

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

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2009**

QATAR SHIPPING COMPANY Q.S.C

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT

For the year ended December 31, 2009

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QR. 32205

INDEPENDENT AUDITOR'S REPORT

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Qatar Shipping Company Q.S.C. (“the Company”), which comprise the consolidated statements of financial position as at December 31, 2009, and the consolidated statement of income, comprehensive income, changes in shareholders’ equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s responsibility

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

The consolidated financial statements include the assets, liabilities and results of operations of the joint ventures which have been audited by other auditors who have expressed unqualified audit opinions on the respective financial statements. These audit reports were furnished to us, and our opinion in so far as it relates to the amounts included for these joint ventures, is based solely on the reports of other auditors. These joint ventures with combined total assets of QR 1,184 million (December 31, 2008: QR 1,061 million), combined total liabilities of QR 695 million (December 31, 2008: QR 620 million) and net profit of QR 98 million (December 31, 2008: QR 226 million) are presented in these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Legal and Regulatory Requirements

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

For **Deloitte & Touche**

Doha – Qatar
March 1, 2010

Muhammad Bahemia
License No. 103

QATAR SHIPPING COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2009

	<u>Note</u>	<u>2009</u> <u>QR'000</u>	<u>2008</u> <u>QR'000</u>
ASSETS			
Current assets			
Cash and bank balances	5	628,263	511,733
Accounts receivable and prepayments	6	137,293	485,425
Investments held for trading	7a	71,960	68,981
Inventories	8	5,628	7,358
		<u>843,144</u>	<u>1,073,497</u>
Non current assets			
Loans to LNG and LPG companies	9	467,085	446,433
Investments available for sale	7b	2,180,713	2,020,720
Investment in associate companies	10	60,380	114,317
Vessels, property and equipment	11	1,751,204	1,755,059
Retentions receivable		--	10,971
Investment property	12	16,683	17,646
		<u>4,476,065</u>	<u>4,365,146</u>
Total assets		<u>5,319,209</u>	<u>5,438,643</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accruals	13	96,378	533,908
Term loans	14	420,111	114,058
Obligations under finance leases	15	--	508
		<u>516,489</u>	<u>648,474</u>
Non current liabilities			
Term loans	14	474,212	784,411
Obligations under finance leases	15	--	3,056
Employees' terminal benefits	16	6,996	18,797
		<u>481,208</u>	<u>806,264</u>
Total liabilities		<u>997,697</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	7c	1,203,020	971,485
Hedging reserve		(51,851)	(16,620)
Proposed cash dividends	17.4	440,000	385,000
Retained earnings		409,589	323,286
		<u>4,321,512</u>	<u>3,983,905</u>
Total liabilities and shareholders' equity		<u>5,319,209</u>	<u>5,438,643</u>

These consolidated financial statements were approved by the Board of Directors on March 1, 2010 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
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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 December 31, 2009

	Note	<u>2009</u> QR'000	<u>2008</u> QR'000
Operating revenue	19	539,931	1,458,967
Operating costs	20	<u>(290,357)</u>	<u>(998,111)</u>
Gross operating income		249,574	460,856
General and administrative expenses	21	(50,467)	(137,776)
Finance costs		(26,454)	(41,848)
Interest income		57,923	64,332
Investment income	22	6,796	31,616
Other income		19,338	28,599
Gain on sale of vessels	11	--	114,261
Gain from sale of Q-Con	23	327,947	--
(Loss)/gain on sale of investments		(11,238)	19,730
Impairment loss on available-for-sale investments	7	<u>(23,208)</u>	<u>(11,154)</u>
Income before board of directors' remuneration and social contribution		550,211	528,616
Proposed Board of Directors' remuneration	17.3	(10,750)	(10,750)
Social contribution costs	29	<u>(13,158)</u>	<u>--</u>
Net income for the year		526,303	517,866
Basic earnings per share (expressed in QR per share)	17.5	<u>4.78</u>	<u>4.71</u>
Nominal value of each share (expressed in QR per share)	17.1	<u>10</u>	<u>10</u>

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QATAR SHIPPING COMPANY Q.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2009

	<u>2009</u> <u>QR'000</u>	<u>2008</u> <u>QR'000</u>
Net income for the year	526,303	517,866
Other comprehensive income		
Net movement in fair value of available for sale investments	231,535	(884,574)
Net movement in fair value of cash flow hedge	(35,231)	(14,036)
Total comprehensive income for the year	<u>722,607</u>	<u>(380,744)</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 December 31, 2009

	<u>Share capital</u> QR '000	<u>Legal Reserve</u> QR '000	<u>Investments fair value reserve</u> QR '000	<u>Hedging 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	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	-	-	(884,574)	(14,036)	-	-	517,866	(380,744)
Distributed bonus shares	100,000	-	-	-	-	(100,000)	-	-
Proposed cash dividends	-	-	-	-	385,000	-	(385,000)	-
Balance at December 31, 2008	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	-	-	231,535	(35,231)	-	-	526,303	722,607
Proposed cash dividends	-	-	-	-	440,000	-	(440,000)	-
Balance at December 31, 2009	1,100,000	1,220,754	1,203,020	(51,851)	440,000	-	409,589	4,321,512

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 December 31, 2009

	<u>Note</u>	<u>2009</u>	<u>2008</u>
		<u>QR'000</u>	<u>QR'000</u>
OPERATING ACTIVITIES			
Net income for the year		526,303	517,866
Adjustments for:			
Depreciation and amortization		80,629	81,002
Finance costs		26,454	41,848
Interest income		(57,923)	(64,332)
Dividend income		(7,631)	(8,321)
Loss/(profit) on sale of investments		11,238	(19,730)
Unrealized profit/loss on investments "held for trading"		(2,963)	19,328
Impairment of available for sale investments		23,208	11,154
Increase in employees' terminal benefits		1,068	8,753
Rental from investment property		(4,178)	(4,178)
Share of (loss)/income in investments in associate LNG companies		3,798	(42,623)
Profit from sale of Q-Con		(327,947)	-
Profit on sale of vessels		--	(114,261)
		<u>272,056</u>	<u>426,506</u>
Working Capital Changes:			
Inventories		1,730	(2,222)
Accounts receivable and prepayments		312,901	(232,944)
Retention receivables		10,971	(10,018)
Accounts payable and accruals		(437,530)	264,149
Cash generated from operations		<u>160,128</u>	<u>445,471</u>
Employees terminal benefits paid		<u>(12,869)</u>	<u>(2,183)</u>
Net Cash from operating activities		<u>147,259</u>	<u>443,288</u>
INVESTING ACTIVITIES			
Purchase of vessels, property and equipment		(75,823)	(501,084)
Sale of vessels, property and equipment		12	275,916
Interest income received		29,691	29,423
Purchase of investments		-	(28,272)
Proceeds from sale of investments		37,080	143,852
Proceeds from loans to LNG and LPG Companies		7,580	47,494
Investment in associate companies		50,139	22,936
Profit from sale of Q-Con		327,947	-
Rental from investment property		4,178	4,178
Dividend income received		7,631	8,321
Net Cash from investing activities		<u>388,435</u>	<u>2,764</u>
FINANCING ACTIVITIES			
Dividends paid		(385,000)	(350,000)
Finance costs paid		(26,454)	(41,848)
Term loans		(4,146)	219,709
Finance Lease repayment, net		(3,564)	(474)
Net cash used in financing activities		<u>(419,164)</u>	<u>(172,613)</u>
Increase in cash and cash equivalents		116,530	273,439
Cash and cash equivalents at the beginning of the year		<u>511,733</u>	<u>238,294</u>
Cash and cash equivalents at the end of the year	5	<u><u>628,263</u></u>	<u><u>511,733</u></u>

THE ATTACHED NOTES 1 TO 33 FORM AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

1 CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

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

2 ADOPTION OF NEW AND REVISED STANDARDS

Standards and Interpretations effective in the current period

At the date of authorization of these financial statements, the following Standards and Interpretations were effective:

(i) Revised standards:

- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">• IAS 1 (Revised) - Presentation of Financial Statements | <p>IAS 1 has introduced the following:</p> <ul style="list-style-type: none">➤Terminology changes (including revised titles for the financial statements) and changes in the format and contents of the financial statements.➤Comprehensive revision including requiring a statement of comprehensive income |
| <ul style="list-style-type: none">• IAS 23 (Revised) - Borrowing Costs | <p>The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because it has always been the Company’s accounting policy to capitalise borrowing costs incurred on qualifying assets.</p> |
| <ul style="list-style-type: none">• IFRS 7 (Revised) - Financial Instruments | <p>The amendments to IFRS 7: expand the disclosures required in respect of fair value measurements and liquidity risk.</p> |
| <p>Various</p> | <p>In addition to the amendments described earlier in this section, the following standards were also amended. The Improvements have led to changes in the detail of the Company’s accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported.</p> |
| <ul style="list-style-type: none">• IAS 16 (Revised)• IAS 19 (Revised)• IAS 20 (Revised)• IAS 27 (Revised)• IAS 28 (Revised)• IAS 29 (Revised)• IAS 31 (Revised) | <p><i>Property, Plant and Equipment</i></p> <p><i>Employee Benefits</i></p> <p><i>Government Grants and Disclosure of Government Assistance</i></p> <p><i>Consolidated and Separate Financial Statements</i></p> <p><i>Investments in Associates</i></p> <p><i>Financial reporting in Hyperinflationary economies</i></p> <p><i>Interest In Joint Ventures</i></p> |

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Standards and Interpretations effective in the current period (continued)

- IAS 32 (Revised) *Financial Instruments: Presentation*
- IAS 36 (Revised) *Impairment of Assets*
- IAS 38 (Revised) *Intangible Assets*
- IAS 39 (Revised) *Financial Instruments- Recognition & Measurement*
- IAS 40 (Revised) *Investment Property*
- IFRS 1 (Revised) *First time adoption*
- IFRS 2 (Revised) *Share-based Payments*

(ii) New Standard:

- IFRS 8 *Operating Segments*

(iii) New Interpretations:

- IFRIC 13 *Customer loyalty Programmes*
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of Net Investment in Foreign Operations*

The adoption of these standards and interpretations had no significant effect on the financial statements of the Company for the year ended December 31, 2009, other than certain presentation and disclosure changes.

Standards and Interpretations in issue not yet effective

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

(i) Revised Standards

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

- IAS 27 (Revised) – *Consolidated and Separate Financial Statements*
- IAS 28 (Revised) – *Investments in Associates*
- IAS 31 (Revised) – *Interest In Joint Ventures*
- IAS 38 (Revised) – *Intangible Assets*
- IAS 39 (Revised) – *Financial Instruments: Recognition & Measurement*
- IFRS 2 (Revised) – *Share-based Payments*
- IFRS 3 (Revised) – *Business Combinations*
- IFRS 5 (Revised) – *Non Current assets Held for Sale & Discontinued Operations*

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

Standards and Interpretations in issue not yet effective (continued)

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

- IAS 1- *Presentation of Financial statements*
- IAS 7 (Revised) - *Statement of Cash Flows*
- IAS 17 (Revised) - *Leases*
- IAS 36 (Revised) - *Impairment of Assets*
- IAS 39 (Revised) – *Financial Instruments: Recognition & Measurement*
- IFRS 1 (Revised) - *First time adoption*
- IFRS 2 (Revised) - *Share-based Payments*
- IFRS 5 (Revised) – *Non Current assets Held for Sale & Discontinued Operations*
- IFRS 8 (Revised) – *Operating Segments*

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

- IAS 24 (Revised) – *Related Party Disclosures.*

(ii) New Standard

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

- IFRS 9- *Financial Instruments –Classification and Measurement*

(iii) 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*

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

- IFRIC 19 - *Extinguishing Financial Liabilities with Equity Instruments*

Management anticipates that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company in the period of initial application, other than certain presentation and disclosure changes. Management has yet to decide when to adopt IFRS 9 and will only be in a position to assess its potential impact on the financial statements at the time of adoption.

3 BASIS OF CONSOLIDATION

The consolidated financial statements for the year ended 31 December 2009 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 statement of financial position date:

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

- Qatar Shipping Company (India) Private Limited (“Q-Ship India”) is a private limited company incorporated in India on 19 December 2008 with a share capital of INR 12,000,000 and is wholly owned by the Company. The principal activity of the company is to carry out all shipping related activities. Q-Ship India is yet to allot the shares worth INR. 5,000,000 due to administrative reasons. The financial statements of Q-Ship India are immaterial to the Group and are included in the accompanying consolidated financial statements based on the management accounts.

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

During the year 2009, the Group has sold Qatar Engineering & Construction W.L.L (“Q-Con”) for a price of US\$ 110 million. Management has de-consolidated the financial results of Q-Con effective 1 January 2009 (Note 23).

b) Joint ventures

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

Details of the joint ventures are shown in note 24.

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 International Financial Reporting Standards and applicable requirements of Qatar Commercial Companies Law No.5 of 2002.

b) Basis of preparation

The consolidated financial statements are prepared under the historical cost convention, except for available for sale investments, investments held for trading and derivatives financial instruments that have been measured at fair values.

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

c) Inventories

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

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

d) Accounts receivable and other receivables

Trade receivables are stated at original invoice amount less provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

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

e) Investments

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

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 statement of income. Interest earned or dividends received are included in interest and dividend income respectively.

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Investments (Continued)

Available-for-sale investments

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**g) Investment property (Continued)**

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

The carrying values of investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

An item of investment property is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the consolidated statement of income in the year the asset is derecognised.

h) Vessels, property and equipment

Vessels, property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Expenditures incurred to replace components of vessels, property and equipment (i.e major inspection and overhaul costs), are capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of vessels, property and equipment. All other expenditures are recognised in the consolidated 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
Buildings (including Portable buildings & camps)	1-10 years	Furniture & fixtures	1-10 years
Offshore service vessels (Second hand)	3-10 years	Plant & Machinery (including diving equipments)	2-10 years

Subsequent expenditure to replace a component of vessels, property 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 management.

i) Accounts payable and accruals

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

j) Term loans

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Leases

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

Assets held as finance leases are recognised as assets of the Group at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessee is included in the 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.

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 cost of the asset up to the date at which the asset becomes ready to be put into use. Other borrowing costs are recognized as an expense in the period in which they are incurred.

n) Revenue recognition

Voyage results are determined on a round voyage basis.

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the statement of income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or unrecognised firm commitment
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the 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 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 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 statement of financial position date. All differences are taken to the consolidated statement of income.

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

For the year ended December 31, 2009

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

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

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 management's prior experience.

5 CASH AND BANK BALANCES

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Cash on hand	31	1,139
Balances with banks	<u>628,232</u>	<u>510,594</u>
Cash and cash equivalent as per cash flow statement	<u><u>628,263</u></u>	<u><u>511,733</u></u>

Included under balances with banks are bank deposits amounting to QR 27,001 thousand (2008: QR 28,086 thousand) which are denominated in United States Dollars.

Bank balances also include QR 19,032 thousand (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 in 2009 was 6.25%. (2008: 6.6%)

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Accounts receivable	77,180	259,971
Due from related parties (note 18)	5,635	6,985
	<u>82,815</u>	<u>266,956</u>
Less: Provision for doubtful receivables	<u>(3,558)</u>	<u>(7,276)</u>
	<u>79,257</u>	<u>259,680</u>
Prepaid expenses	18,870	6,563
Advances to suppliers	26,275	56,523
Accrued income	--	30,331
Gross amount due from customers for contract work (refer note 6.1)	--	111,516
Other receivables	11,090	19,290
Deposits	1,801	1,522
	<u><u>137,293</u></u>	<u><u>485,425</u></u>

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

For the year ended December 31, 2009

6 ACCOUNTS RECEIVABLE AND PREPAYMENTS (CONTINUED)

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

As at December 31, 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>2009</u>	<u>2008</u>
	QR'000	QR'000
Less than 60 days	<u>25,065</u>	<u>126,985</u>

(ii) Aging of past due but not impaired

	<u>2009</u>	<u>2008</u>
	QR'000	QR'000
31-90 days	26,918	76,079
91-180 days	20,998	25,903
More than 181 days	6,276	30,713
	<u>54,192</u>	<u>132,695</u>

(iii) Aging of impaired trade receivables

	<u>2009</u>	<u>2008</u>
	QR'000	QR'000
91-180 days	--	412
180 days-365 days	--	365
365 days and above	3,558	6,499
	<u>3,558</u>	<u>7,276</u>

(iv) Movement in the provision of doubtful debts:

	<u>2009</u>	<u>2008</u>
	QR'000	QR'000
Balance at the beginning of the year	7,276	3,749
Amounts written off as uncollectible	--	(649)
Transfer of Q-Con balance	(3,718)	--
Additional provision during the year	--	4,176
	<u>3,558</u>	<u>7,276</u>

6.1 GROSS AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORK

	<u>2009</u>	<u>2008</u>
	QR'000	QR'000
Value of work performed at cost plus attributable profit	--	274,820
Less: Progress billings and recognised losses	--	(163,304)
	<u>--</u>	<u>111,516</u>

For the year ended December 31, 2009

7 INVESTMENTS

	Note	<u>2009</u> QR'000	<u>2008</u> QR'000
At Cost			
Balance at beginning of year		1,117,161	1,243,491
Acquisition during the year		--	28,272
Disposal during the year		(47,451)	(124,120)
Impairment loss on available for sale investment		(23,208)	(11,154)
Fair value change recognized in the consolidated statement of income		2,963	(19,328)
Balance at end of year		<u>1,049,465</u>	<u>1,117,161</u>
Fair Value Reserve			
Balance at beginning of year		972,540	1,856,059
Net movement during the year		230,668	(883,519)
Balance at end of year	7c	<u>1,203,208</u>	<u>972,540</u>
At Fair Value			
Balance at end of year		<u>2,252,673</u>	<u>2,089,701</u>
Classified as			
Investment – Held for Trading	7a	71,960	68,981
Investment – Available for sale	7b	<u>2,180,713</u>	<u>2,020,720</u>
		<u>2,252,673</u>	<u>2,089,701</u>

7a INVESTMENTS HELD FOR TRADING

	<u>2009</u> QR'000	<u>2008</u> QR'000
Quoted equities	<u>71,960</u>	<u>68,971</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 statement of financial position date.

7b INVESTMENTS AVAILABLE FOR SALE

	<u>2009</u> QR'000	<u>2008</u> QR'000
Quoted equities and bonds	2,180,630	2,020,682
Unquoted equities	83	38
	<u>2,180,713</u>	<u>2,020,720</u>

Quoted equity investments include the Group's investments in Qatar Gas Transport Company Q.S.C and Al-Rayan Bank Q.S.C with collective fair value of QR. 2,045 million as of December 31, 2009 (2008: QR1,836 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 THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2009

7 INVESTMENTS (CONTINUED)

7c Fair value reserve

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

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Investment fair value reserve of the Group	1,203,208	972,540
Share of investment fair value reserve from associates	(188)	(1,055)
	<u>1,203,020</u>	<u>971,485</u>

8 INVENTORIES

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Stores and spares (net of provisions)	2,746	2,830
Construction materials	--	1,839
Fuel oil, diesel oil and lubes	2,882	2,689
	<u>5,628</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 Ltd
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	Shipping Corporation of India Ltd
Peninsula LNG Transport No. 1 Ltd, Bahamas	NYK
Peninsula LNG Transport No. 2 Ltd, Bahamas	K Line
Peninsula LNG Transport No. 3 Ltd, Bahamas	Mitsui OSK Lines
K S Membrane-II, Denmark	Maersk
Gulf LPG Transport W.L.L	Qatar Gas Transportation Company

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

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Loans	292,371	299,951
Accrued Interest	174,714	146,482
	<u>467,085</u>	<u>446,433</u>

For the year ended December 31, 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 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	
		2009	2008
Qatar Quarries and Building Materials Co. W.L.L	Qatar	25%	25%
Qatar LNG Transport Ltd.	Liberia	20%	20%
Camartina Shipping INC,	Bahamas	29.4%	29.4%
Peninsula LNG Transport No. 1 Ltd,	Bahamas	29.4%	29.4%
Peninsula LNG Transport No. 2 Ltd,	Bahamas	29.4%	29.4%
Peninsula LNG Transport No. 3 Ltd.	Bahamas	29.4%	29.4%

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

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

	Note	2009 QR'000	2008 QR'000
Opening balance		114,317	95,685
Share of (loss)/income for the year	22	(3,798)	42,623
Share of fair value reserve	7c	867	(1,055)
Share of hedging reserve	25	(36,006)	(12,670)
Dividends received		(15,000)	(10,266)
		<u>60,380</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.

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For the year ended December 31, 2009

11 VESSELS, PROPERTY AND EQUIPMENT

	Owned ocean going vessels	Offshore Services vessels	Buildings	Plant and machinery	Capital work in progress	Furniture	Office equipment	Motor vehicles	Total
	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	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	(208,763)	--	--	(311)	--	(255)	--	(471)	(209,800)
Transfers	242,890	--	--	--	(242,890)	--	--	--	--
At December 31, 2008	1,338,827	361,604	30,948	80,037	194,914	14,961	4,515	11,776	2,037,582
Additions during the year	103,398	1,833	--	905	41,144	459	301	344	148,384
Disposals	--	--	--	--	--	(35)	--	(23)	(58)
Disposal of Q-Con balance (Note 23)	--	--	(30,427)	(67,159)	(9,987)	(12,953)	--	(10,699)	(131,225)
Transfers	32,331	--	--	--	(32,331)	--	--	--	--
At December 31, 2009	1,474,556	363,437	521	13,783	193,740	2,432	4,816	1,398	2,054,683
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	(47,280)	--	--	(356)	--	(204)	--	(305)	(48,145)
At December 31, 2008	129,490	83,017	12,860	39,094	--	8,682	4,283	5,097	282,523
Charge for the year	74,430	4,073	--	109	--	576	241	237	79,666
Disposals	--	--	--	--	--	(23)	--	(23)	(46)
Disposal of Q-Con balance (Note 23)	--	--	(12,511)	(33,634)	--	(7,689)	--	(4,830)	(58,664)
At December 31, 2009	203,920	87,090	349	5,569	--	1,546	4,524	481	303,479
Net book value:									
At December 31, 2009	1,270,636	276,347	172	8,214	193,740	886	292	917	1,751,204
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 THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2009

11 VESSELS, PROPERTY AND EQUIPMENT (CONTINUED)

- (i) Owned ocean going vessels amounting to QR. 711,910 thousand (2008: QR 729,007 thousand) and offshore service vessels amounting to QR. 328,631 thousand (2008: QR 306,030 thousand) are mortgaged/revenue assigned on a first priority basis as security for term loans to finance these vessels (refer note 14).
- (ii) Depreciation charge for the year is included in the consolidated statement of income as follows:

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Operating costs (note 20)	78,646	63,539
General and administration expenses*	1,983	17,463
	<u>80,629</u>	<u>81,002</u>

* Includes depreciation on investment property amounting to QR. 963 thousand (2008: QR 964 thousand)

- (iii) During the year, the Company has sold its subsidiary Q-Con. And as a result of it, the balances relating to Q-Con have been removed from property, plant and equipment. (Note 23)
- (iv) During the year, interest amounting to QR.13,140 thousand has been capitalized and included in the vessels under construction (2008: QR. 9,815 thousand).
- (v) Ocean going and off shore services vessels include dry docking components with a net book value of QR. 20,768 thousand as of December 31, 2009 (2008: QR 18,030 thousand).

12 INVESTMENT PROPERTY

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Cost		
At January 1	26,241	26,241
At December 31	<u>26,241</u>	<u>26,241</u>
Depreciation		
At January 1	8,595	7,631
Charge for the year	963	964
At December 31	<u>9,558</u>	<u>8,595</u>
Net book value at December 31	<u>16,683</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 QR. 16,683 thousand were appraised by an accredited independent appraiser at a fair value of QR. 137 million as of December 31, 2009. 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 (2008: QR. 964 thousand) has been charged under general and administration expenses.
- (v) The Company earned rental income amounting to QR. 4,178 thousand for the year ended December 31, 2009 (2008: QR. 4,178 thousand) and this has been reflected in the consolidated statement of income.

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2009

13 ACCOUNTS PAYABLE AND ACCRUALS

	2009	2008
	QR'000	QR'000
Trade accounts payable	11,887	52,674
Advances from customers	-	73,702
Due to related parties (note 18)	1,363	2,937
Unclaimed dividend	17,157	15,173
Gross amounts due to customers for contract work (note 13.1)	--	255,163
Accrued expenses	38,468	110,989
Directors' remuneration	10,750	10,750
Deferred income	412	5,732
Fair value of interest rate swap contracts	3,175	3,950
Social contribution payable	13,158	--
Other payables	8	2,838
	96,378	533,908

13.1 GROSS AMOUNTS DUE TO CUSTOMERS FOR CONTRACT WORK

	2009	2008
	QR'000	QR'000
Progress billings and recognised losses	--	643,625
Less: Value of work performed at cost plus attributable profit	--	(388,462)
	--	255,163

14 TERM LOANS

The term loans consist of the following:

	2009	2008
	QR'000	QR'000
Term loan (i)	77,456	98,110
Term loan (ii)	294,500	343,057
Term loan (iii)	254,800	254,800
Term loan (iv)	-	8,807
Term loan (v)	109,101	-
Term loan (vi)	158,466	193,695
	894,323	898,469
Classified as:		
Current portion	420,111	114,058
Non-current portion	474,212	784,411
	894,323	898,469

- 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 2,628 thousand (2008: QR 3,950 thousand loss), as an equity adjustment in the statement of changes in equity.

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14 TERM LOANS (CONTINUED)

- ii. The loan was executed on 14 Jan 2004 to partially finance construction of two LPG/ Ammonia carrier and six Aframax size crude/ clean tankers. It is secured by a first priority mortgage over the vessels. The two Aframax size crude tankers and two Aframax size coated tankers were delivered and mortgaged during 2006. This facility has a fixed interest rate on the KEXIM portion by way of fixed 'Commercial Interest Reference Rate' (CIRR). The Company has restructured this facility to bring down the margin on the Commercial tranche from 95 bps to 75 bps effective Oct 2006. The facility is repayable in variable quarterly average installment, the last installment being payable in April 2016.
- iii. The loan from HYPO Vereinsbank Singapore was executed in April 2008 to finance the building of four VLGCs for an amount of \$ 70 million. It is secured by the company's investment in the shares of Nakilat. This facility carries an interest rate of 0.595 % + LIBOR. This facility is repayable in April 2010 or when Gulf LPG Company finances the VLGC's whichever is earlier.
- iv. Working capital loan availed by Q-Con was derecognised during the year as a result of the sale of Q-Con (2008: QR 8,807 thousand).
- v. The loan was obtained from QIB for an amount of USD 30 million and is executed according to the Islamic banking principles and does not carry any interest. The Principal amount plus the profit are repayable in two equal installments amounting to USD 16.5 million each, paid on April 2010 and April 2011 respectively. The collateral against this loan is the Company's investment in the shares of Nakilat.
- vi. The following term loans taken by one of the joint ventures (Halul Offshore Services Company) are proportionately consolidated in these consolidated financial statements:

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Loan 1 (i)	16,066	26,776
Loan 2 (ii)	10,443	13,656
Loan 3 (iii)	15,932	19,471
Loan 4 (iv)	17,137	20,564
Loan 5 (v)	19,231	22,190
Loan 6 (vi)	79,657	91,038
	<u>158,466</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.
- (ii) Loan 2 has been obtained to finance the purchase of nine vessels. The loan is repayable in 34 equal quarterly installments of QR. 1.6 million each and loan carries at LIBOR plus a margin of 0.70%.
- (iii) Loan 3 has been obtained to finance the purchase of two anchor handling tug vessels which are currently under construction. The loan is repayable in 18 equal installments of QR. 3.5 million each commencing from December 2006 and carries interest at LIBOR plus margin of 0.65%.
- (iv) Loan 4 has been obtained to finance the purchase of two vessels. The loan is repayable in

QATAR SHIPPING COMPANY Q.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2009

14 TERM LOANS (CONTINUED)

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

- (v) Loan 5 has been obtained to finance the purchase of 4 utility standby safety vessels. The loan is repayable in 16 semi-annual installments commencing from July 2008 and carries interest at LIBOR plus margin of 0.60%.
- (vi) Loan has been obtained to finance the purchase of two platform supply vessels. The loan is repayable in 16 annual installments commencing from April 2009 and carries interest at LIBOR plus a margin of 0.60%.

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

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

15 OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases related to Q-Con and were de-recognised as a result of sale of Q-Con.

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>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Payable within 1 year	--	508
Payable in 2 to 5 years	--	2,376
Payable after 5 years	--	680
Present value of future lease obligations	<u>--</u>	<u>3,564</u>
Classified as:		
Current portion	--	508
Non-current portion	--	3,056
	<u>--</u>	<u>3,564</u>

QATAR SHIPPING COMPANY Q.S.C.

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16 EMPLOYEES' TERMINAL BENEFITS

	<u>2009</u> QR'000	<u>2008</u> QR'000
Balance at 1 January	18,797	12,227
Less: Transfer of balances relating to Q-Con	(12,674)	--
Add: Provisions made during the year	1,067	8,753
Less: Payments made during the year	(194)	(2,183)
Balance at 31 December	<u>6,996</u>	<u>18,797</u>

17 SHAREHOLDERS' EQUITY

17.1 SHARE CAPITAL

	<u>2009</u> QR'000	<u>2008</u> QR'000
<u>Authorized</u> 110,000,000 shares of QR 10 each fully paid up	<u>1,100,000</u>	<u>1,100,000</u>
<u>Issued & Paid Up Capital</u> 110,000,000 shares of QR 10 each fully paid up	<u>1,100,000</u>	<u>1,100,000</u>

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. 38 million relating to legal reserve of consolidated subsidiaries. This amount is subject to restriction on distribution.

17.3 PROPOSED DIRECTORS REMUNERATION

The Board of directors has proposed a directors' remuneration of QR. 10.75 million for the current year (2008: QR 10.75 million), which is subject to the approval of the shareholders in the Annual General Meeting.

17.4 PROPOSED DIVIDENDS AND BONUS SHARES

The Board of Directors has proposed a cash dividend of QR 440 million for the year 2009 (2008: QR 385 million). This proposal is subject to the approval of the shareholders in the Annual General Assembly Meeting.

17.5 ADJUSTED BASIC EARNINGS PER SHARE

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

	<u>2009</u>	<u>2008</u>
Profit for the year QR'000.	526,303	517,866
Weighted average number of shares	110,000	110,000
Basic earnings per share QR.	<u>4.78</u>	<u>4.71</u>

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18 RELATED PARTY TRANSACTIONS

a) Related parties transactions:

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

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

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Operating income	<u>49,991</u>	<u>103,519</u>
General and administration expenses	<u>2,896</u>	<u>1,099</u>

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

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

c) Compensation of key management personnel.

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

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Short term benefits	<u>6,240</u>	<u>18,219</u>
Employees' terminal benefits	<u>1,407</u>	<u>4,721</u>
	<u>7,647</u>	<u>22,940</u>

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19 SEGMENT INFORMATION

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

	For the year ended December 31, 2009			For the year ended December 31, 2008		
	Revenue QR '000	Net Income QR '000	%	Revenue QR '000	Net Income QR '000	%
Deep Sea Transportation						
<u>Liquid / Oil</u>						
<u>Crude/Dirty Products (DPP)</u>						
Fully Owned	58,520	30,735	6%	82,517	43,593	9%
Partly Owned	-	-	--%	1,626	1,099	--%
	58,520	30,735	6%	84,143	44,692	9%
<u>LPG</u>						
Fully Owned	58,943	29,899	5%	60,287	32,148	6%
50% Owned	10,919	(28,126)	(5)%	19,250	7,718	2%
	69,862	1,773	--%	79,537	39,866	8%
<u>Clean Products (CPP)</u>						
Fully Owned	103,728	51,627	9%	90,342	44,123	8%
	103,728	51,627	9%	90,342	44,123	8%
Offshore Support Services						
Fully Owned	28,040	15,101	3%	25,761	24,415	5%
Partly Owned	279,781	150,337	27%	282,240	134,763	26%
Chartered in	-	-	--%	10,021	504	--%
	307,821	165,438	30%	318,022	159,682	31%
Construction Services						
Fully Owned	--	--	--%	886,923	172,726	33%
Partly Owned	--	--	--%	--	(233)	--%
	--	--	--%	886,923	172,493	33%
Operating Revenue	539,931	249,573	45%	1,458,967	460,856	89%
Investment, Interest & other Income						
Interest from loan to LNG Cos.	34,524	34,524	6%	43,387	43,387	8%
Interest from Bonds & deposits	20,321	20,321	4%	21,709	21,709	4%
(Loss) Gain on sale of Bonds & equities	1,662	1,662	--%	(10,114)	(10,114)	(2)%
Dividends	5,710	5,710	1%	7,683	7,683	2%
Investment property	4,178	4,178	1%	4,178	4,178	2%
Other	290,217	290,217	53%	138,694	138,693	26%
	356,612	356,612	65%	205,537	205,536	40%
Less: Indirect general and administrative expenses	--	(69,132)	(10)%	--	(137,776)	(27)%
Less: Proposed Board of Directors remuneration	--	(10,750)	--%	--	(10,750)	(2)%
Total	896,543	526,303	100%	1,664,504	517,866	100%

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19 SEGMENT INFORMATION (CONTINUED)

(b) Assets employed by business segments

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

	As at December 31, 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	151,506	3%	155,587	3%
Partly Owned	--	--	--	--%
	151,506	3%	155,587	3%
Clean Products (CPP)				
Fully Owned	367,885	7%	374,546	7%
LPG				
Fully Owned	192,516	4%	198,874	4%
50% owned	649,694	12%	586,150	11%
	842,210	16%	785,024	15%
Offshore Services				
Vessels/Equipment				
Fully Owned	60,696	1%	64,296	1%
Partly Owned	328,631	6%	306,030	6%
	389,327	7%	370,326	7%
Construction Services Assets				
Fully Owned	--	--%	69,301	1%
Partly Owned	276	--%	275	0%
	276	--%	69,576	1%
Total	1,751,204	33%	1,755,059	33%
<u>Other Assets</u>				
Available for sale investments	2,180,713	41%	2,020,720	37%
Loans to LNG companies	467,085	9%	446,433	8%
Bank balances	628,263	12%	511,733	9%
Held for trading investments	71,960	1%	68,981	1%
Investment property	16,683	0%	17,646	1%
Retention receivable	--	--%	10,971	0%
Inventories	5,628	0%	7,358	0%
Accounts receivable and prepayments	137,293	3%	485,425	9%
Investment in associates	60,380	1%	114,317	2%
	3,568,005	67%	3,683,584	67%
Total	5,319,209	100%	5,438,643	100%

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20 OPERATING COSTS

	2009	2008
	QR'000	QR'000
Charter hire	19,554	47,528
Address commission and brokerage	2,429	1,920
Bunker cost	1,400	3,233
Port charges	850	993
Staff costs (incl. crew costs)	117,016	90,109
Construction direct cost	--	712,777
Repairs and maintenance	36,513	20,810
Depreciation on vessels and equipment	78,646	63,539
Insurance	9,446	9,443
Others	24,503	47,759
	290,357	998,111

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
	QR'000	QR'000
Staff related costs	28,561	74,259
Office expenses	6,236	18,412
General expenses	13,687	27,642
Depreciation	1,983	17,463
	50,467	137,776

22 INVESTMENT (LOSS)/INCOME

	2009	2008
	QR'000	QR'000
Dividends	7,631	8,321
Unrealized (loss) Gain on investments held for trading	2,963	(19,328)
Share of Income from associates	(3,798)	42,623
	6,796	31,616

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23 GAIN FROM SALE OF Q-CON

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

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

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

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

	2009
	QR’000
Sale Consideration	400,400
Less:-	
Carrying amount	(71,621)
Expenses on disposal	(832)
	327,947

24 INTERESTS IN JOINT VENTURES

The Group has following Joint Ventures as at 31 December 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

QM Tanker Company L.L.C. (“QM Tanker”) is a Limited Life Company established with Exxon Mobil. QM Tanker was incorporated on 12 November 1997 with the objective of acquiring the rights to lease two LR1 class crude oil tankers, the title to which was held by Abbey National December Leasing (4) Limited. On 23 March 2005, Abbey National December Leasing (4) Limited was sold by Abbey National Treasury Services Plc to West LB AG (“Lessor”). There were no changes in the terms and conditions of the lease. On 22 June 2005, the Company exercised the option to terminate the leases and purchase the Ras Laffan and Valiant from the lessor. Both these ships were sold in 2008.

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

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24 INTERESTS IN JOINT VENTURES (CONTINUED)

Qatar Engineering and Technology Company W.L.L. (Q-Tech) is a Limited Liability Company established with Aban Constructions Pvt. Ltd., India. Q-Tech was incorporated on 27 April 2002 with the objective of carrying out engineering and other related services. The Company had decided on 11 January 2005 to terminate this Joint Venture agreement. However it was decided to postpone the termination till the completion of the ongoing project. The process of negotiation for recovery of its dues has commenced and is likely to fructify in 2010. The financial statements of Q-Tech 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.

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

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

	<u>2009</u>	<u>2008</u>
	<u>QR'000</u>	<u>QR'000</u>
Assets		
Current assets	195,273	167,725
Non current assets	10,453	9,868
Vessels and equipment	978,599	883,640
	<u>1,184,325</u>	<u>1,061,233</u>
Liabilities		
Current liabilities	68,452	77,495
Non current liabilities	626,054	542,248
	<u>694,506</u>	<u>619,743</u>
Revenues		
Operating revenue	290,701	303,116
Interest income	2,824	1,423
Investment (loss)/ income	620	(1,428)
Gain on sale of vessels	7	114,261
Other income	9,782	9,394
	<u>303,934</u>	<u>426,766</u>
Expenses		
Operating costs	168,489	159,536
General and administration expenses	23,228	30,486
Finance costs	13,993	10,440
	<u>205,710</u>	<u>200,462</u>
Net Profit for the year	<u>98,224</u>	<u>226,304</u>

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25 DERIVATIVE FINANCIAL INSTRUMENTS

	<u>2009</u>	<u>2008</u>
	QR 000	QR 000
Fair value of interest rate swap contracts*	(3,175)	(3,950)
Fair value of interest rate swap contract from associate	(48,676)	(12,670)
	<u>(51,851)</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.

26 CAPITAL COMMITMENTS

The directors have authorised the following future capital expenditures:

	<u>2009</u>	<u>2008</u>
	QR'000	QR'000
Capital contribution in an Associate	--	3,000
Purchase of Offshore services vessels	3,675	1,560
Purchase of machinery and equipment	--	10,610
Purchase of four Very Large Gas Carriers	2,100	1,059,851
	<u>5,775</u>	<u>1,075,021</u>

27 CONTINGENT LIABILITIES AND OPERATIONAL COMMITMENTS

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

	<u>2009</u>	<u>2008</u>
	QR'000	QR'000
Guarantees against performance bonds and tender bonds	<u>203,318</u>	<u>387,871</u>
Letters of Credit	<u>3,489</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.

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28 INTEREST TRANSACTIONS

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

		<u>2009</u>	<u>2008</u>
		<u>QR'000</u>	<u>QR'000</u>
Interest Income		57,923	64,332
Interest Cost:			
Expensed		(26,454)	(41,848)
Net interest income	(a)	<u>31,469</u>	<u>22,484</u>
Total income	(b)	526,303	517,866
Net interest income as a % of total income	(a÷b)	5.97%	4.34%

29 PROVISION FOR SOCIAL CONTRIBUTION

During the year, and in accordance with law number 13 of 2008, the Group has taken a provision for the support of sports, social, cultural and charitable activities with an amount equivalent to 2.5% of the net profit of the Group.

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30 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 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.

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

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

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

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

	Level 1	Level 2	Level 3	Total
	QR'000	QR'000	QR'000	QR'000
Trading investments financial assets	71,960	--	--	71,960
Available for sale financial assets				
Quoted equities and bonds	2,180,630	--	--	2,180,630
Unquoted equities	--	83	--	83
	<u>2,252,590</u>	<u>83</u>	<u>--</u>	<u>2,252,673</u>

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31 FINANCIAL RISK MANAGEMENT

Interest rate risk exposures

With the exception of certain term loans amounting to QR 30,119 thousand (2008 : QR 98,110 thousand), which are covered by interest rate swap contracts (Note 25), a significant portion of the Company's financial assets and liabilities as of 31 December 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 summarised below:

	2009				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>465,000</u>	<u>163,232</u>	<u>31</u>	<u>628,263</u>	<u>180,000</u>	<u>330,594</u>	<u>1,139</u>	<u>511,733</u>
Financial liabilities								
Interest bearing loans and borrowings	<u>109,102</u>	<u>785,221</u>	<u>--</u>	<u>894,323</u>	<u>--</u>	<u>898,469</u>	<u>--</u>	<u>898,469</u>
Interest rate swap	<u>30,119</u>	<u>(30,119)</u>	<u>--</u>	<u>--</u>	<u>98,110</u>	<u>(98,110)</u>	<u>--</u>	<u>--</u>
	<u>139,221</u>	<u>755,102</u>	<u>--</u>	<u>894,323</u>	<u>98,110</u>	<u>800,359</u>	<u>--</u>	<u>898,469</u>
Net financial asset/ (liabilities)	<u>325,779</u>	<u>(591,870)</u>	<u>31</u>	<u>(266,060)</u>	<u>81,890</u>	<u>(469,765)</u>	<u>1,139</u>	<u>(386,736)</u>

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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 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.

	2009		2008	
	QR '000		QR '000	
Increase / decrease in basis points	+25	-25	+25	-25
Effect on profit for the year	(1,480)	1,480	(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 companies, investments available for sale and investments held for trading. The balances with bank are with reputed banks and the receivables are shown net of provision for doubtful debts after reviewing their recoverability. Loans to LNG companies represent loans given for the construction of vessels and are considered good and realizable. The carrying value of the investments is reflective of the credit exposures relating to the investments.

Currency risk

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

Liquidity risk

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

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.

QATAR SHIPPING COMPANY Q.S.C.

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31 FINANCIAL RISK MANAGEMENT (CONTINUED)

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>2009</u>	<u>2008</u>
	QR'000	QR'000
Debt (i)	894,323	898,469
Cash and cash equivalents	<u>(628,263)</u>	<u>(511,733)</u>
Net debt	<u>266,060</u>	<u>386,736</u>
Equity (ii)	<u>4,321,512</u>	<u>3,983,905</u>
Net debt to equity ratio	6.16%	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.

32 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.

Dry docking and Special Survey costs

Dry docking and special survey costs with a net book value of QR 27,280 thousand as of December 31, 2009 (2008: QR 24,431 thousand) included within ocean going and offshore services vessels represents expenditures incurred to replace certain components of the vessels. The Group incurs these expenditures periodically to ensure the safety of the vessels and in order to renew their operating license.

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

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

Useful life of vessels

As described in note 4 (h), the Group's management reviews the estimated useful lives of 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.

33 ONGOING EVENT

The Board of Directors of the Company and Qatar Navigation Q.S.C., have approved moving forward with a proposal merger of the two companies, based on exchange ratio of 2.2 shares of Qatar Shipping for each share of Qatar Navigation Q.S.C.

34 COMPARATIVE FIGURES

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