

**QATAR NAVIGATION (Q.S.C.)
DOHA - QATAR**

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

QATAR NAVIGATION (Q.S.C.)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended December 31, 2010

INDEX	Page
Independent Auditor's Report	--
Consolidated statement of financial position	1 - 2
Consolidated statement of income	3
Consolidated statement of comprehensive income	4
Consolidated statement of changes in shareholders' equity	5
Consolidated statement of cash flows	6 - 7
Notes to the consolidated financial statements	8 - 48

QR. 32634

INDEPENDENT AUDITOR'S REPORT

**To The Shareholders
Qatar Navigation (Q.S.C.)
Doha - Qatar**

Report on the Consolidated Financial Statements

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

Management's Responsibility for the Consolidated 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.

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

Independent Auditor's Report (Continued)

Opinion

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

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion the consolidated financial statements provide the information required by the Qatar Commercial Companies' 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 an inventory count has been duly carried out. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Company. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. To the best of our knowledge and belief and according to information given to us, no contravention of the Qatar Commercial Companies 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 16, 2011**

**Muhammad Bahemia
License No. 103**

QATAR NAVIGATION (Q.S.C.)**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As of December 31, 2010

	<u>Notes</u>	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
ASSETS			
Non-Current Assets			
Property, vessels and equipment	5	3,213,958	1,267,612
Investment properties	6	708,460	578,980
Intangible assets	10	48,042	--
Deferred dry docking costs		29,633	11,901
Investment in associates	7	4,197,811	26,882
Available-for-sale investments	8	2,915,640	4,473,710
Loans to LNG and LPG companies	9	382,244	--
Notes receivable		159	622
Total Non-Current Assets		11,495,947	6,359,707
Current Assets			
Inventories	11	144,631	104,614
Trade receivables	12	299,471	275,509
Prepayments and other debit balances	13	258,167	113,664
Financial assets at fair value through profit or loss	14	200,321	61,578
Bank balances and cash	15	909,602	283,214
Total Current Assets		1,812,192	838,579
Total Assets		13,308,139	7,198,286

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

QATAR NAVIGATION (Q.S.C.)**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As of December 31, 2010

	Notes	2010 QR'000	2009 QR'000
EQUITY AND LIABILITIES			
Equity			
Share capital	16	1,145,252	720,252
Legal reserve	17	4,693,986	1,198,586
General reserve	18	623,542	623,542
Fair value reserve		2,900,217	2,466,011
Hedging reserve		(261,990)	(546)
Retained earnings		1,229,195	616,057
Proposed cash dividends	19	458,100	288,101
Equity attributable to equity holders of the parent company		10,788,302	5,912,003
Non-controlling interest		54,322	--
Total Equity		10,842,624	5,912,003
Non-Current Liabilities			
Term loans	21	1,528,603	686,769
Employees' end of service benefits	22	57,011	41,388
Obligation under finance leases	23	9,553	15,574
Total Non-Current Liabilities		1,595,167	743,731
Current liabilities			
Trade payables		110,850	51,510
Accruals and other credit balances	24	327,205	184,641
Term loans	21	424,171	172,700
Obligation under finance leases	23	6,021	5,960
Bank overdrafts	15	2,101	127,741
Total Current Liabilities		870,348	542,552
Total Liabilities		2,465,515	1,286,283
Total Equity and Liabilities		13,308,139	7,198,286

The consolidated financial statements were authorized for issue by the Board of Directors on March 16, 2011.

H.E. Sh. Ali bin Jassim bin Mohammad
Al-Thani
Chairman and Managing Director

Mr. Salem bin Butti Al-Naimi
Vice Chairman

Mr. Khalifa bin Ali Al-Hetmi
Chief Executive

QATAR NAVIGATION (Q.S.C.)

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2010

	Notes	2010 QR'000	2009 QR'000
Operating revenue	25	1,884,983	1,189,378
Operating expenses		(1,368,518)	(818,570)
Gross Profit		516,465	370,808
Investments and interest income	26	319,302	187,187
Other income		19,181	9,574
Profit from disposal and write off of property, vessels and equipment		9,856	37,543
Share of results of associates	7	197,489	(9,510)
General and administrative expenses	27	(191,197)	(82,244)
Amortization of intangible assets	10	(29,200)	--
Impairment of available-for-sale investments		(825)	(2,186)
Finance costs		(76,264)	(22,552)
Realized fair value gain from deemed disposal of available for sale investment	28	236,048	--
Gain from acquisition of Qatar Shipping	4	298,450	--
Impairment of vessels		(177,392)	--
Profit Before Provision for Board of Directors' Remuneration		1,121,913	488,620
Proposed Board of Directors' Remuneration	33	(20,500)	(9,700)
Net profit for the year		1,101,413	478,920
Attributable to:			
Equity holder of the parent		1,098,706	478,920
Non-controlling interest		2,707	--
Total		1,101,413	478,920
Earnings Per Share			
Basic EPS (QR.)	29	9.59	6.65
Weighted average number of shares (thousand)		114,525	72,025

QATAR NAVIGATION (Q.S.C.)**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended December 31, 2010

	<u>Note</u>	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
Net profit for the year		<u>1,101,413</u>	<u>478,920</u>
Other comprehensive income items			
Net movement in fair value of Interest Rate Swaps		(1,646)	483
Group share of net increase of Interest Rate Swaps of associate		(259,798)	--
Increase in fair value of available for sale investments		707,089	113,826
Fair value transferred to consolidated statement of income on:			
- Realized fair value gain from deemed disposal of available for sale investment	28	(236,048)	--
- Gain on sale of available for sale investments		(36,835)	(28,766)
- Loss on impairment of available-for-sale investments		--	2,186
Other comprehensive income		<u>172,762</u>	<u>87,729</u>
Total comprehensive income for the year		<u>1,274,175</u>	<u>566,649</u>
Attributable to:			
Owners of the parent		1,271,468	566,649
Non-controlling interest		2,707	--
Total		<u>1,274,175</u>	<u>566,649</u>

QATAR NAVIGATION (Q.S.C.)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2010

	Share capital	Legal reserve	General reserve	Fair value reserve	Hedging reserve	Retained earnings	Proposed cash dividend / issue of bonus shares	Equity attributable to equity holder of the parent	Non- controlling interest	Total
	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000
Balance at January 1, 2009	600,210	1,198,586	623,509	2,378,765	(1,029)	431,751	360,126	5,591,918	--	5,591,918
Dividends paid for 2008	--	--	--	--	--	--	(240,084)	(240,084)	--	(240,084)
Issue of share capital	120,042	--	--	--	--	--	(120,042)	--	--	--
Gain on sale of fractional shares arising from bonus shares issue	--	--	33	--	--	--	--	33	--	33
Proposed cash dividends (Note 19)	--	--	--	--	--	(288,101)	288,101	--	--	--
Total comprehensive income for the year	--	--	--	87,246	483	478,920	--	566,649	--	566,649
Contribution to social and sports fund (Note 20)	--	--	--	--	--	(6,513)	--	(6,513)	--	(6,513)
Balance at January 1, 2010	720,252	1,198,586	623,542	2,466,011	(546)	616,057	288,101	5,912,003	--	5,912,003
Dividends paid for 2009	--	--	--	--	--	--	(288,101)	(288,101)	--	(288,101)
Issue of share capital	425,000	--	--	--	--	--	--	425,000	--	425,000
Share premium on issue of shares	--	3,495,400	--	--	--	--	--	3,495,400	--	3,495,400
Proposed cash dividends (Note 19)	--	--	--	--	--	(458,100)	458,100	--	--	--
Non-controlling interest	--	--	--	--	--	--	--	--	51,615	51,615
Total comprehensive income for the year	--	--	--	434,206	(261,444)	1,098,706	--	1,271,468	2,707	1,274,175
Contribution to social and sports fund (Note 20)	--	--	--	--	--	(27,468)	--	(27,468)	--	(27,468)
Balance at December 31, 2010	1,145,252	4,693,986	623,542	2,900,217	(261,990)	1,229,195	458,100	10,788,302	54,322	10,842,624

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

QATAR NAVIGATION (Q.S.C.)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2010

	Notes	2010 QR'000	2009 QR'000
OPERATING ACTIVITIES			
Profit for the year		1,101,413	478,920
Adjustment for:			
Depreciation of property, vessels and equipments and investment properties		212,686	92,995
Amortization of dry docking costs		11,301	9,485
Provision for employees' end of service benefits		13,771	9,976
Provision for pension fund		3,872	2,132
Impairment of available-for-sale investment		825	2,186
Profit from disposal and write off of property, vessels and equipment and investment properties		(9,856)	(37,543)
Investments and interest income	26	(319,302)	(187,187)
Finance costs		76,264	22,552
Share of results of associates	7	(197,489)	9,510
Amortization of intangible assets		29,200	--
Realized fair value gain from deemed disposal of available for sale investment		(236,048)	--
Gain from acquisition of Qatar Shipping		(298,450)	--
Impairment of vessels		177,392	--
		565,579	403,026
Working capital changes:			
Inventories		21,311	(15,449)
Trade receivables and prepayments and other debit balances		(91)	(13,223)
Trade payables and accruals and other credit balances		(339,419)	(20,989)
Contribution for social and sport fund		(27,468)	(6,513)
Cash generated by operations		219,912	346,852
Finance costs paid		(76,264)	(22,552)
Employees' end of service benefits paid		(6,379)	(3,093)
Transfer to pension fund		(3,872)	(2,132)
Net cash generated by operating activities		133,397	319,075
INVESTING ACTIVITIES			
Proceeds from disposal of property, vessels and equipment		11,675	37,761
Proceeds from sale of investments		140,843	111,350
Income received from investments	26	154,382	133,733
Interest income received		78,739	17,580
Notes receivable		463	(273)
Purchase of property, vessels and equipment	5	(279,599)	(44,888)
Net movement of investments		(90,847)	(34,257)
Additions to investment properties	6	(15,592)	(495,761)
Additions to dry docking costs		(22,520)	(7,290)
Loans to LNG and LPG companies		84,841	--
Cash received on acquisition of a Qatar Shipping		628,263	--
Net cash from / (used in) investing activities		690,648	(282,045)

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

QATAR NAVIGATION (Q.S.C.)**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the year ended December 31, 2010

	<u>Notes</u>	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
<u>FINANCING ACTIVITIES</u>			
Dividend paid	19	(288,101)	(240,084)
Net movement in term loans		170,429	26,518
Obligation under finance lease		(5,960)	(2,651)
Non controlling interest		51,615	--
Net cash used in financing activities		<u>(72,017)</u>	<u>(216,217)</u>
Net increase / (decrease) in cash and cash equivalents		752,028	(179,187)
Cash and cash equivalents at the beginning of the year		<u>155,473</u>	<u>334,660</u>
Cash and Cash Equivalents at the End of the Year	15	<u>907,501</u>	<u>155,473</u>
Non-cash transactions			
Issue of shares to acquire Qatar Shipping Company		<u>3,920,400</u>	<u>--</u>
Acquisition of Qatar Shipping net of cash		<u>4,059,187</u>	<u>--</u>
Deemed disposal of available for sale investment		<u>534,600</u>	<u>--</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

1. STATUS AND ACTIVITIES

Qatar Navigation Q.S.C (the “Company”) is a Qatari Shareholding Company incorporated on July 5, 1957 and domiciled in Qatar. The shares of the Company are publicly traded at Qatar Exchange. The Company is engaged primarily in marine transportation, acting as agent to foreign shipping lines, offshore services, sale of heavy vehicles and industrial equipments, ship repair and fabrication and offshore structures, logistics related services, international shipping, chartering of vessels, investments in real estate and trading of building material. The Company has a branch in Dubai, United Arab Emirates (UAE).

During the year 2010, the Company acquired all the shares of Qatar Shipping Company (Note 4).

The consolidated financial statements include the financial statements of the Company and that of its subsidiaries, as defined in notes 3 and 4; referred to as (the “Group”).

The comparative figures represent the accounts of Qatar Navigation on standalone basis which include the accounts of the Company and on a proportionate consolidation basis its 50% share of the Joint Venture Halul Offshore Services Company W.L.L.

2. ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current year

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

(i) Revised standards

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

(ii) Revised Interpretations

- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedges of Net Investment in Foreign Operations*

For the year ended December 31, 2010

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

(iii) Withdrawn Interpretations

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

(iv) New Interpretations

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

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

2.2 Standards and Interpretations in issue not yet effective

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

(i) Revised Standards

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

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

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

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

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

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

For the year ended December 31, 2010

2. ADOPTION OF NEW AND REVISED STANDARDS (CONTINUED)

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

(ii) New Standard

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

- IFRS 9 *Financial Instruments – Classification and Measurement*

(iii) Revised Interpretations

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

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

(iv) New Interpretations

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

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

Basis of consolidation

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of impairment of the asset transferred. The accounting policies and reporting period of the subsidiaries have been changed where necessary to ensure consistency with the policies and period adopted by the Group.

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

Entity	Place of registration	Nature of business
Qatar Shipping Company P.Q.S.C	State of Qatar	International shipping
Halul Offshore Services Company W.L.L	State of Qatar	Chartering of vessels, supply of diving personnel
Qatar Quarries And Building Materials Company P.Q.S.C	State of Qatar	Trading of building materials
Gulf Shipping Investment Company W.L.L	State of Qatar	Shipping related activities
Qatar Shipping Company (India) Private Limited	India	Shipping related activities
Ocean Marine Services W.L.L	State of Qatar	Shipping related activities

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets are reported at cost less accumulated amortisation and impairment losses, if any. Amortisation is recognised on a straight-line basis over the estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Revenue recognition

Revenue is recognized on the following basis:

Revenue from chartering of vessels and others

Revenue from chartering of vessels, equipment and others is recognized on an accrual basis in accordance with the terms of the contract entered into with customers.

Sales of goods and services

Revenue from sales of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cargo transport and container barge income

Revenue is recognized based on the value of all work invoiced during the year as adjusted for uncompleted trips. Attributable profit on uncompleted trips is accounted for on a percentage of completion basis after making due allowance for future estimated losses, if any.

Shipping agency income

Shipping agency income is recognised on the completion of all supply requirements for vessels.

Loading, clearance and land transport income:

Loading, clearance and land transport income is recognised upon completion of these services.

Rental income:

Rental income from investment properties is accounted for on a time proportion basis.

Interest income:

Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts, estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividend income:

Dividend revenue is recognised when the right to receive the dividend is established.

Investment income:

Income from investments is accounted for on an accrual basis when right to receive the income is established.

Leases

Operating leases:

Leases where the Group as a lessee does not retain substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight line basis over the lease term.

Finance lease:

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 recognized 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 consolidation statement 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. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the assets or the term of the lease.

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Property, vessels and equipment**

Property, vessels and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. The cost of property, vessels and equipment includes all directly attributable costs including the borrowing costs that are directly attributable to the construction of the asset.

Depreciation is provided on a straight-line basis on all property, vessels and equipment, except freehold land, which is determined to have an indefinite life. The estimated residual value at the end of the estimated useful life is also considered in the depreciation of vessels. The rates of depreciation are based upon the following estimated useful lives:

New vessels	20 - 30 years
Used vessels	3 - 20 years
Barges and containers	10 - 20 years
Owned ocean going vessels	20 - 30 years
Diving & vessels equipment	2 - 5 years
Buildings and leasehold improvement	4 - 20 years
Machinery, equipment and tools	2 - 14 years
Furniture and fittings	2 - 5 years
Motor vehicles	2 - 7 years
Intangible assets	2 - 3 years

The carrying values of property, vessels and equipment 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.

Expenditures incurred to replace a component of an item of property, vessels and equipment that is accounted for separately are capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalised only when they increase future economic benefits of the related item of property, vessels and equipment. All other expenditures are recognised in the consolidated statement of income as they are incurred.

An item of property, vessels and equipment 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.

Capital work in progress

This account represents work-in-progress on assets, which are carried at cost, less recognised impairment loss, if any. Upon completion of the work, the balance of work performed is transferred to properties, vessels and equipment or investment properties.

Investment properties

Land and buildings are considered as investment properties 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 investment properties.

Depreciation on buildings is calculated on a straight line basis over the estimated useful life of 20 years.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties (continued)

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.

Dry docking costs

Dry docking costs incurred on vessels are deferred and are amortised over a period of 30 months.

Investment in associates

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

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

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

Investments

The Group maintains two separate investments portfolios, as follows:

- Financial assets at fair value through profit or loss;
- Available-for-sale investments

All regular purchases and sales of investments are recognised on the trade date when the Group becomes, or ceases to be, a party to the contractual provisions of the instrument.

All investments are initially recognised at cost being the fair value of the consideration given and subsequently re-measured using the following basis:

Financial assets at fair value through profit or loss

Investments classified as financial assets at fair value through profit or loss in these consolidated financial statements are included in the category "financial assets at fair value through profit or loss". Investments are classified as financial assets at fair value through profit or loss if they are acquired for the purpose of selling in the near term. These investments are subsequently re-measured 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.

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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” and investment in bonds are remeasured at fair value, with any resultant gain or loss directly recognised as a separate component of other comprehensive income and accumulated in equity under the ‘fair value reserve’ until the investment is sold, collected, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of income for the year.

Due to the nature of cash flows arising from the Group’s unquoted investments, the fair value of 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, the impairment loss is transferred from equity to the consolidated statement of income. Reversal of impairment losses in respect of equity instruments classified as available-for-sale is not recognised in the consolidated statement of income. Reversal of impairment losses on debt instruments are recognised through the consolidated statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of income.

Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the consolidated statement of income. Impairment is determined as follows:

- (a) For assets carried at cost, impairment is the difference between cost and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.
- (b) For assets carried at amortised cost, impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial assets’ original effective interest rate.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined with reference to quoted market bid prices at the close of business on the reporting date.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition, as follows:

Spares and goods for sale	- Purchase cost on a weighted average basis
Work in progress	- Cost of direct materials and labour

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade 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.

Notes due from customers are disclosed as a separate item on the statement of financial position except those with a remaining term to maturity of less than one year, which are included under prepayments and other debit balances.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of bank balances due within 3 months and cash, net of outstanding bank overdrafts.

Trade payables

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Interest bearing loans and borrowings

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 amortized cost are shown as a current liability.

Gains or losses are recognized in the consolidated statement of income when the liabilities are derecognized.

Borrowing cost

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

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

Provisions

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

Employees' benefits

End of service benefit plans

The Group provides for end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, calculated under the provisions of the Qatar Labour Law and the employees' contracts and is payable upon resignation, termination or retirement of the employee. The expected costs of these benefits are accrued over the period of employment.

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pension plan

Under Law No. 24 of 2002 on Retirement and Pension, the Company is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All exchange differences are taken to the consolidated statement of income. Non-monetary items measured in terms of historical costs in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Derivative financial instruments and hedging

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

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or unrecognised firm commitment (except for foreign currency risk); or
- 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 or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group 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.

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedging (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income and accumulated in equity.

4. BUSINESS COMBINATION

Prior to January 1, 2010 the Company held 15% of the share capital of Qatar Shipping Company Q.S.C. (the "Acquiree" or "Qatar Shipping"). On January 1, 2010 the Company acquired the remaining 85% of the share capital of the Acquiree through a share exchange transaction (the "Transaction") resulting in the Company issuing 42.5 million new shares.

The acquisition date is January 1, 2010 which is the date the Company is deemed to exercise control over Qatar Shipping Company.

The fair value and the carrying amount of the identifiable assets and liabilities of the Acquiree at the date of the acquisition were as follows:

I. Assets acquired and liabilities recognised at the date of acquisition

	<u>At fair value</u>	<u>At carrying</u>
	<u>QR'000</u>	<u>amount</u>
	<u>QR'000</u>	<u>QR'000</u>
Cash and bank balances	628,263	628,263
Accounts receivable and prepayments	137,604	137,604
Investments held for trading	71,960	71,960
Inventories	5,628	5,628
Loans to LNG and LPG companies	467,085	467,085
Available for sale investments	2,203,820	2,180,713
Investment in associate companies	371,501	60,380
Vessels, property and equipment	2,018,431	1,744,381
Deferred dry docking cost	6,513	6,513
Investment property	137,100	16,682
Intangible assets	77,242	--
Total assets	<u>6,125,147</u>	<u>5,319,209</u>
Accounts payable and accruals	96,378	96,378
Term loans	894,323	894,323
Employees' terminal benefits	6,996	6,996
Dividends payable	440,000	440,000
Total liabilities	<u>1,437,697</u>	<u>1,437,697</u>
Total net assets	<u>4,687,450</u>	<u>3,881,512</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. BUSINESS COMBINATION (CONTINUED)

II. Step up details

	<u>2010</u> QR'000
Fair value of identifiable net assets acquired	4,687,450
Less: carrying amount of the identifiable net assets	<u>(3,881,512)</u>
Step up amount	<u>805,938</u>

The step up amount reflected in the consolidated statement of financial position is broken down as follows:

	<u>2010</u> QR'000
Property, vessels and equipment	274,050
Investment property	120,418
Investment in associate	311,121
Available-for-sale investments	23,107
Intangible assets (Note 10)	<u>77,242</u>
Step up amount	<u>805,938</u>

At fair value
QR'000

III. Gain from bargain purchase arising on acquisition

Consideration transferred	4,389,000
Less: Fair value of identifiable net assets acquired	<u>(4,687,450)</u>
Gain from bargain purchase arising on acquisition	<u>(298,450)</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

4. BUSINESS COMBINATION (CONTINUED)

IV. Impact of acquisitions on the results of the Company

As a result of the Transaction, the following represent changes to the Group accounting treatments related to some of its investments:

1. The assets and liabilities of Qatar Quarries and Building Materials Company (“Qatar Quarries”) at the date of the Transaction were as follows:

	January 1, 2010
	QR’000
Cash and cash equivalents	13,578
Financial assets at fair value through profit or loss	1,945
Due from Ministry of Finance	2,629
Trade and other receivables	28,452
Inventories	55,700
Available for sale investments	5,406
Property and equipment	29,593
Total assets	137,303
Accounts payable and accruals	4,945
Term loans	28,552
Employees’ terminal benefits	1,235
Total liabilities	34,732
Total net assets	102,571
Share of the Group	50%
Acquisition date value of company’s interest in Qatar Quarries	51,286

As a result of the Transaction, the Group acquired control of Qatar Quarries. As such, the accounting treatment was changed from equity accounting to full consolidation. The financial statements of Qatar Quarries as of December 31, 2010 were consolidated in these consolidated financial statements as the Group owns 50% of the share capital of Qatar Quarries. The remaining 50% were recorded as non controlling interest

2. The Group changed its classification of the investment in Nakilat from available for sale investment to investment in an associate. Following the Transaction, the Company owns 30% of the share capital of Nakilat and exercises significant influence over this company. The results of operation of Nakilat have been accounted for under the equity method of accounting. The fair value of Nakilat as of the Transaction date is deemed the carrying amount at the date of the Transaction. The fair value reserve associated with Nakilat is kept as part of the consolidated statement of equity until the investment is sold, collected, or is determined to be impaired.
3. The accumulated fair value reserve of the initially held 15% of Qatar Shipping shares in the books of the Company as of January 1, 2010 which amounted to QR. 236 million was transferred to the consolidated statement of income as a result of the Transaction (Note 28). These shares were treated as a deemed disposal.

For the year ended December 31, 2010

5. PROPERTY, VESSELS AND EQUIPMENT

	Vessels, Containers and Barges	Land and Buildings	Machinery, Equipment and Tools	Furniture and Fittings	Motor Vehicles	Capital Work in Progress	Total
	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000
Cost:							
At January 1, 2009	659,028	130,979	267,202	27,544	40,031	659,195	1,783,979
Additions	8,498	1,654	24,145	2,940	5,055	498,271	540,563
Transfers and reclassification	547,470	735	(591)	530	1,055	(1,044,874)	(495,675)
Disposals and write offs	(77)	--	(941)	(200)	(287)	(160)	(1,665)
At December 31, 2009	1,214,919	133,368	289,815	30,814	45,854	112,432	1,827,202
Additions relating to business combination of Qatar Shipping (Note 4)	1,965,250	1,056	244	1,272	536	50,073	2,018,431
Additions relating to business combination of Qatar Quarries (Note 4)	--	6,300	22,326	380	588	--	29,594
Additions	74,396	1,398	9,945	3,850	3,618	186,392	279,599
Transfers and reclassification	87,393	373	1,143	3,370	1,214	(93,493)	--
Disposals and write offs	(41,033)	(472)	(3,918)	(561)	(742)	--	(46,726)
At December 31, 2010	3,300,925	142,023	319,555	39,125	51,068	255,404	4,108,100
Accumulated depreciation:							
At January 1, 2009	213,515	73,285	144,905	23,494	19,210	--	474,409
Depreciation charge for the year	45,567	4,237	28,124	2,843	5,857	--	86,628
Transfer and reclassification	--	1	(185)	(63)	247	--	--
Relating to disposals and write offs	(46)	--	(933)	(181)	(287)	--	(1,447)
At December 31, 2009	259,036	77,523	171,911	26,093	25,027	--	559,590
Depreciation charge for the year	152,008	5,786	32,630	3,829	8,127	--	202,380
Transfers and reclassification	--	--	620	--	(620)	--	--
Relating to disposals and write offs	(39,887)	(472)	(3,775)	(449)	(637)	--	(45,220)
Impairment of vessels	177,392	--	--	--	--	--	177,392
At December 31, 2010	548,549	82,837	201,386	29,473	31,897	--	894,142
Net Carrying Amounts:							
At December 31, 2010	2,752,376	59,186	118,169	9,652	19,171	255,404	3,213,958
At December 31, 2009	955,883	55,845	117,904	4,721	20,827	112,432	1,267,612

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. PROPERTY, VESSELS AND EQUIPMENT (CONTINUED)

Notes:

- (i) Depreciation on property, vessels and equipment is disclosed in the consolidated statement of income as follows:

	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
Operating expenses	193,116	80,303
General and administration	9,230	6,325
Total	<u><u>202,346</u></u>	<u><u>86,628</u></u>

- (ii) The encumbrances and liens on vessels, containers and barges are disclosed in Note 21.
 (iii) Included in additions for the year is an amount of QR. 1.251 million (December 31, 2009: 12.400 million) related to finance cost capitalized.
 (iv) As a result of the Transaction, the Group adjusted the carrying amounts of the acquired vessels to their fair market values.

6. INVESTMENT PROPERTIES

	<u>Land</u> <u>QR'000</u>	<u>Buildings</u> <u>QR'000</u>	<u>Property under Construction</u> <u>QR'000</u>	<u>Total</u> <u>QR'000</u>
Cost:				
At January 1, 2009	47,435	67,238	--	114,673
Additions	--	66,209	--	66,209
Disposals	(206)	--	--	(206)
Transfers	(501)	--	430,259	429,758
At December 31, 2009	46,728	133,447	430,259	610,434
Additions relating to business combination of Qatar Shipping (Note 4)	112,436	24,664	--	137,100
Additions	--	223	15,368	15,591
Transfers	--	441,040	(441,040)	--
At December 31, 2010	<u>159,164</u>	<u>599,374</u>	<u>4,587</u>	<u>763,125</u>
Accumulated Depreciation:				
At January 1, 2009	--	25,087	--	25,087
Charge for the year	--	6,367	--	6,367
At December 31, 2009	--	31,454	--	31,454
Charge for the year	--	23,211	--	23,211
At December 31, 2010	<u>--</u>	<u>54,665</u>	<u>--</u>	<u>54,665</u>
Net Carrying Amounts:				
At December 31, 2010	<u>159,164</u>	<u>544,709</u>	<u>4,587</u>	<u>708,460</u>
At December 31, 2009	46,728	101,993	430,259	578,980

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

6. INVESTMENT PROPERTIES (CONTINUED)

Notes:

- (i) Investment properties are located in the State of Qatar.
- (ii) Investment properties with a carrying value of QR 708,460,000 as of December 31, 2010 (December 31, 2009: QR 148,721,000) were appraised by an accredited independent appraiser, Aqar Development and Real Estate Company, at a fair value of QR. 1,681,094,000 (December 31, 2009: QR 612,153,000). The appraiser is an industry specialist in valuing these types of investment properties.
- (iii) Property under construction with the carrying value of QR. 4,587,000 as of December 31, 2010 relates to the Company's tower. The construction relates to contract work after completion of the tower. The carrying amount of the property under construction as of December 31, 2009 amounting to QR. 430,259,000 was appraised by an accredited independent appraiser (Aqar Development and Real Estate Company) at a fair value of QR. 1,109,194,000. The appraiser is an industry specialist in valuing these types of investment properties
- (iv) The Company earned rental income amounting to QR.112,039,000 for the year ended December 31, 2010 (December 31, 2009: QR. 25,414,000). Direct operating expenses related to the investment properties (including depreciation) amounting to QR. 56,267,000 (December 31, 2009: QR. 16,367,614) have been reflected under operating expenses.
- (v) Included in additions for the year is an amount of QR. 2.1 million (December 31, 2009: 5.2 million) related to finance cost capitalized.

7. INVESTMENT IN ASSOCIATES

The Company has the following investment in associates:

	Country of incorporation	Ownership		Profit Share	
		December 31, 2010	December 31, 2009	December 31, 2010	December 31, 2009
Qatar Quarries and Building Material Company Q.S.C. (i)	Qatar	--	25.0%	--	25.0%
Macgregor Qatar Navigation Company W.L.L. (ii)	Qatar	51.0%	51.0%	40.0%	40.0%
Iraq-Qatar Transport and Shipping Services Com., L.T.D. (iii)	Iraq	51.0%	51.0%	51.0%	51.0%
United Arab Shipping Agency Company W.L.L (iv)	Qatar	40.0%	40.0%	40.0%	40.0%
Qatar Gas Transport Company (NAKILAT) (v)	Qatar	30.0%	15.0%	30.0%	--
Camartina Shipping INC (vi)	Liberia	29.4%	--	29.4%	--
Peninsula LNG Transport No. 1 Ltd (vii)	Liberia	29.4%	--	29.4%	--
Peninsula LNG Transport No. 2 Ltd (vii)	Liberia	29.4%	--	29.4%	--
Peninsula LNG Transport No. 3 Ltd (vii)	Liberia	29.4%	--	29.4%	--
Qatar LNG Transport Ltd (viii)	Liberia	20.0%	--	20.0%	--
QIM Transport INC (ix)	Panama	33.3%	--	33.3%	--

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

7. INVESTMENT IN ASSOCIATES (CONTINUED)

- (i) Qatar Quarries and Building Materials Company Q.S.C. (Closed) was established to import and sell construction materials including aggregate in the local market. Effective January 1, 2010 as a result of (the "Transaction"), the Group acquired control of Qatar Quarries and changed the accounting treatment of recognizing Qatar Quarries from investment in an associate to investment in a subsidiary (Note 4).
- (ii) Macgregor Qatar Navigation Company W.L.L. was established to provide maintenance and repair of marine and land based cargo access, fluid power and control system to off-shore and on-shore oil services and gas facilities.
- (iii) Iraq-Qatar Transport and Shipping Services Company L.T.D. was established to provide transportation and shipping logistics.
- (iv) United Arab Shipping Agency Company / Qatar W.L.L. was established to provide cargo and shipping services.
- (v) Qatar Gas Transport Company Limited (Nakilat), Q.S.C., was established to work in the sector of gas transportation either through the direct acquisition of ocean going vessels or by investing in joint ventures with other parties. The Group's share of this associate has been pledged against loan for working capital purposes refer to note (21). Effective January 1, 2010, as a result of the Transaction, the Group changed its accounting treatment from available for sale investment to investment in associate (Note 4).
- (vi) Camartina Shipping INC was established to acquire, own, operate, and time charter a 135.000 m³ Liquefied Natural Gas (LNG) vessel. The Group acquired this associate through the transaction.
- (vii) Peninsula LNG Transport Ltd. was established to acquire, own, operate, and time charter a 145.000 m³ Liquefied Natural Gas (LNG) vessel. The Group acquired this associate through the transaction.
- (viii) Qatar LNG Transport Ltd. was established to acquire, own, operate, and time charter a 135.000 m³ Liquefied Natural Gas (LNG) vessel. The Group acquired this associate through the transaction.
- (ix) QIM Transport INC was formed with the intention of transporting chemicals out of Qatar. The Group acquired this associate through the transaction.

The following table illustrates summarized financial information of the Group's investment in the associates.

	<u>2010</u>	<u>2009</u>
	<u>QR'000</u>	<u>QR'000</u>
Total assets	4,953,275	139,852
Total liabilities	(5,810,671)	(34,487)
Net assets	(857,396)	105,365
The Group's Share of net assets of associates	(118,294)	26,882
Fair value of investments	4,018,965	--
The Group's Share of net assets of associate	3,900,671	26,882
Addition relating to business combination (Note 4)	311,121	--
Depreciation related to step up adjustment	(13,981)	--
Net Group's Share of net assets of associates	4,197,811	26,882
	<u>2010</u>	<u>2009</u>
	<u>QR'000</u>	<u>QR'000</u>
Total Revenues	3,372,815	269,365
Profit / (Loss) for the year	1,369,662	(40,322)
Group's share of results of associates	211,470	(9,510)
Depreciation related to step up adjustment	(13,981)	--
Group's share of results of associates	197,489	(9,510)

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

7. INVESTMENT IN ASSOCIATES (CONTINUED)

- a) The Companies listed under (ii) and (iii) above are not consolidated with the Group's results as the Group does not exercise control over their operations and activities. The assets and liabilities of these entities are not material.
- b) As a result of the Transaction, the vessels of associates held by Qatar Shipping were revalued to fair value (See Note 4). This step up adjustment is being depreciated over the remaining useful lives of each vessel.

8. AVAILABLE-FOR-SALE INVESTMENTS

	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
Quoted investments in local companies	2,223,035	3,973,905
Investments in local companies' bonds	7,297	9,348
Unquoted investments in foreign companies	341,217	211,205
Unquoted investments in local companies	344,091	279,252
Total	<u><u>2,915,640</u></u>	<u><u>4,473,710</u></u>

Notes:

- (i) Available-for-sale investments represent investments in shares and investments in funds.
- (ii) Included in available-for-sale investments as of December 31, 2010 are quoted shares in local companies with a fair value of QR. 28,444,883 (December 31, 2009: QR. 611,292,000). These shares are restricted due to the Group's directors' memberships in those investee companies.
- (iii) Also included in available-for-sale investments as of December 31, 2010 are restricted shares in local companies with a fair value of QR. 95,009,999 (December 31, 2009: QR 57,509,999) as they represent establishment shares in those investee companies.
- (iv) The unquoted investments represent investments in companies in which the Company is a founding shareholder. The intention of management is to keep those investments for capital appreciation as well as dividend income.

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

9. LOANS TO LNG and LPG COMPANIES

The Group has provided loans to the following LNG and LPG companies through one of its 100% owned subsidiaries. These loans carry annual interest rates between 6% to 8%.

<u>Name of LNG/ LPG companies</u>	<u>Company operating the LNG and LPG companies</u>
<ul style="list-style-type: none">• India LNG Transport Company No.1 Ltd,• Camartina Shipping INC, Liberia• K S Membrane-I, Denmark• Qatar LNG Transport Ltd., Liberia• India LNG Transport Company No.2 Ltd., Malta• Peninsula LNG Transport No. 1 Ltd, Liberia• Peninsula LNG Transport No. 2 Ltd, Liberia• Peninsula LNG Transport No. 3 Ltd, Liberia• K S Membrane-II, Denmark• Gulf LPG Transport W.L.L. Qatar	<ul style="list-style-type: none">• Shipping Corporation of India Ltd• Mitsui OSK Lines• Maersk• Mitsui OSK Lines• Shipping Corporation of India Ltd• NYK• K Line• Mitsui OSK Lines• Maersk• Qatar Gas Transportation Company

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

	<u>2010</u>	<u>2009</u>
	<u>QR'000</u>	<u>QR'000</u>
Loans	182,538	--
Accrued Interest	199,706	--
	382,244	--

10. INTANGIBLE ASSETS

As a result of the Transaction, the Company identified and recorded the following intangible assets with definite useful lives.

	<u>2010</u>	<u>2009</u>
	<u>QR'000</u>	<u>QR'000</u>
Identifiable intangible assets (Note 4)	77,242	--
Amortized during the year	(29,200)	--
Balance at end of the year	48,042	--

The identifiable intangible assets represent Deep sea transportation charter-out contracts and offshore contracts that have definite useful lives ranging between 2 – 3 years.

11. INVENTORIES

	<u>2010</u>	<u>2009</u>
	<u>QR'000</u>	<u>QR'000</u>
Heavy vehicles and spares	94,446	98,770
Gabbro and aggregate	39,425	--
Other goods for resale	18,164	12,568
	152,035	111,338
Provision for slow moving items	(7,404)	(6,724)
Net	144,631	104,614

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

12. TRADE RECEIVABLES

	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
Trade receivables	319,420	291,710
Less: Provision for doubtful debts	(19,949)	(16,201)
Net	<u>299,471</u>	<u>275,509</u>

The average credit period for sale of goods and rendering services is between 30 to 60 days. No interest is charged on the overdue trade receivables. The Company makes full provision for doubtful debts for non-government receivables over one year old, and for governmental receivable over two years. The accounts receivables that are under legal cases are provided for, based on management market information and experience.

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

(i) Aging of neither past due nor impaired

	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
Less than 60 days	<u>206,230</u>	<u>111,926</u>

(ii) Aging of past due but not impaired

	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
61-120 days	34,616	53,292
121-180 days	9,298	14,611
181-365 days	44,279	21,375
More than 365 days	5,048	74,305
Total	<u>93,241</u>	<u>163,583</u>

(iii) Aging of impaired trade receivables

	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
More than 365 days	<u>19,949</u>	<u>16,201</u>

(iv) Movement in the provision of doubtful debts:

	<u>2010</u> <u>QR'000</u>	<u>2009</u> <u>QR'000</u>
Balance at the beginning of the year	16,201	23,330
Addition relating to business combination	3,555	--
Amounts written off as uncollectible	--	(6,645)
Reversal of provision	--	(484)
Additional provision during the year	193	--
Balance at end of the year	<u>19,949</u>	<u>16,201</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

13. PREPAYMENTS AND OTHER DEBIT BALANCES

	<u>2010</u> QR'000	<u>2009</u> QR'000
Notes due from customers maturing within one year	2,868	8,817
Accrued income	82,471	35,563
Staff receivables	25,780	21,566
Prepaid expenses	55,708	18,305
Amounts due from related parties (Note 33)	35,291	4,716
Amounts due from Ministry of Municipality & Urban Planning	20,493	18,654
Advance to suppliers	18,784	1,813
Other receivable	16,772	4,230
Total	<u><u>258,167</u></u>	<u><u>113,664</u></u>

- Included in staff receivables are loans against gratuity amounting to QR 20,196,000 (December 31, 2009: QR 17,156,000).
- Amounts due from Ministry of Municipality & Urban Planning represent the unpaid portion against taking over certain assets of the Company.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2010</u> QR'000	<u>2009</u> QR'000
Quoted investments in local companies	197,486	52,647
Investment in managed portfolios	2,835	8,931
Total	<u><u>200,321</u></u>	<u><u>61,578</u></u>

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following:

	<u>2010</u> QR'000	<u>2009</u> QR'000
Cash on hand	1,245	--
Current and call accounts	283,765	41,450
Fixed deposits (i)	624,592	241,764
Bank balances and cash	<u>909,602</u>	<u>283,214</u>
Less: Bank overdrafts	<u>(2,101)</u>	<u>(127,741)</u>
Net	<u><u>907,501</u></u>	<u><u>155,473</u></u>

Notes:

- (i) Fixed deposits earn interests ranging from 3.1% - 6.4% (December 31, 2009: 5.75% - 6.4%) per annum. These deposits mature within 90 days.

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

16. SHARE CAPITAL

At an extraordinary general assembly held on April 8, 2010, the shareholders' approved an implementation agreement dated March 21, 2010 between Qatar Navigation and Qatar Shipping, pursuant to which each 2.2 shares of Qatar Shipping were exchanged for one newly issued share of Qatar Navigation.

At the same meeting, the shareholders approved to increase the share capital of Qatar Navigation from QR. 720,252,000 to QR. 1,145,252,000 by issuing 42,500,000 shares at a par value of QR. 10 each. These shares were distributed to the shareholders of Qatar Shipping in exchange for their shares in Qatar Shipping Company.

	<u>2010</u>	<u>2009</u>
	Number of shares	Number of shares
	Thousand	Thousand
Authorised		
Shares of QR 10 each	114,525	72,025
	Number of shares	
	Thousand	QR'000
Issued and fully paid		
At January 1, 2009	60,021	600,210
Issue of bonus share	12,004	120,042
At December 31, 2009	72,025	720,252
Issue of share capital (Note 4)	42,500	425,000
At December 31, 2010	114,525	1,145,252

17. LEGAL RESERVE

The Company has resolved to discontinue annual transfers to the legal reserve, as the reserve exceeds the issued capital. The legal reserve also includes an amount of QR 360,000,000 relating to the share premium in respect of a rights issue in 2004 and QR 661,050,000 relating to additional paid-in-capital of QR 50 per share as a result of the rights issue in 2008.

During the year, an amount of QR. 3,495,400,000, relating to share premium from the issue of shares was transferred to legal reserve.

The reserve is not available for distribution except in the circumstances stipulated in the Companies' law.

18. GENERAL RESERVE

In accordance with clause (41) of the Company's Articles of Association, the General Assembly, based on the Board of Directors' proposal, may decide to transfer a portion of the net profit to a general reserve. This reserve may be used in any way the General Assembly decides.

19. PROPOSED CASH DIVIDENDS

In their meeting held on March 16, 2011, the Board of Directors proposed cash dividend of 40% for the year 2010 amounting to QR 458 million (2009: QR 288 million). The proposed dividends are subject to the approval of the shareholders in the Annual General Assembly.

During the year, dividends of QR 4 per share totaling QR 288 million relating to the year ended December 31, 2009 were paid (2008: QR 240 million).

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

20. PROVISION FOR SOCIAL AND SPORT ACTIVITIES

The board of directors has proposed to provide an amount of QR 27,468 million (December 31, 2009: 11.9 million) for social and sport activities (2.5% from net profit) as per the instructions of the Public Revenues and Taxes Department at the Ministry of Finance.

	<u>2010</u> QR'000	<u>2009</u> QR'000
Social and sport activities for the year	27,468	11,973
Reversal of unutilized social and sport provision for 2009	--	(5,460)
Net	<u><u>27,468</u></u>	<u><u>6,513</u></u>

21. TERM LOANS

	<i>Effective</i> <i>Interest / profit rate %</i>	<i>Maturity</i>	<u>2010</u> QR'000	<u>2009</u> QR'000
Loan 1 (i)	LIBOR + 0.70%	Dec-2015	31,919	38,523
Loan 2 (ii)	LIBOR + 0.73%	Oct-2016	295,013	316,680
Loan 3 (iii)	4.5%	Jul-2011	--	254,800
Loan 4 (iii)	4.5%	Apr-2010	--	91,000
Loan 5 (iii)	LIBOR + 1.50%	Jun-2012	254,800	--
Loan 6 (iii)	LIBOR + 0.50%	Dec-2011	182,000	--
Loan 7 (iv)	LIBOR + 1.15 %	Jul-2012	582,400	--
Loan 8 (v)	LIBOR + 0.82%	Jul-2011	10,710	16,066
Loan 9 (vi)	LIBOR + 0.70%	May-2013	14,459	10,443
Loan 10 (vii)	LIBOR + 0.65%	Nov-2015	24,783	15,932
Loan 11 (viii)	LIBOR + 0.70%	Feb-2015	27,418	17,137
Loan 12 (ix)	LIBOR + 0.60%	Jun-2016	32,546	19,230
Loan 13 (x)	LIBOR + 0.60%	Mar-2017	136,556	79,658
Loan 14 (xi)	LIBOR + 0.80%	Sep-2013	56,801	--
Loan 15 (xii)	LIBOR + 0.75%	Apr-2016	245,412	--
Loan 16 (xiii)	10.0%	Apr-2011	57,957	--
Total			<u><u>1,952,774</u></u>	<u><u>859,469</u></u>

Presented in the consolidated statement of financial position as follows:

Current portion	424,171	172,700
Non-current portion	1,528,603	686,769
Total	<u><u>1,952,774</u></u>	<u><u>859,469</u></u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

21. TERM LOANS (CONTINUED)

Notes:

- (i) Loan 1 was obtained to finance the construction of a showroom and villa complex. The Company is not allowed to assign or transfer any or all of its rights, benefits or obligations under the loan without the bank's approval. This loan is secured by a lien of the showroom and villa properties and repayable on a monthly basis.
- (ii) Loan 2 was obtained to finance the construction of Qatar Navigation tower. The loan is secured by a first priority mortgage on Navigation Tower and is repayable on a monthly basis.
- (iii) Loans 3, 4, 5 and 6 represent unsecured loans and they are used for working capital purposes and to finance the building of vessels. Loans 3 and 4 were repaid fully during the year; loan 3 has been repaid before the maturity date. The remaining loans are repayable at the maturity date.
- (iv) Loan 7 is used for working capital purposes and to finance the building of vessels. The loan is repayable at the maturity date. The loan is pledged by 53,400,000 shares of Qatar Gas Transport Company (NAKILAT) that has a fair value of QR. 1.068 million at December 31, 2010.
- (v) Loan 8 was obtained to finance the purchase and construction of vessels by one of the subsidiary and is secured by a corporate guarantee of the shareholders of the subsidiary. The loan is repayable on semi-annual installments.
- (vi) Loan 9 was obtained to finance the purchase of nine vessels. The loan is repayable in quarterly installments. This loan is secured by assignment of the revenue from each vessel to an account held with the respective lending bank. Any insurance proceeds in respect of the vessels will be assigned to the lending bank.
- (vii) Loan 10 was obtained to finance the purchase of two anchor handling tug vessels. The loan is repayable on semi-annual installments. This loan is 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 bank.
- (viii) Loan 11 was obtained to finance the purchase of two vessels. The loan is repayable on semi-annual installments. This loan is 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 bank.
- (ix) Loan 12 was obtained to finance the purchase of 4 utility standby safety vessels. The loan is payable on semi-annual installments. This loan is 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 bank.
- (x) Loan 13 was obtained to finance the purchase of two platform supply vessels, which are currently under construction. The loan is repayable in semi-annual installments.
- (xi) Loan 14 was drawn to finance the construction of two clean product tankers namely, Jinan and Dukhan. It is secured by a first priority mortgage over the above tankers. The loan is repayable in equal quarterly installments.
- (xii) Loan 15 was drawn to partially finance construction of two LPG/ Ammonia carrier and six Aframax size crude/ clean tankers. The loan is secured by a first priority mortgage over the vessels. The loan is repayable in variable quarterly average installments.
- (xiii) Loan 16 was obtained for working capital purposes. The Principal amount plus the profit are repayable in two equal installments each, the first one was paid in April 2010 and the second is payable in April 2011. The loan is pledged by 10,000,000 shares of Qatar Gas Transport Company (NAKILAT) that has a fair value of QR. 200 million at December 31, 2010.

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

21. TERM LOANS (CONTINUED)

The repayment schedule of the drawn down loan facilities are as follows:

	<u>2010</u> QR'000	<u>2009</u> QR'000
Payable within one year	424,171	172,700
Payable between two to five years	1,335,508	582,953
Payable after five years	<u>193,095</u>	<u>103,816</u>
Total	<u>1,952,774</u>	<u>859,469</u>

22. PROVISION FOR EMPLOYEES' BENEFITS

	<u>2010</u> QR'000	<u>2009</u> QR'000
Provision as at January 1	43,917	36,981
Addition relating to business combination of Qatar Shipping (Note 4)	6,996	--
Addition relating to business combination of Qatar Quarries (Note 4)	1,235	--
Provided during the year	17,643	12,161
End of service benefits paid	(6,379)	(3,093)
Transferred to the pension fund	<u>(3,974)</u>	<u>(2,132)</u>
Provision as at December 31	<u>59,438</u>	<u>43,917</u>
Provision for employees' benefits:		
End of service benefits	57,011	41,388
Pension provision for Qatari employees (Note 24)	<u>2,427</u>	<u>2,529</u>
Provision as at December 31	<u>59,438</u>	<u>43,917</u>

The pension scheme is a defined contribution pension plan. Pension obligations of Qatari employees are payable monthly to a Government pension fund; accordingly, the amount payable has been classified as a current liability.

23. OBLIGATION UNDER FINANCE LEASES

Finance leases relate to the Group's Non Vessel Operating Common Carrier (NVOCC) operations for containers with lease terms ranging from 3 to 5 years. The Company has the option to purchase the containers for a nominal amount at the conclusion of the lease agreements.

Finance lease obligation

	Minimum lease Payments		Principal	
	<u>2010</u> QR'000	<u>2009</u> QR'000	<u>2010</u> QR'000	<u>2009</u> QR'000
Within 1 year	6,891	7,441	6,021	5,960
More than 1 year and less than 5 years	10,469	17,360	9,553	15,574
	<u>17,360</u>	<u>24,801</u>	<u>15,574</u>	<u>21,534</u>
Less future finance charges	(1,786)	(3,267)	--	--
Present value of minimum lease payments	<u>15,574</u>	<u>21,534</u>	<u>15,574</u>	<u>21,534</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

23. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

Included in the consolidated statements of financial position as follows:

	<u>2010</u> QR'000	<u>2009</u> QR'000
Current portion	6,021	5,960
Non-current portion	9,553	15,574
	<u>15,574</u>	<u>21,534</u>

24. ACCRUALS AND OTHER CREDIT BALANCES

	<u>2010</u> QR'000	<u>2009</u> QR'000
Accruals and provisions	143,884	87,965
Contribution to social and sport fund (Note 20)	27,468	6,513
Other payables (i)	90,337	62,834
Pension provision for Qatari employees (Note 22)	2,427	2,529
Advances from customers	63,089	24,800
Total	<u>327,205</u>	<u>184,641</u>

- (i) Included in the other payables is an amount of QR 2.192 million (December 31, 2009: QR 546 thousands) representing the negative fair value of interest rate swap contracts from one of the subsidiaries (Note 30).

25. OPERATING REVENUES

	<u>2010</u> QR'000	<u>2009</u> QR'000
Dubai operations	95,040	84,525
Commercial activities	225,312	290,758
Shipping agencies	49,921	41,424
Marine transport	204,608	193,395
Navigation freight services	34,279	29,445
Ship repair and fabrication	16,842	47,455
Port services	161,233	197,180
Halul Offshore Services Company operations	500,186	279,782
Qatar Quarries And Building Materials Company operations	236,768	--
Qatar Shipping Company operations	249,064	--
Real Estate	111,730	25,414
Total	<u>1,884,983</u>	<u>1,189,378</u>

QATAR NAVIGATION (Q.S.C.)**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended December 31, 2010

26. INVESTMENTS AND INTEREST INCOME

	<u>2010</u> QR'000	<u>2009</u> QR'000
Income from investments	154,382	133,733
Profit on sale of available-for-sale investments	36,835	29,458
Profit on sale of financial assets at fair value through profit or loss	35,590	3,953
Interest income	78,739	17,580
Unrealised gain from change in fair value of financial assets at fair value through profit or loss	13,756	2,463
Total	319,302	187,187

27. GENERAL AND ADMINISTRATION EXPENSES

	<u>2010</u> QR'000	<u>2009</u> QR'000
Employees' costs and related benefits	100,513	48,179
Depreciation	8,556	6,325
Supplies	13,557	2,460
Repairs and maintenance	2,045	2,164
Fuel and lubricants	6,189	--
Professional fees	19,551	9,306
Miscellaneous expenses	40,786	13,810
Total	191,197	82,244

28. REALIZED FAIR VALUE GAIN FROM DEEMED DISPOSAL OF INVESTMENT IN QATAR SHIPPING COMPANY AT ACQUISITION

The gain is calculated as follows:

	<u>January 1,</u> <u>2010</u> QR'000
Shares' quoted price at the acquisition date	534,600
Less: Qatar Shipping historical cost	(298,552)
Total	236,048

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

29. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year by the weighted average number of ordinary shares outstanding during the year.

	<u>2010</u>	<u>2009</u>
Net Profit for the year (QR'000)	<u>1,098,706</u>	<u>478,920</u>
Weighted average number of shares outstanding during the year in thousands (i)	<u>114,525</u>	<u>72,025</u>
Basic earnings per share (QR) (ii)	<u>9.59</u>	<u>6.65</u>

Notes:

(i) The weighted average number of shares has been calculated as follows:

	<u>2010</u>	<u>2009</u>
Qualifying shares at beginning of the year	<u>72,025,200</u>	<u>60,021,000</u>
Issue of new shares / bonus shares	<u>42,500,000</u>	<u>12,004,200</u>
Weighted average number of shares outstanding during the year	<u>114,525,200</u>	<u>72,025,200</u>

(ii) There were no potentially dilutive shares outstanding at any time during the year and hence the diluted earnings per share is equal to the basic earnings per share.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	<u>2010</u>	<u>2009</u>
	<u>QR'000</u>	<u>QR'000</u>
Hedging activities		
<i>Cash flow hedges</i>		
Fair value of interest rate swap (IRS) contracts:		
IRS 1 (i)	<u>(2,096)</u>	<u>--</u>
IRS 2 (ii)	<u>(96)</u>	<u>(546)</u>
Total	<u>(2,192)</u>	<u>(546)</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

30. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Notes:

- (i) The Company, through Qatar Shipping Company, has entered into an interest rate swap contract to hedge its exposure to interest rate risk.

At December 31, 2010, Company had an interest rate swap agreement in place with a notional amount of US\$ 15.466 million (QR. 56.608 million), whereby it receives a variable rate equal to LIBOR and pays a fixed rate of interest of 3.21% on the notional amount. The swap is being used to hedge the exposure to interest rate fluctuations on one of its loans. The term loan and interest rate swap have the same critical terms.

The Company has recognized the negative fair value of the interest rate swap amounting to QR 2.096 million as at December 31, 2010 (December 31, 2009: QR 2.68 million) in other payables with a corresponding entry to hedging reserve (Note 24).

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

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

At December 31, 2010, Company had an interest rate swap agreement in place with a notional amount of US\$ 2.941 million (QR 10.710 million), whereby it receives a variable rate equal to LIBOR and pays a fixed rate of interest of 5.43% on the notional amount. The swap is being used to hedge the exposure to interest rate fluctuations on one of its loans. The term loan and interest rate swap have the same critical terms.

The Company has recognized the negative fair value of the interest rate swap amounting to QR 0.096 million as at December 31, 2010 (December 31, 2009: QR 0.546 million) in other payables with a corresponding entry to hedging reserve (Note 24).

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

31. COMMITMENTS

Capital commitments

	<u>2010</u>	<u>2009</u>
	QR'000	QR'000
<i>Investments</i>		
Uncalled portion of investments	<u>9,028</u>	<u>25,147</u>
<i>Property, vessels and equipment</i>		
Estimated capital expenditure approved but not contracted as of the reporting date	<u>699,394</u>	<u>131,941</u>
Letters of credit	<u>116,414</u>	<u>3,306</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

31. COMMITMENTS (CONTINUED)

Operating lease commitments

The Company has entered into rent contracts. These contracts are accounted for as operating leases.

The future lease commitments in respect of the above rent contracts are as follows:

	<u>2010</u> QR'000	<u>2009</u> QR'000
Within one year	47,688	--
More than one but less than five years	185,534	--
Total	<u>233,222</u>	<u>--</u>

32. CONTINGENT LIABILITIES

	<u>2010</u> QR'000	<u>2009</u> QR'000
Letters of guarantee	<u>835,227</u>	<u>169,036</u>

Legal claims

A liability has been recognised for those claims where the Company's lawyer believes it is probable that the claimants will succeed. No provision for liability has been made in these consolidated financial statements where the possibility of claimants succeeding with the claims is remote as advised by the lawyers.

33. RELATED PARTY DISCLOSURES

Related party transactions

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Company's management.

Sales and purchases to/or from related parties included in the consolidated statement of income are as follows:

	<u>2010</u> QR' 000		<u>2009</u> QR' 000	
	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>
Associate company	135,357	3,129	10,386	--
Joint venture companies	--	--	24,385	--
Directors	8,516	--	9,668	--
Total	<u>143,873</u>	<u>3,129</u>	<u>44,439</u>	<u>--</u>

For the year ended December 31, 2010

33. RELATED PARTY DISCLOSURES (CONTINUED)**Related party balances**

Balances with related parties included in the consolidated statement of financial position are as follows:

	<u>2010</u> QR'000	<u>2009</u> QR'000
Associate companies	2,964	87
Related party	28,145	--
Directors	4,182	4,629
Total	35,291	4,716

Compensation of directors and other key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	<u>2010</u> QR'000	<u>2009</u> QR'000
Short-term benefits	24,534	13,475
End of service benefits	2,194	305
Board of directors remuneration – cash	20,500	9,700
Board of directors remuneration of a subsidiary – cash	10,400	--
Board of directors remuneration – in kind	4,620	3,360
Total	62,248	26,840

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The key accounting estimates and judgments are as follows:

(i) Impairment of available-for-sale investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is “significant” or “prolonged” requires considerable judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

For the year ended December 31, 2010

34. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(ii) Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Inventories which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

At the reporting date, provisions for slow moving, old and obsolete inventories amounted to QR 7,404,000. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the consolidated statement of income.

(iii) 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.

At the reporting date, gross trade receivables were QR 319,420,000 and the provision for doubtful debts was QR. 19,949,000. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated statement of income.

(iv) Property, vessels and equipment

The cost of property, vessels and equipment is depreciated over the estimated remaining useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and residual value. Management has estimated the residual values of the vessels and their useful lives.

The carrying values of property, vessels and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Such assessment of impairment is based on several assumptions relating to future cash flows from the assets, risk adjusted discounted factors etc.

(v) Intangible assets

The Group appointed a consultant to perform a detailed purchase price allocation. As part of the process, assets were revalued and QR 77.2 million of intangible assets were identified. These intangible assets will be amortized over the useful life of the intangible assets as defined in the accounting policy note.

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. SEGMENT INFORMATION

Business Segments

The segment information is presented based on the Group's reporting structure and is disclosed after elimination of inter departmental and company transactions.

	Dubai Operations	Commercial Activities	Shipping Agencies	Port Services	Marine Transport	Navigation Freight Services	Ship repair and Fabrication	Real Estate	Qatar Shipping	Halul Offshore	Qatar Quarries And Building Materials	Total
	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR' 000	QR'000	QR'000	QR'000	QR'000
<i>For the year ended December 31, 2010</i>												
Operating revenues	95,040	225,312	49,921	161,233	204,608	34,279	16,842	111,730	249,064	500,186	236,768	1,884,983
Operating expenses	(88,908)	(197,223)	(22,565)	(130,369)	(176,169)	(27,669)	(7,307)	(56,267)	(176,501)	(258,006)	(227,534)	(1,368,518)
Gross profit	<u>6,132</u>	<u>28,089</u>	<u>27,356</u>	<u>30,864</u>	<u>28,439</u>	<u>6,610</u>	<u>9,535</u>	<u>55,463</u>	<u>72,563</u>	<u>242,180</u>	<u>9,234</u>	<u>516,465</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. SEGMENT INFORMATION (CONTINUED)

Business Segments (continued)

	Qatar Navigation Standalone	Qatar Shipping	Halul Offshore	Qatar Quarries And Building Materials	Total
	QR'000	QR'000	QR'000	QR'000	QR'000
<i>For the year ended December 31, 2010</i>					
Gross profit	192,488	72,563	242,180	9,234	516,465
Investment and interest income	131,497	170,199	16,109	1,497	319,302
Other income	3,505	9,152	6,115	409	19,181
Profit from disposal and write off of property, vessels, and equipment	2,905	--	6,951	--	9,856
General and administration expenses	(89,590)	(46,305)	(50,624)	(4,678)	(191,197)
Amortization of intangible assets	(29,200)	--	--	--	(29,200)
Impairment loss on available-for-sale investments	(825)	--	--	--	(825)
Impairment on Property, vessels and equipments	(177,392)	--	--	--	(177,392)
Finance Costs	(26,449)	(44,985)	(3,423)	(1,407)	(76,264)
Share of results of associates	84,153	113,336	--	--	197,489
Realized fair value gain from deemed disposal of available for sale investment	236,048	--	--	--	236,048
Gain from acquisition of Qatar Shipping	298,450	--	--	--	298,450
Proposed Directors remunerations	(20,500)	--	--	--	(20,500)
Net profit for the year	605,090	273,960	217,308	5,055	1,101,413
Non-controlling interest					(2,707)
Profit attributable to equity holder of the parent					1,098,706

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. SEGMENT INFORMATION (CONTINUED)

Business Segments

The segment information is presented based on the Group's reporting structure and is disclosed after elimination of inter departmental and company transactions.

	Dubai Operations	Commercial Activities	Shipping Agencies	Port Services	Marine Transport	Navigation Freight Services	Ship repair and Fabrication	Real Estate	Qatar Shipping	Halul Offshore	Qatar Quarries And Building Materials	Total
	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR'000	QR' 000	QR'000	QR'000	QR'000	QR'000
<i>For the year ended December 31, 2009</i>												
Operating revenues	84,525	290,758	41,424	197,180	193,395	29,445	47,455	25,414	--	279,782	--	1,189,378
Operating expenses	(92,191)	(244,157)	(10,373)	(129,320)	(145,217)	(20,392)	(32,420)	(15,055)	--	(129,445)	--	(818,570)
Gross profit	<u>(7,666)</u>	<u>46,601</u>	<u>31,051</u>	<u>67,860</u>	<u>48,178</u>	<u>9,053</u>	<u>15,035</u>	<u>10,359</u>	<u>--</u>	<u>150,337</u>	<u>--</u>	<u>370,808</u>

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. SEGMENT INFORMATION (CONTINUED)

Business Segments (continued)

	Qatar Navigation Standalone	Qatar Shipping	Halul Offshore	Qatar Quarries And Building Materials	Total
	QR'000	QR'000	QR'000	QR'000	QR'000
<i>For the year ended December 31, 2009</i>					
Gross profit	220,471	--	150,337	--	370,808
Investment and interest income	183,485	--	3,702	--	187,187
Other income	(208)	--	9,782	--	9,574
Profit from disposal and write off of property, vessels, and equipment	37,536	--	7	--	37,543
Share of results of associates	(9,510)	--	--	--	(9,510)
General and administration expenses	(59,987)	--	(22,257)	--	(82,244)
Impairment loss on available-for-sale investments	(1,903)	--	(283)	--	(2,186)
Finance costs	(19,751)	--	(2,801)	--	(22,552)
Proposed Directors' remunerations	(9,700)	--	--	--	(9,700)
Net profit for the year	340,433	--	138,487	--	478,920

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

35. SEGMENT INFORMATION (CONTINUED)

Geographic segments

The Company provides services in the State of Qatar and United Arab Emirates (UAE). Segment information is disclosed after elimination of inter departmental and company transactions.

	2010			2009		
	<i>Qatar</i> <i>QR'000</i>	<i>UAE</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>	<i>Qatar</i> <i>QR'000</i>	<i>UAE</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Operating revenue	1,789,943	95,040	1,884,983	1,104,853	84,525	1,189,378
Operating expenses	(1,279,610)	(88,908)	(1,368,518)	(726,379)	(92,191)	(818,570)
Gross profit	510,333	6,132	516,465	378,474	(7,666)	370,808
Investment and interest income	319,302	--	319,302	187,187	--	187,187
Other income	19,181	--	19,181	9,574	--	9,574
Profit from disposal and write off of property, vessels and equipment.	9,856	--	9,856	37,543	--	37,543
Share of results of associates	197,489	--	197,489	(9,510)	--	(9,510)
General and administration expenses	(191,197)	--	(191,197)	(82,244)	--	(82,244)
Amortization of intangible assets	(29,200)	--	(29,200)			
Impairment loss on available-for-sale investments	(825)	--	(825)	(2,186)	--	(2,186)
Finance costs	(76,264)	--	(76,264)	(22,552)	--	(22,552)
Realized fair value gain from deemed disposal of available for sale investment	236,048	--	236,048	--	--	--
Gain from acquisition of Qatar Shipping	298,450	--	298,450	--	--	--
Impairment of vessels	(177,392)	--	(177,392)	--	--	--
Profit Before Provision for Board of Directors remuneration	1,115,781	6,132	1,121,913	496,286	(7,666)	488,620
Proposed Board of Directors remuneration			(20,500)			(9,700)
Net Profit for the year			1,101,413			478,920
Non-controlling interest			(2,707)			--
Profit attributable to equity holder of the parent			1,098,706			478,920

QATAR NAVIGATION (Q.S.C.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2010

36. FINANCIAL RISK MANAGEMENT

Interest rate risk exposures

With the exception of certain term loans amounting to QR 67,511,000 (2009 : QR 16,066,000), which are covered by interest rate swap contracts (Note 30), a significant portion of the Group's financial assets and liabilities as of December 31, 2010 are exposed to interest rate fluctuations. The Group's exposure to interest rate risk and the effective interest rates on its financial assets and liabilities are summarized below:

	December 31, 2010				December 31, 2009			
	Fixed interest rate QR'000	Floating interest rate QR'000	Non-interest bearing QR'000	Total QR'000	Fixed interest rate QR'000	Floating interest rate QR'000	Non-interest bearing QR'000	Total QR'000
Financial assets								
Bank balances and cash	624,592	283,765	1,245	909,602	241,764	36,017	5,433	283,214
Financial liabilities								
Loans and borrowings	57,957	1,894,817	--	1,952,774	345,800	513,669	--	859,469
Bank overdrafts	--	2,101	--	2,101	--	127,741	--	127,741
Interest rate swap	67,511	(67,511)	--	--	16,066	(16,066)	--	--
	125,468	1,829,407	--	1,954,875	361,866	625,344	--	987,210
Net financial asset/ (liabilities)	499,124	(1,545,642)	1,245	(1,045,273)	(120,102)	(589,327)	5,433	(703,996)

For the year ended December 31, 2010

36. 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 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 at December 31, 2010.

	December 31,	
	2010	
	QR.'000	
Increase / decrease in basis points	+25	-25
Effect on profit for the year	(3,864)	3,864

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties. The Group's exposure to its counterparties is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management.

The Group provides its services and products to a large number of oil and gas companies and other trading companies in Qatar. Its five largest customers account for 68% of outstanding accounts receivable at December 31, 2010 (December 31, 2009: 77%).

Cash is placed with local and international banks with good credit ratings.

Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group's terms of services and sales require amounts to be paid within a 30-60 day credit period. Trade payables are normally settled within 30-90 days of the date of purchase.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Management believes that currency risk is minimal since the Group deals mainly in Qatar Riyal and US Dollar.

For the year ended December 31, 2010

36. FINANCIAL RISK MANAGEMENT (CONTINUED)**Market risk**

The Group is subject to market risk in relation to available-for-sale and financial assets at fair value through profit or loss. The Group evaluates the current market value and other factors including normal volatility in share price for quoted equities and other relevant factors such as investment manager's periodic reports relating to unquoted equities in order to manage its market risk.

A 10% increase or decrease in market values of the Group's portfolio of available-for-sale investment is expected to result in an increase or decrease of QR 222,303,500 in the assets and other comprehensive income of the Group.

A 10% increase or decrease in market values of the Group's portfolio of financial assets at fair value through profit or loss is expected to result in an increase or decrease of QR 20,032,100 in the assets and profit of the Group.

Capital risk

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

The capital structure of the Group consists of debt, which includes the loans and borrowings disclosed in note (21), net of cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings.

Gearing ratio

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

The gearing ratio at the year end as follows:

	<u>2010</u>	<u>2009</u>
	<u>QR'000</u>	<u>QR'000</u>
Debt (i)	1,952,774	859,469
Cash and cash equivalents	<u>(907,501)</u>	<u>(155,473)</u>
Net debt	<u>1,045,273</u>	<u>703,996</u>
Equity (ii)	<u>10,851,286</u>	<u>5,912,003</u>
Net debt to equity ratio	<u>10%</u>	<u>12%</u>

(i) Debt is defined as long and short term borrowing, as detailed in note (21).

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

For the year ended December 31, 2010

37. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Financial assets consist mainly of bank balances and cash, trade receivables, available for sale investments and financial assets at fair value through profit or loss. Financial liabilities mainly consist of bank overdrafts, interest bearing loans and borrowings, trade payable and finance lease obligations. Derivative financial instruments consist of interest rate swaps.

Fair value measurements

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

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

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

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

	<u>Level 1</u> <u>QR'000</u>	<u>Level 2</u> <u>QR'000</u>	<u>Level 3</u> <u>QR'000</u>	<u>Total</u> <u>QR'000</u>
Financial assets at fair value through profit or loss	197,486	2,835	--	200,321
Available for sale financial assets				
Quoted equities	2,223,035	--	--	2,223,035
Unquoted equities	344,092	--	341,216	685,308
Investments in bonds	7,297	--	--	7,297
	<u>2,771,910</u>	<u>2,835</u>	<u>341,216</u>	<u>3,115,961</u>
Interest rate swaps	<u>--</u>	<u>2,192</u>	<u>--</u>	<u>2,192</u>

38. COMPARATIVE FIGURES:

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