continued)

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 stated at amortised cost and 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 income statement over the period of borrowings. Instalments due within one year at amortised cost are shown as a current liability.

Gains or losses are recognized in the income statement 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 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 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.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of the asset being 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. During the year 2007, all 7 main fleet vessels of the group were put on time charter. Revenue for time charter is recognised in 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 by reference to the percentage of completion method, 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.

o) Derivative financial instruments and hedging

The Company 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.

4 SIGNIFICANT ACCOUNTING POLICIES (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.

o) Derivative financial instruments and hedging (continued)

Hedges which meet the strict 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.

q) Impairment

The carrying amounts of the Group's assets other than inventories 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>2007</u> QR'000 | <u>2006</u> QR'000 |
|--|-----------------------|-----------------------|
| Cash on hand | 470 | 635 |
| Balances with banks | <u>237,824</u> | <u>705,925</u> |
| Cash and cash equivalent as per cash flow statements | <u>238,294</u> | <u>706,560</u> |

Included under balances with banks are bank deposits amounting to QR 35,000 thousand (2006 QR 79,524 thousand) which are denominated in United States Dollars.

Bank balances also include QR 12,654 thousand (2006: QR 10,210 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 2007 was 5.47%. (2006: 5.37%)

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--|-----------------------|-----------------------|
| Accounts receivable | 153,318 | 106,950 |
| Due from related parties | <u>18,957</u> | <u>23,295</u> |
| | 172,275 | 130,245 |
| Less: Provision for doubtful receivables | <u>(3,749)</u> | <u>(974)</u> |
| | 168,526 | 129,271 |
| Prepaid expenses | 3,517 | 4,290 |
| Accrued income | 38,124 | 22,074 |
| Gross amount due from customers for contract work (refer note 6.1) | 23,482 | 29,256 |
| Other receivables | 32,445 | 11,786 |
| Deposits | <u>1,376</u> | <u>7,810</u> |
| | <u>267,470</u> | <u>204,487</u> |

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

6.1 GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--|-----------------------|-----------------------|
| Value of work performed at cost plus attributable profit | 191,619 | 105,769 |
| Less: Progress billings and recognised losses | <u>(168,137)</u> | <u>(76,513)</u> |
| | <u>23,482</u> | <u>29,256</u> |

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 Company 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.

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)

6.1 GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK (CONTINUED)

As at December 31, 2007 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>2007</u> QR'000 | <u>2006</u> QR'000 |
|-------------------|-----------------------|-----------------------|
| Less than 60 days | <u>65,745</u> | <u>50,053</u> |

(ii) Aging of past due but not impaired

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--------------------|-----------------------|-----------------------|
| 31-90 days | 81,759 | 42,637 |
| 91-180 days | 15,352 | 24,275 |
| More than 181 days | <u>5,670</u> | <u>12,306</u> |
| Total | <u>102,781</u> | <u>79,218</u> |

(iii) Aging of impaired trade receivables

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--------------------|-----------------------|-----------------------|
| 30-90 days | -- | 10 |
| 91-180 days | 57 | 220 |
| 180 days-365 days | 2,466 | 279 |
| 365 days and above | <u>1,226</u> | <u>465</u> |
| | <u>3,749</u> | <u>974</u> |

(iv) Movement in the provision of doubtful debts:

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--------------------------------------|-----------------------|-----------------------|
| Balance at the beginning of the year | 1,483 | 474 |
| Amounts written off as uncollectible | (137) | - |
| Additional provision during the year | <u>2,403</u> | <u>500</u> |
| Balance at end of the year | <u>3,749</u> | <u>974</u> |

7 INVESTMENTS

| | Note | 2007 QR'000 | 2006 QR'000 |
|--|------|-------------------------|-------------------------|
| At Cost | | | |
| Balance at beginning of year | | 809,205 | 872,282 |
| Acquisition during the year | | 477,266 | 13,520 |
| Disposal during the year | | (76,804) | (18,903) |
| Fair value change recognized in the income statement | | 33,824 | (57,694) |
| Balance at end of year | | <u>1,243,491</u> | <u>809,205</u> |
| Fair Value Adjustment | | | |
| Balance at beginning of year | | 721,473 | 3,748,930 |
| Net movement during the year | | 1,134,586 | (3,027,457) |
| Balance at end of year | | <u>1,856,059</u> | <u>721,473</u> |
| At Fair Value | | | |
| Balance at end of year | | <u>3,099,550</u> | <u>1,530,678</u> |
| Classified as | | | |
| Investment – Held for Trading | 7a | 157,543 | 180,324 |
| Investment – Available for sale | 7b | 2,942,007 | 1,350,354 |
| | | <u>3,099,550</u> | <u>1,530,678</u> |

7a INVESTMENTS HELD FOR TRADING

| | 2007 QR'000 | 2006 QR'000 |
|-----------------|----------------|----------------|
| Quoted equities | 157,543 | 180,324 |

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

| | 2007 QR'000 | 2006 QR'000 |
|---------------------------|-------------------------|-------------------------|
| Quoted equities and bonds | 2,941,952 | 1,350,335 |
| Unquoted equities | 55 | 19 |
| | <u>2,942,007</u> | <u>1,350,354</u> |

Quoted equity investments include the Group's investments in Qatar Gas Transport Company Q.S.C and Al-Rayan Bank Q.S.C totally 2,650 million as of December 31, 2007 (2006: QR 1,146 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.

8 INVENTORIES

| | 2007 QR'000 | 2006 QR'000 |
|---------------------------------------|---------------------|---------------------|
| Stores and spares (net of provisions) | 399 | 472 |
| Construction materials | 3,903 | 2,022 |
| Fuel oil, diesel oil and lubes | 834 | 4,977 |
| | <u>5,136</u> | <u>7,471</u> |

9 LOANS TO LNG COMPANIES

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

| Name of LNG company | Company operating the LNG company |
|--|-----------------------------------|
| 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 |

The loans to the above LNG companies included the following:

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|------------------|-----------------------|-----------------------|
| Loan | 347,445 | 347,445 |
| Accrued Interest | <u>111,574</u> | <u>87,102</u> |
| | <u>459,019</u> | <u>434,547</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>2007</u> | <u>2006</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 Company's commitment in respect of uncalled portion of capital of the above investee company.

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

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|------------------------------|-----------------------|-----------------------|
| Opening balance | 39,293 | 23,137 |
| Share of income for the year | 61,392 | 17,406 |
| Dividends received | <u>(5,000)</u> | <u>(1,250)</u> |
| | <u>95,685</u> | <u>39,293</u> |

Share of income from associate companies are recognised based on the unaudited financial statements of the investee entities.

11 SECURITY DEPOSIT

The security deposit consisted of deposits maintained by a joint venture entity at National Australia Bank Ltd to secure repayment of finance lease obligations and the long term retention money of the Group's subsidiary. The deposit with National Australia Bank Ltd was liquidated during 2007.

12 VESSELS, PROPERTY AND EQUIPMENT

| | Fully Owned Ocean going vessels QR'000 | Offshore Services vessels QR'000 | Buildings QR'000 | Plant and machinery QR'000 | Vessels under construction QR'000 | Capital work in progress QR'000 | Furniture QR'000 | Office equipment QR'000 | Motor vehicles QR'000 | Total 2006 QR'000 |
|---------------------------|---|---|---------------------|----------------------------------|--|---|---------------------|-------------------------------|-----------------------------|-------------------------|
| Cost: | | | | | | | | | | |
| At 1 January 2007 | 1,011,486 | 277,030 | 18,529 | 48,342 | 257,682 | 127 | 6,310 | 4,126 | 4,159 | 1,627,791 |
| Additions during the year | 197,995 | 99,858 | 10,266 | 7,177 | 52,617 | 8,514 | 2,869 | 154 | 5,479 | 384,929 |
| Disposals | (231,371) | (25,378) | - | (511) | - | (8,641) | (116) | (103) | (302) | (266,422) |
| At 31 December 2007 | <u>978,110</u> | <u>351,510</u> | <u>28,795</u> | <u>55,008</u> | <u>310,799</u> | <u>--</u> | <u>9,063</u> | <u>4,177</u> | <u>9,336</u> | <u>1,746,298</u> |
| Depreciation: | | | | | | | | | | |
| 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 |
| Impairment loss | - | - | - | - | - | - | - | - | - | - |
| Disposals | (24,943) | (14,187) | - | (484) | - | - | (84) | - | (281) | (39,979) |
| At 31 December 2007 | <u>115,666</u> | <u>80,770</u> | <u>9,765</u> | <u>31,831</u> | <u>-</u> | <u>-</u> | <u>5,396</u> | <u>4,109</u> | <u>3,092</u> | <u>250,629</u> |
| Net book amounts: | | | | | | | | | | |
| 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>-</u> | <u>3,667</u> | <u>68</u> | <u>6,244</u> | <u>1,495,669</u> |
| At 31 December 2006 | <u>903,177</u> | <u>200,793</u> | <u>12,538</u> | <u>21,930</u> | <u>257,682</u> | <u>127</u> | <u>2,631</u> | <u>482</u> | <u>1,948</u> | <u>1,401,308</u> |

12 VESSELS, PROPERTY AND EQUIPMENT (CONTINUED)

(i) Fully owned ocean going vessels amounting to QR. 903,177 thousand (2006: QR 999,530 thousand) and offshore service vessels amounting to QR. 200,793 thousand (2006: QR 134,690 thousand) are mortgaged/revenue assigned on a first priority basis as security for term loans to finance these vessels (refer note 15).

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

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--------------------------------------|-----------------------|-----------------------|
| Operating costs (Note 22) | 57,131 | 81,728 |
| General and administration expenses* | <u>7,957</u> | <u>7,779</u> |
| | <u>65,088</u> | <u>89,507</u> |

* Includes depreciation on investment property amounting to QR. 963 thousand (2006: QR 963 thousand)

(iii) During the year two fully owned ocean going vessels Al Noman and Ruwais were sold off. The gain on sale of these vessels of QR. 228.25 million is included in the consolidated statement of income.

(iv) During the year, interests amounting to QR. 4,293 thousand have been capitalized and included in the vessels under construction (2006: QR. 4,897 thousand).

(v) Ocean going and off shore services vessels include dry docking components with a net book value of QR. 10,098 thousand as of December 31, 2007 (2006: QR 18,389 thousand).

13 INVESTMENT PROPERTY

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|-------------------------------|-----------------------|-----------------------|
| Cost | | |
| At 1 January | <u>26,241</u> | <u>26,241</u> |
| At 31 December | <u>26,241</u> | <u>26,241</u> |
| Depreciation | | |
| At 1 January | 6,668 | 5,704 |
| Charge for the year | <u>963</u> | <u>964</u> |
| At 31 December | <u>7,631</u> | <u>6,668</u> |
| Net book value at 31 December | <u>18,610</u> | <u>19,573</u> |

Notes:

(i) Investment properties except of 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. 18,610 thousand were appraised by an accredited independent appraiser at a fair value of QR. 155,685 thousand as of December 31, 2007. The appraiser is an industry specialist in valuing these types of investment properties. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation.

(iv) The depreciation charge of QR. 963 thousand (2006: QR. 964 thousand) has been charged under general and administration expenses.

13 INVESTMENT PROPERTY (CONTINUED)

- (v) The Company earned rental income amounting to QR. 4,178 thousand for the year ended December 31, 2007 (2006: QR. 4,178 thousand) and this has been reflected in the consolidated income statement.

14 ACCOUNTS PAYABLE AND ACCRUALS

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---|-----------------------|-----------------------|
| Trade accounts payable | 85,034 | 33,455 |
| Advance from customers | 10,929 | 36,085 |
| Due to related parties | 3,355 | 32 |
| Unclaimed dividend | 11,712 | 10,210 |
| Gross amounts due to customers for contract work (note 14.1) | 70,620 | 7,939 |
| Accrued expenses | 67,649 | 64,118 |
| Directors' remuneration | 10,750 | 10,750 |
| Deferred income | 398 | 2,323 |
| Fair value of interest rate swap contracts | 2,584 | 410 |
| Other payables | 5,613 | 26,086 |
| | <u>268,644</u> | <u>191,408</u> |

14.1 GROSS AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---|-----------------------|-----------------------|
| Progress billings and recognised losses | 160,091 | 48,079 |
| Less: Value of work performed at cost plus attributable profit | <u>(89,471)</u> | <u>(40,140)</u> |
| | <u>70,620</u> | <u>7,939</u> |

15 TERM LOANS

The term loans consist of the following:

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|-----------------------|-----------------------|-----------------------|
| Term loan (i) | 118,765 | 139,420 |
| Term loan (ii) | 391,026 | 534,704 |
| Term loan (iii) | -- | 5,067 |
| Term loan (iv) | 5,706 | 8,740 |
| Term loan (v) | <u>163,263</u> | <u>150,092</u> |
| | <u>678,760</u> | <u>838,023</u> |
| Classified as: | | |
| Current portion | 96,707 | 119,524 |
| Non-current portion | <u>582,053</u> | <u>718,499</u> |
| | <u>678,760</u> | <u>838,023</u> |

- i. The loan was drawn in 2002/2003 from Qatar National Bank/ Arab Bank for financing 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 Company 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 Company in respect of the loan. The Company has recognized the fair value of the Interest Rate Swap, which was a loss of QR 2,584 thousand (2006: QR 5,216 thousand gain), as an equity adjustment in the statement of changes in equity.

15 TERM LOANS (CONTINUED)

- ii. The loan was executed on 14 Jan 2004 to part 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. In year 2006 the Company sold two Aframax crude tankers and paid off the corresponding loan amounting to USD 27.13 m and USD 26.44 m respectively.

The average effective interest rate for the above term loans was 5.47% for 2007 (2006: 4.81 %).

- iii. Working capital loan of QR 5,067 thousand in year 2006 was availed by Q-Tech, a 51% Joint venture company and it was paid during the year.
- iv. Working capital loan of QR. 5,706 thousand (2006: QR. 8,740 thousand) is availed by Q-con (a subsidiary).
- v. The following term loans taken by joint venture companies are proportionately consolidated in these Consolidated financial statements:

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--------------|-----------------------|-----------------------|
| Loan 1 (i) | 37,486 | 48,197 |
| Loan 2 (ii) | 16,869 | 20,082 |
| Loan 3 (iii) | 23,012 | 26,553 |
| Loan 4 (iv) | 23,990 | 27,419 |
| Loan 5 (v) | - | 4,172 |
| Loan 6 (vi) | 23,670 | 23,669 |
| Loan 7 (vii) | <u>38,236</u> | <u>-</u> |
| | <u>163,263</u> | <u>150,092</u> |

Notes:

- (i) Loan 1 is repayable in 17 equal semi-annual instalments of QR.10.7 million each commencing from February 2006 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 instalments 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 instalments of QR. 3.40 million commencing from September 2006 and carries interest at LIBOR plus margin of 0.70%.
- (v) Loan 5 has been fully repaid during the year. This loan was obtained as a short term bridging finance to meet working capital requirements. This loan carried interest at LIBOR plus margin go 0.70%
- (vi) Loan 6 has been obtained to finance the purchase of 4 utility standby safety vessels. The loan is repayable in 16 semi-annual instalments commencing from July 2008 and carries interest at LIBOR plus margin of 0.60%.

15 TERM LOANS (CONTINUED)

- (vii) Loan 7 has been obtained to finance the purchase of two platform supply vessels. The loan is repayable in 16 annual instalments 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.

16 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>2007</u> QR'000 | <u>2006</u> QR'000 |
|---|-----------------------|-----------------------|
| Payable within 1 year | 474 | 440 |
| Payable in 2 to 5 years | 1,627 | 2,102 |
| Payable after 5 years | <u>1,937</u> | <u>1,937</u> |
| Present value of future lease obligations | <u>4,038</u> | <u>4,479</u> |
| Classified as: | | |
| Current portion | 474 | 440 |
| Non-current portion | <u>3,564</u> | <u>4,039</u> |
| | <u>4,038</u> | <u>4,479</u> |

17 SECURED NOTES PAYABLE

In 1997, the subsidiaries of a joint venture entity (Owner Trusts) each issued a secured note to an indenture trust in connection with a public offering of debt securities. The secured notes bear interest at 6.69% per annum and are repayable in semi-annual instalments over a 17.5 year period commencing 2 July 2000. This was settled during the year 2007. The Company's share of the scheduled payments was as follows:

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|-------------------------|-----------------------|-----------------------|
| Payable within 1 year | -- | 8,056 |
| Payable in 2 to 5 years | -- | 24,474 |
| Payable after 5 years | -- | <u>56,449</u> |
| Classified as: | -- | 88,979 |
| Current portion | -- | 8,056 |
| Non-current portion | -- | <u>80,923</u> |
| | -- | <u>88,979</u> |

18 EMPLOYEES' TERMINAL BENEFITS

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--------------------------------------|-----------------------|-----------------------|
| Balance at 1 January | 8,515 | 4,922 |
| Add: Provisions made during the year | 5,788 | 4,339 |
| Less: Payments made during the year | <u>(961)</u> | <u>(776)</u> |
| Balance at 31 December | <u>13,342</u> | <u>8,485</u> |
| Above consists of: | | |
| End of service gratuity benefit | <u>12,227</u> | <u>7,461</u> |
| Qatari employees pension fund | <u>1,115</u> | <u>1,024</u> |

During 2007, the Company transferred a sum of QR. 140 thousand (2006: QR 126 thousand) to the Government pension Fund. The pension scheme is a defined contribution pension plan and pension obligations are payable on demand to a Government pension fund. Accordingly the amounts payable have been disclosed as current liabilities.

19 SHAREHOLDERS EQUITY

19.1 SHARE CAPITAL

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--|-----------------------|-----------------------|
| <u>Authorised</u> 100,000,000 shares (Year 2006: 100,000,000 shares) of QR 10 each | <u>1,000,000</u> | <u>1,000,000</u> |
| <u>Issued & Paid Up Capital</u> 100,000,000 shares (Year 2006: 100,000,000 shares) of QR 10 each fully paid up | <u>1,000,000</u> | <u>1,000,000</u> |

19.2 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 normally available for distribution, except in the circumstances stipulated by the above law. Included in retained earnings is an amount of QR. 19 million relating to legal reserve of consolidated subsidiaries. This amount is subject to restriction on distribution.

19.3 PROPOSED DIRECTORS REMUNERATION

The Board of directors has proposed a directors' remuneration of QR. 10.75 million for the current year (2006: QR 10.75 million), which is subject to the approval of the shareholders in the Annual General Meeting.

19.4 PROPOSED DIVIDENDS AND BONUS SHARES

The Board of Directors has proposed a cash dividend of QR. 350 million for the year 2007 (2006: QR 450 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. 100 million for the year 2007 (2006: QR Nil). This proposal is subject to the approval of the shareholders in the Annual General Assembly Meeting.

20 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 arm's length basis.

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

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|-------------------------------------|-----------------------|-----------------------|
| Operating income | <u>164,417</u> | <u>109,712</u> |
| General and administration expenses | <u>68,437</u> | <u>21,676</u> |

Amounts due from and due to related parties are disclosed in Notes 6 and 14 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.

Compensation of key management personnel.

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

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|------------------------------|-----------------------|-----------------------|
| Short term benefits | 11,034 | 7,710 |
| Employees' terminal benefits | <u>443</u> | <u>356</u> |
| | <u>11,477</u> | <u>8,066</u> |

21 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 2007 | | | For the year ended 31 December 2006 | | |
|---|--|----------------|-------------|--|-----------------|------------|
| | Revenue | Net Income | % | Revenue | Net Income | % |
| | QR '000 | QR '000 | | QR '000 | QR '000 | |
| Deep Sea Transportation | | | | | | |
| <u>Liquid / Oil</u> | | | | | | |
| <u>Crude/Dirty Products (DPP)</u> | | | | | | |
| Fully Owned | 35,795 | 27,812 | 5% | 207,956 | 82,552 | 18 |
| Partly Owned | 22,313 | 4,165 | 1% | 25,389 | 13,651 | 3 |
| Chartered in | - | - | - | 4,371 | (714) | - |
| | 58,108 | 31,977 | 6% | 237,716 | 95,489 | 21 |
| <u>LPG</u> | | | | | | |
| Fully Owned | 59,838 | 34,182 | 5% | 60,570 | 29,175 | 6 |
| | 59,838 | 34,182 | 5% | 60,570 | 29,175 | 6 |
| <u>Clean Products (CPP)</u> | | | | | | |
| Fully Owned | 126,615 | 72,249 | 12% | 187,085 | 75,094 | 17 |
| | 126,615 | 72,249 | 12% | 187,085 | 75,094 | 17 |
| <u>Dry/Bulk Commodities (OBOs)</u> | | | | | | |
| Fully Owned | - | - | - | 53 | 81 | - |
| | - | - | - | 53 | 81 | - |
| Offshore Support Services | | | | | | |
| Fully Owned | 36,615 | 22,798 | 4% | 33,124 | 14,548 | 3 |
| Partly Owned | 189,101 | 55,732 | 9% | 147,907 | 18,491 | 4 |
| | 225,716 | 78,530 | 13% | 181,031 | 33,039 | 7 |
| Construction Services | | | | | | |
| Fully Owned | 368,862 | 71,569 | 12% | 219,087 | (33,624) | (7) |
| Partly Owned | - | (233) | - | 2,307 | (938) | - |
| | 368,862 | 71,336 | 12% | 221,394 | (34,562) | (7) |
| Operating Revenue | 839,139 | 288,274 | 48% | 887,849 | 198,316 | 44 |
| Investment, Interest & other Income | | | | | | |
| Interest from loan to LNG Cos. | 31,264 | 31,264 | 5% | 30,547 | 30,547 | 7 |
| Interest from Bonds & deposits | 26,191 | 26,191 | 4% | 40,679 | 40,679 | 9 |
| Gain on sale of Bonds & equities | 54,744 | 54,744 | 9% | (66,011) | (66,011) | (15) |
| Dividends | 10,885 | 10,885 | 2% | 6,492 | 6,492 | 1 |
| Investment property | 4,178 | 4,178 | 1% | 4,178 | 4,178 | 1 |
| Other | 288,875 | 288,875 | 47% | 292,584 | 292,584 | 65 |
| | 416,137 | 416,137 | 68% | 308,469 | 308,469 | 68 |
| Less: Indirect general and administrative expenses | - | (83,045) | (14%) | - | (48,197) | (10) |
| Less: Proposed Board of Directors remuneration | | (10,750) | (2%) | | (10,750) | (2) |
| Total | | 610,616 | 100% | | 447,838 | 100 |

21 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 2007 | | As at 31 December 2006 | |
|--|---------------------------|-------------|---------------------------|------------|
| | 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 | 28,477 | 1% | 135,157 | 3 |
| Partly Owned | 112,882 | 2% | 113,426 | 2 |
| | 141,359 | 3% | 248,583 | 5 |
| Clean Products (CPP) | | | | |
| Fully Owned | 518,052 | 7% | 446,813 | 10 |
| LPG | | | | |
| Fully Owned | 205,025 | 4% | 207,781 | 5 |
| 50% owned | 209,497 | 4% | 196,882 | 5 |
| | 414,522 | 8% | 404,663 | 10 |
| Offshore Services Vessels/Equipment | | | | |
| Fully Owned | 64,703 | 1% | 66,102 | 2 |
| Partly Owned | 424,946 | 5% | 203,690 | 5 |
| | 489,649 | 6% | 269,792 | 7 |
| Construction Services Assets | | | | |
| Fully Owned | 115,086 | 2% | 30,691 | 1 |
| Partly Owned | 275 | 0% | 275 | - |
| | 115,361 | 2% | 30,966 | 1 |
| Other Assets | | | 491 | - |
| Total | 1,678,943 | 26% | 1,401,308 | 33 |
| <u>Other Assets</u> | | | | |
| Available for sale investments | 3,100,844 | 23% | 1,394,571 | 32 |
| Assets Held for Sale | - | 35% | 209,780 | 5 |
| Loans to LNG companies | 459,019 | 9% | 434,547 | 10 |
| Bank balances | 238,294 | 4% | 706,560 | 16 |
| Held for trading investments | 183,723 | 3% | 392,282 | 4 |
| Investment Property | 18,610 | 0% | 19,573 | - |
| | 4,000,490 | 74% | 3,157,313 | 67 |
| Total | 5,679,433 | 100% | 4,558,621 | 100 |

22 OPERATING COSTS

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---------------------------------------|-----------------------|-----------------------|
| Charter hire | 52,127 | 59,107 |
| Address commission and brokerage | 3,280 | 13,538 |
| Bunker cost | 6,734 | 72,286 |
| Port charges | 3,096 | 32,180 |
| Staff costs (incl. crew costs) | 173,084 | 137,963 |
| Construction direct cost | 107,804 | 142,585 |
| Repairs and maintenance | 14,867 | 21,617 |
| Depreciation on vessels and equipment | 57,131 | 81,728 |
| Insurance | 8,558 | 9,567 |
| Others | <u>70,296</u> | <u>65,560</u> |
| | <u>496,977</u> | <u>636,131</u> |

23 GENERAL & ADMINISTRATION EXPENSES

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---------------------|-----------------------|-----------------------|
| Staff related costs | 53,876 | 25,424 |
| Office expenses | 12,175 | 6,788 |
| General expenses | 9,397 | 8,207 |
| Depreciation | <u>7,957</u> | <u>7,778</u> |
| | <u>83,405</u> | <u>48,197</u> |

24 INVESTMENT INCOME /(LOSS)

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|--|-----------------------|------------------------|
| Dividends | 11,988 | 6,492 |
| Profit on sale of investments | 16,591 | 263 |
| Impairment provision on available for sale | -- | (8,580) |
| Unrealized Gain/(loss) on held for trading | 33,824 | (57,694) |
| Share of Income from associates | <u>61,392</u> | <u>17,406</u> |
| | <u>123,795</u> | <u>(42,113)</u> |

25 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

During 2006, The Group's management decided to dispose two vessels that were previously used in the Group's operations. These vessels have been sold in year 2007 for the amount of QR. 438,036 with profit of QR. 228,256,000 been recognized in 2007.

26 INTERESTS IN JOINT VENTURES

The Company has following Joint Ventures as at 31 December 2007:

| | 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 |

- 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. QM Tanker chartered these vessels to Mobil

26 INTERESTS IN JOINT VENTURES (CONTINUED)

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.

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

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|-------------------------------------|-----------------------|-----------------------|
| Assets | | |
| Current assets | 146,567 | 74,450 |
| Non current assets | | |
| Vessels and equipment | <u>525,166</u> | <u>317,390</u> |
| | <u>671,733</u> | <u>391,840</u> |
| Liabilities | | |
| Current liabilities | 114,197 | 88,435 |
| Non current liabilities | <u>142,453</u> | <u>207,097</u> |
| | <u>256,650</u> | <u>295,532</u> |
| Revenues | | |
| Operating revenue | 211,414 | 175,604 |
| Interest income | 688 | 306 |
| Investment income | 589 | 660 |
| Other income | <u>14,365</u> | <u>1,353</u> |
| | <u>227,056</u> | <u>177,923</u> |
| Expenses | | |
| Operating costs | 134,656 | 133,371 |
| General and Administration expenses | 12,470 | 13,819 |
| Finance costs | <u>24,044</u> | <u>11,029</u> |
| | <u>171,170</u> | <u>158,219</u> |
| Net Profit for the year | <u>55,886</u> | <u>19,704</u> |

27 DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Swaps Agreement

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. At 31 December 2007, the notional amounts of Swap agreements were as follows:

| | <u>Notional Amount</u> USD 000 | <u>Notional Amount</u> QR 000 | <u>2007</u> <u>Fair Value Amount</u> QR 000 |
|------|-----------------------------------|----------------------------------|---|
| Swap | <u>32,628</u> | <u>118,765</u> | <u>(2,584)</u> |

These derivatives are designated as being effective cash flow hedges.

28 CAPITAL COMMITMENTS

The directors have authorised the following future capital expenditures:

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---|-------------------------|-------------------------|
| Capital contribution in partly paid listed securities | - | 430,012 |
| Capital contribution in an Associate | 5,000 | 15,000 |
| Purchase of Offshore services vessels | - | 101,342 |
| Purchase of machinery and equipment | 16,650 | 4,033 |
| Purchase of four Very Large Gas Carriers | <u>2,250,000</u> | <u>450,996</u> |
| | <u>2,271,650</u> | <u>1,001,383</u> |

29 CONTINGENT LIABILITIES

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

| | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---|-----------------------|-----------------------|
| Guarantees against performance bonds and tender bonds | 20,973 | 160,277 |
| Letters of Credit | <u>3,679</u> | <u>7,331</u> |
| | <u>24,652</u> | <u>167,608</u> |

The credit 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.

30 INTEREST TRANSACTIONS

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

| | | <u>2007</u> QR'000 | <u>2006</u> QR'000 |
|---|-------|-----------------------|-----------------------|
| Interest Income | | 57,455 | 71,222 |
| Interest Cost: | | | |
| Expensed | | (53,888) | (53,402) |
| Capitalized | | -- | (4,897) |
| Net interest income | (a) | <u>3,567</u> | <u>12,923</u> |
| Total income | (b) | 610,616 | 447,838 |
| Net interest income as a % of total income | (a÷b) | 0.6% | 2.89% |

31 FINANCIAL RISK MANAGEMENT

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

The financial assets of the Group comprise cash and bank balances, accounts receivables, investments available for sale, investments held for trading, loans to LNG companies and a security deposit. The financial liabilities of the Group comprise accounts payable and accruals, term loans, obligations under finance leases and notes payable.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk exposures

With the exception of certain term loans amounting to QR 118,765 thousand (2006 : QR 139,420 thousand), which are covered by interest rate swap contracts (Note 27), a significant portion of the Company's financial assets and liabilities as of 31 December 2007 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:

| | 31-Dec-07 | | | | 31-Dec-06 | | | |
|---------------------------------------|-------------------------------|----------------------------------|--------------------------------|-------------------------|-------------------------------|----------------------------------|--------------------------------|-------------------------|
| | 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 | 35,000 | 167,316 | 35,978 | 238,294 | 79,524 | 560,825 | 66,211 | 706,560 |
| Average interest rate | 6% | 5.47% | 0% | | 6% | 5.37% | 0% | |
| Financial liabilities | | | | | | | | |
| Interest bearing loans and borrowings | | 559,995 | | 559,995 | | 698,603 | | 698,603 |
| Interest rate swap | 118,765 | -- | -- | 118,765 | 139,420 | -- | 0 | 139,420 |
| | <u>118,765</u> | <u>559,995</u> | <u>--</u> | <u>678,760</u> | <u>139,420</u> | <u>698,603</u> | <u>0</u> | <u>838,023</u> |
| Average interest rate | 3.21% | 6.11% | | | 3.21% | 6.15% | | |
| Net financial asset/ (liabilities) | <u>(83,765)</u> | <u>(392,679)</u> | <u>35,978</u> | <u>(440,466)</u> | <u>(59,896)</u> | <u>(137,778)</u> | <u>66,211</u> | <u>(131,463)</u> |

31 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, by either positioning the balance sheet or protecting interest expense 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 at December 31, 2007.

| | <u>2007</u> | |
|-------------------------------------|-------------|---------|
| | QR '000 | |
| Increase / decrease in basis points | +25 | -25 |
| Effect on profit for the year | (1,107) | (1,107) |

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.

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.

Liquidity risk

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

Capital risk

The Group manages its capital to ensure that it will be able to continue 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 2006.

31 FINANCIAL RISK MANAGEMENT (CONTINUED)

Capital risk (Continued)

The capital structure of the Company consists of debt, which includes the borrowings disclosed in Note 15, 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:

| | 2007 QR'000 | 2006 QR'000 |
|---------------------------------|------------------------------|------------------------------|
| Debt (i) | 678,760 | 838,023 |
| Cash and cash equivalents | <u>(238,294)</u> | <u>(706,560)</u> |
| Net debt | 440,466 | 131,463 |
| Equity (ii) | <u>4,714,649</u> | <u>3,427,247</u> |
| Net debt to equity ratio | 9.34% | 3.84% |

- (i) Debt is defined as long and short term borrowing, as detailed in Note 15.
(ii) Equity includes all capital and reserves of the Company.

32 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.

A) Critical judgments in applying accounting policies

- 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.

B) Key sources of estimation uncertainty

- Dry docking and Special Survey costs

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

Dry docking and special survey costs with a net book value of QR. 6,872,869 as of December 31, 2007 (2006 : QR 18,389,139) 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.

33 COMPARATIVE FIGURES

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