

**QATAR NATIONAL CEMENT COMPANY Q.S.C.**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**31 DECEMBER 2011**

**QATAR NATIONAL CEMENT COMPANY Q.S.C.**

**Financial Statements**

**For the year ended 31 December 2011**

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## **Independent auditors' report to the shareholders of Qatar National Cement Company Q.S.C**

### **Report on the financial statements**

We have audited the accompanying financial statements of Qatar National Cement Company Q.S.C (the "Company"), which comprise the statement of financial position as at 31 December 2011 and statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Board of directors' responsibility for the financial statements**

The board of directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. Furthermore, the Board is responsible for such internal control as directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 our 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, we consider 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and of its financial performance, its cash flows and the changes in its equity for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

We have obtained all the information and explanations which we considered necessary for the purpose of our audit. The Company has maintained proper accounting records and the financial statements are in agreement therewith and a physical count of inventories was carried out in accordance with established principles. We have reviewed the accompanying report of the board of directors and confirm the financial information contained thereon is in agreement with the books and records of the Company. We are not aware of any violations of the provisions of Qatar Commercial Companies Law No 5 of 2002 or the terms of Articles of Association having occurred during the year which might have had a material effect on the business of the Company or its financial position as of 31 December 2011.

7 February 2012  
Doha, State of Qatar

Gopal Balasubramaniam  
KPMG  
Qatar auditor's registry no. 251

**QATAR NATIONAL CEMENT COMPANY Q.S.C.**

**Statement of financial position**

**As at 31 December 2011**

In Qatari Riyals

	Note	2011	2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	1,729,716,596	1,692,333,277
Investment properties	5	12,280,708	13,586,411
Investment in associates	6	45,208,357	43,436,832
Investment securities	7	149,191,557	176,637,735
<b>Total non-current assets</b>		<b>1,936,397,218</b>	<b>1,925,994,255</b>
<b>Current assets</b>			
Inventories	8	267,565,622	439,580,662
Accounts receivable and prepayments	9	160,233,624	142,414,282
Cash and cash equivalents	10	254,568,145	99,804,940
<b>Total current assets</b>		<b>682,367,391</b>	<b>681,799,884</b>
<b>Total assets</b>		<b>2,618,764,609</b>	<b>2,607,794,139</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity (pages 6-7)</b>			
Share capital	11	491,005,960	446,369,050
Legal reserve	12	245,502,980	223,184,525
Other reserves	13	460,180,539	481,766,057
Retained earnings		1,118,292,561	1,008,418,707
<b>Total equity</b>		<b>2,314,982,040</b>	<b>2,159,738,339</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Employees' end of service benefits	15	9,912,525	8,766,345
Non-current portion of term loans	16	81,933,750	163,867,500
<b>Total non-current liabilities</b>		<b>91,846,275</b>	<b>172,633,845</b>
<b>Current liabilities</b>			
Accounts and other payables	17	130,002,544	115,195,955
Current portion of term loans	16	81,933,750	160,226,000
<b>Total current liabilities</b>		<b>211,936,294</b>	<b>275,421,955</b>
<b>Total liabilities</b>		<b>303,782,569</b>	<b>448,055,800</b>
<b>Total equity and liabilities</b>		<b>2,618,764,609</b>	<b>2,607,794,139</b>

The financial statements were approved by the Board of Directors and were signed on its behalf by the following on 7 February 2012:

Mr. Salem Bin Butti Al-Naimi  
Chairman and Managing Director

Mr. Sulaiman Khalid Al Mana  
Deputy Chairman

The attached notes 1 to 28 form an integral part of these financial statements.

**QATAR NATIONAL CEMENT COMPANY Q.S.C.**

**Statement of income**

**For the year ended 31 December 2011**

In Qatari Riyals

	<b>Note</b>	<b>2011</b>	<b>2010</b>
Revenue		989,624,584	1,090,176,821
Cost of sales		<u>(510,716,916)</u>	<u>(580,595,643)</u>
<b>Gross profit</b>		<b>478,907,668</b>	509,581,178
Other income	19	44,939,712	46,839,985
Selling and distribution expenses		(7,976,479)	(10,309,657)
General and administrative expenses	20	(48,243,767)	(47,117,534)
Share of profit from associates	6	1,319,327	2,132,492
Impairment loss on available-for-sale assets	7	(7,472,825)	(12,000,000)
Finance charges		<u>(5,421,687)</u>	<u>(10,159,413)</u>
<b>Profit before contribution to social fund</b>		<b>456,051,949</b>	478,967,051
Social fund contribution	21	<u>(11,401,299)</u>	<u>(11,974,176)</u>
<b>Net profit for the year</b>		<b><u>444,650,650</u></b>	<u>466,992,875</u>
<b>Earnings per share</b>			
Basic earnings per share (Qatari Riyal)	24	<u><b>9.06</b></u>	<u>9.51</u>

The attached notes 1 to 28 form an integral part of these financial statements.

**QATAR NATIONAL CEMENT COMPANY Q.S.C.**

**Statement of comprehensive income**  
**For the year ended 31 December 2011**

In Qatari Riyals

	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>Net profit for the year</b>		<b>444,650,650</b>	466,992,875
<b>Other comprehensive income:</b>			
Net change in fair value of available-for-sale financial assets	13	(5,677,093)	44,988,990
Net change in share of fair value reserves of associates	13	1,782,198	839,625
Net change in fair value of available-for-sale financial assets transferred to profit or loss	13	<u>(17,690,623)</u>	<u>(8,207,188)</u>
<b>Other comprehensive (loss)/income for the year</b>		<b>(21,585,518)</b>	37,621,427
<b>Total comprehensive income for the year</b>		<b><u>423,065,132</u></b>	<b><u>504,614,302</u></b>

The attached notes 1 to 28 form an integral part of these financial statements.

**QATAR NATIONAL CEMENT COMPANY Q.S.C.**

**Statement of changes in equity  
For the year ended 31 December 2010**

In Qatari Riyals

2010	Share capital	Legal reserve	Other reserves				Retained earnings	Total Equity
			Fair value reserve- investments available-for-sale	Share of fair value reserves of associates	Development reserve	Total other reserves		
Balance as at 1 January 2010	446,369,050	220,251,166	34,512,761	3,043,358	406,588,511	444,144,630	812,180,621	1,922,945,467
Total comprehensive income for the year								
Profit for the year	-	-	-	-	-	-	466,992,875	466,992,875
Other comprehensive income								
Net change in fair value of available-for-sale financial assets	-		44,988,990	-	-	44,988,990	-	44,988,990
Net change in share of fair value reserves of associates	-	-		839,625	-	839,625	-	839,625
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	(8,207,188)		-	(8,207,188)	-	(8,207,188)
Total other comprehensive income	-		36,781,802	839,625	-	37,621,427	-	37,621,427
Total comprehensive income for the year	-	-	36,781,802	839,625	-	37,621,427	466,992,875	504,614,302
Transfer from retained earnings to legal reserve	-	2,933,359	-	-	-	-	(2,933,359)	-
Dividend	-	-	-	-	-	-	(267,821,430)	(267,821,430)
Balance as at 31 December 2010	446,369,050	223,184,525	71,294,563	3,882,983	406,588,511	481,766,057	1,008,418,707	2,159,738,339

The attached notes 1 to 28 form an integral part of these financial statements.



**QATAR NATIONAL CEMENT COMPANY Q.S.C.**

**Statement of changes in equity**

**For the year ended 31 December 2011**

In Qatari Riyals

2011	Share capital	Legal reserve	Other reserves				Retained earnings	Total Equity
			Fair value reserve- investments available-for-sale	Share of fair value reserves of associates	Development reserve	Total other reserves		
Balance as at 1 January 2011	446,369,050	223,184,525	71,294,563	3,882,983	406,588,511	481,766,057	1,008,418,707	2,159,738,339
<b>Total comprehensive income for the year</b>								
Profit for the year	-	-	-	-	-	-	444,650,650	444,650,650
<b>Other comprehensive income</b>								
Net change in fair value of available-for-sale financial assets	-		(5,677,093)	-	-	(5,677,093)	-	(5,677,093)
Net change in share of fair value reserves of associates	-	-	-	1,782,198	-	1,782,198	-	1,782,198
Net change in fair value of available-for-sale financial assets transferred to profit or loss	-	-	(17,690,623)	-	-	(17,690,623)	-	(17,690,623)
Total other comprehensive income	-	-	(23,367,716)	1,782,198	-	(21,585,518)	-	(21,585,518)
Total comprehensive loss for the year	-	-	(23,367,716)	1,782,198	-	(21,585,518)	444,650,650	423,065,132
Issue of bonus shares	44,636,910	-	-	-	-	-	(44,636,910)	-
Transfer from retained earnings to legal reserve	-	22,318,455	-	-	-	-	(22,318,455)	-
Dividend	-	-	-	-	-	-	(267,821,431)	(267,821,431)
<b>Balance as at 31 December 2011</b>	<b>491,005,960</b>	<b>245,502,980</b>	<b>47,926,847</b>	<b>5,665,181</b>	<b>406,588,511</b>	<b>460,180,539</b>	<b>1,118,292,561</b>	<b>2,314,982,040</b>

The attached notes 1 to 28 form an integral part of these financial statements.

**QATAR NATIONAL CEMENT COMPANY Q.S.C.**
**Statement of cash flows**
**For the year ended 31 December 2011**

In Qatari Riyals

	<b>Note</b>	<b>2011</b>	<b>2010</b>
<b>Operating activities</b>			
Profit for the year		444,650,650	466,992,875
<i>Adjustments for :</i>			
Provision for slow moving inventories	8	-	474,881
Gain on sale of available-for-sale financial assets	19	(17,690,623)	(8,207,188)
Depreciation on property, plant and equipment and investment properties	4&5	133,768,807	125,163,517
Gain on disposal of property, plant and equipment		(58,953)	(48,375)
Provision for employees' end of service benefits	15	1,762,688	1,617,556
Interest income	19	(2,268,619)	(4,048,603)
Interest expense		5,421,687	10,159,413
Dividend income	19	(8,692,510)	(9,181,394)
Share of profit of associates	6	(1,319,327)	(2,132,492)
Impairment loss on available-for-sale financial assets	7	7,472,825	12,000,000
<b>Operating profit before working capital changes</b>		<b>563,046,625</b>	<b>592,790,190</b>
Change in inventories		35,080,589	(143,202,877)
Change in accounts receivables and prepayments		(17,819,342)	22,242,116
Change in accounts and other payables		14,604,883	(38,186,633)
<b>Cash flows from operating activities</b>		<b>594,912,755</b>	<b>433,642,796</b>
Employees' end of service benefits paid	15	(616,508)	(180,174)
Interest paid		(5,219,981)	(9,653,216)
<b>Net cash generated from operating activities</b>		<b>589,076,266</b>	<b>423,809,406</b>
<b>Investing activities</b>			
Acquisition of property, plant and equipment and investment property	4	(32,928,519)	(25,923,480)
Proceeds from disposal of property, plant and equipment		75,500	-
Acquisition of available-for-sale financial assets	7	(14,026,519)	(11,495,122)
Proceeds from sale of available-for-sale financial assets		28,322,779	31,316,143
Interest received		2,268,619	4,048,603
Dividend income received		8,692,510	9,181,394
Dividend received from associates	6	1,330,000	1,330,000
<b>Net cash (used in)/ generated from investing activities</b>		<b>(6,265,630)</b>	<b>8,457,538</b>
<b>Financing activities</b>			
Dividend paid		(267,821,431)	(221,300,908)
Proceeds from term loans		163,867,500	163,867,500
Repayment of term loans	16	(324,093,500)	(160,226,000)
<b>Cash flows used in financing activities</b>		<b>(428,047,431)</b>	<b>(217,659,408)</b>
Net increase in cash and cash equivalents		154,763,205	214,607,536
Cash and cash equivalents at 1 January		99,804,940	(114,802,596)
<b>Cash and cash equivalents at 31 December</b>	<b>10</b>	<b>254,568,145</b>	<b>99,804,940</b>

The attached notes 1 to 28 form an integral part of these financial statements.

**1 STATUS AND OPERATIONS**

Qatar National Cement Company Q.S.C. (the "Company") was incorporated in the State of Qatar as a Qatari Shareholding Company, under the Emiri Decree No. 7 of 1965 with Commercial Registration No. of 25. The Company's head office is located in Doha, State of Qatar.

The Company is primarily engaged in the production and sale of cement, washed sand and lime at its plants located in Ummbab and Al Rakiya in the State of Qatar.

**2 BASIS OF PREPARATION**

**(a) Statement of compliance**

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by International Accounting Standards Board (IASB).

**(b) Basis of measurement**

These financial statements have been prepared under the historical cost basis except for certain investment securities which are carried at fair value.

**(c) Functional and presentation currency**

These financial statements are presented in Qatari Riyals, which is the Company's functional currency and all values are rounded to the nearest Qatari Riyal except where otherwise indicated.

**(d) Use of estimates and judgements**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the note 27.

**(e) Standards, amendments and interpretations issued**

**(i) New standards, amendments and interpretations effective on or after 1 January 2011**

The following standards, amendments and interpretations, which became effective 1 January 2011, are relevant to the Company:

**(a) IAS 24 (Revised) 'Related party disclosures'**

The revised standard was issued in November 2009. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

## **2 BASIS OF PREPARATION (CONTINUED)**

### **(e) Standards, amendments and interpretations issued (continued)**

#### **(ii) New standards, amendments and interpretations that are not yet effective**

The following standards and interpretations have been issued and are expected to be relevant to the Company in future periods, with effective dates on or after 1 January 2012.

##### ***(a) IAS 1 (amendment) - Presentation of items of other comprehensive income***

The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendment is effective for annual periods beginning on or after 1 July 2012 with an option of early application.

##### ***(b) IAS 19 (2011) - Employee benefits***

The amended IAS 19 includes the following requirements:

- actuarial gains and losses are recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and
- expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.

The amended standard is effective for annual periods beginning on or after 1 January 2013 with an option of early adoption. The Company is yet to assess the full impact of the standard.

##### ***(c) IFRS 9 - Financial Instruments***

*Standard issued November 2009*

IFRS 9 (2009) 'Financial Instruments' is the first standard issued as part of a wider project to replace IAS 39 'Financial instruments: recognition and measurement'. IFRS 9 (2009) retains and simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment and hedge accounting continues to apply. The 2009 standard did not address financial liabilities.

*Standard issued October 2010*

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and de-recognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 "reassessment of Embedded Derivatives".

The Company is considering the implications of the standard, the impact on the Company and timing of its adoption by the Company.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before 1 January 2012. In its November 2011 meeting, the IASB tentatively decided to defer the mandatory effective date to 1 January 2015.

#### **Early adoption of standards**

The Company did not early-adopt new or amended standards in 2011.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The following significant accounting policies have been applied in the preparation of these financial statements:

**(a) Property, plant and equipment**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the management.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, including the capitalised borrowing. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation on all property, plant and equipment is charged to the profit or loss on the straight line method, so as to write off the historical cost of such asset over its estimated useful life as follows:

Buildings	5-30 years
Plant, equipment and tools	1-20 years
Motor vehicles	5-10 years
Furniture and fixtures	10 years

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to profit or loss during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

*Capital work in progress*

Capital work in progress is stated at cost less any identified impairment loss and represents expenditure incurred on property, plant and equipment during the construction and installation. Cost also includes applicable borrowing costs. Transfers are made to relevant property, plant and equipment category as and when assets are available for intended use.

**(b) Investment property**

Investment property is property held either to earn rentals or for capital appreciation or both, but not for sale in ordinary course of business, use in the production or supply of goods or services or for administrative purpose. Investment property is stated at cost less accumulated depreciation and impairment losses, if any. Investment properties, other than land, are depreciated on a straight-line basis over their estimated useful lives of 20-30 years.

**(c) Investment in associates**

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. It is neither a subsidiary nor an interest in joint venture.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Investment in associates (continued)**

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. These financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with that of the Company, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

**(d) Financial instruments**

Financial instruments represent the Company's financial assets and liabilities. Financial assets and financial liabilities are recognised on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Financial instruments also include commitments not recognised but adequately disclosed in the respective notes to the financial statements.

Financial assets include accounts receivables, available-for-sale financial assets, deposits with banks and certain other assets. Financial liabilities include term loans, bank overdraft, accounts payables and certain other liabilities.

**Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified as an investment at fair value through the statement of income or held to maturity or loans or receivables. Available-for-sale financial assets are initially recognised at fair value plus any directly attributable transaction costs. After the initial recognition, these are stated at fair value, unless fair value cannot be measured reliably, with any resulting gains and losses being taken directly to equity until the investment is disposed off or impaired. At each reporting date, these investments are remeasured at fair value, unless fair value cannot be reliably measured. At the time of disposal, the respective surplus or deficit is transferred to profit and loss currently. Fair value of quoted investments is their bid price on Qatar Stock Exchange at the financial position date.

All purchases and sales of investments are recognized on the trade date which is the date that the company commits to purchase or sell the investment.

**Accounts receivable**

Accounts receivable are stated at cost being the fair value, net of provisions for amounts estimated to be non-collectable. An estimate for doubtful accounts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**3 SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Financial instruments (continued)**

**Cash and cash equivalents**

Cash and cash equivalents comprise of cash in hand, balances under current and call accounts with the banks and deposits having a maturity of less than ninety days.

**Accounts payable**

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

**Term loans**

Term loans are recognised initially at fair value. Subsequent to initial recognition these are measured at amortised cost using the effective interest method.

**(e) Inventories**

Inventories are stated at the lower of cost and net realisable value after providing for any obsolescence and damages determined by the management. Costs are those expenses incurred in bringing each product to its present location and condition which are computed as follows:

- Raw materials, minor spare parts and consumables: Purchases costs on weighted average basis.
- Work in progress and finished goods: Cost of direct materials, direct labour and other direct cost plus attributable overheads based on normal level of activity.

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

**(f) Employees' end of service benefits**

*Expatriate employees*

For the expatriate employees, the Company provides for employees' end of service benefits determined in accordance with the requirements of Qatar Labour laws pertaining to retirement and pensions, wherever required. These unfunded charges are made by the Company on the basis of employees' salaries and the number of years of service at the statement of financial position date. Applicable benefits are paid to employees on termination of employment with the Company.

*Qatari employees*

With respect to its Qatari employees, the Company makes contributions to the General Pension Fund Authority calculated as a percentage of the employees' salaries in accordance with the requirements of Law No. 24 of 2002 pertaining to retirement and pensions. The Company's obligations are limited to these contributions, which are expensed when due.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) Provision**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows that reflects current market assessments of the time value of money and the risks specific to the liability.

**(h) Revenue recognition**

Revenue is measured at fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The following specific recognition criteria must also be met before revenue is recognised:

**Sale of goods**

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

**Dividend and interest income**

Dividends from investments are recognised when the Company's right to receive payment has been established.

Interest is accrued on a time proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

**Profit on sale of investments**

Profit on the sale of quoted investments is recognized when the sale is confirmed by the broker.

**Rental income**

Rental income from investment property is recognised in the statement of income on a straight-line basis over the term of the lease.

**Other income**

Other income is recognized on an accrual basis.



**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(i) Borrowing costs**

Borrowing costs are finance and other costs that the Company incurs in connection with the borrowing of funds. A qualifying asset for finance cost capitalization is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company recognizes other borrowing costs as an expense in the period in which it incurs them.

The Company begins capitalizing borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalization is the date when the Company first meets all of the following conditions:

- (a) incurs expenditures for the asset;
- (b) incurs borrowing costs; and
- (c) undertakes activities that are necessary to prepare the asset for its intended use or sale.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings, if any.

The borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than those specific borrowings mentioned above as made specifically for the purpose of obtaining a qualified asset, are capitalized by applying a capitalization rate to the expenditures on that asset. The amount of borrowing costs that the Company capitalizes during the year is not to exceed the amount of borrowing costs it incurred during that year.

The Company suspends capitalization of borrowing costs during extended periods in which it suspends active development of a qualifying asset, and ceases capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

**(j) Foreign currency transactions**

All monetary assets and liabilities in foreign currencies are translated into Qatari Riyals at exchange rates prevailing at the reporting date. Transactions in foreign currencies are translated into Qatari Riyals at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Qatari Riyals at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into Qatari Riyals at exchange rates prevailing at the date when fair values are determined. Exchange gains and losses are included in the statement of income.

**(k) Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Company's financial statements in the period in which the dividend is approved by the Company's shareholders.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(l) Related party transactions**

The Company enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods, except in extremely rare circumstances where, subject to approval of the Board of Directors, it is in the interest of the Company to do so.

**(m) Impairment**

***Financial assets***

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

All impairment losses are recognized in the statement of income. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in other comprehensive income is transferred to the statement of income.

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of income;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of the estimated future cash flows discounted at the original effective finance cost rate.
- Significant financial assets are tested for impairment on an individual basis.
- The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

For shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in equity.

**3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Non-financial assets***

The carrying amounts of the Company's non-financial assets, other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(n) Fair values**

For available-for-sale investments traded in organised financial markets, fair value is determined by reference to the quoted market price at the close of business on the statement of financial position date. For investments which are listed in inactive stock markets, traded in small quantities or have no current prices, the fair value is measured using the current value of cash flows or other applicable methods. If there is no reliable method for the measurement of fair value of these investments, then they are stated at cost less any impairment in their value.

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties at arm's length basis. The fair values of the financial assets and liabilities are not considered significantly different from their book values as most of these items are either short-term in nature or re-priced frequently.

**QATAR NATIONAL CEMENT COMPANY Q.S.C.**

**Notes to the financial statements  
For the year ended 31 December 2011**

In Qatari Riyals

**4 PROPERTY, PLANT AND EQUIPMENT**

	<b>Buildings</b>	<b>Plant, equipment &amp; tools</b>	<b>Motor vehicles</b>	<b>Furniture and fixtures</b>	<b>Capital work in progress</b>	<b>Total 2011</b>	<b>Total 2010</b>
<b>Cost:</b>							
Balance at 1 January	515,904,523	2,031,947,269	105,835,475	18,137,880	6,547,197	2,678,372,344	2,652,555,864
Additions	6,399	2,745,163	8,013,541	1,834,573	19,994,272	32,593,948	26,071,480
Transfers	677,956	2,850,000	-	-	(3,527,956)	-	-
Cost of spare parts transferred from inventories (Note 8)	-	147,540,804	-	-	-	147,540,804	-
Disposals	-	-	(174,650)	-	-	(174,650)	(255,000)
Balance at 31 December	<u>516,588,878</u>	<u>2,185,083,236</u>	<u>113,674,366</u>	<u>19,972,453</u>	<u>23,013,513</u>	<u>2,858,332,446</u>	<u>2,678,372,344</u>
<b>Depreciation:</b>							
Balance at 1 January	195,981,250	712,506,553	65,516,874	12,034,390	-	986,039,067	862,529,671
Charge for the year	25,105,421	98,156,036	7,761,755	1,105,321	-	132,128,533	123,664,771
Spare parts provision transferred from inventories (Note 8)	-	10,606,353	-	-	-	10,606,353	-
Disposals	-	-	(158,103)	-	-	(158,103)	(155,375)
Balance at 31 December	<u>221,086,671</u>	<u>821,268,942</u>	<u>73,120,526</u>	<u>13,139,711</u>	<u>-</u>	<u>1,128,615,850</u>	<u>986,039,067</u>
<b>Net book value:</b>							
<b>At 31 December 2011</b>	<u><b>295,502,207</b></u>	<u><b>1,363,814,294</b></u>	<u><b>40,553,840</b></u>	<u><b>6,832,742</b></u>	<u><b>23,013,513</b></u>	<u><b>1,729,716,596</b></u>	<u><b>-</b></u>
At 31 December 2010	<u>319,923,273</u>	<u>1,319,440,716</u>	<u>40,318,601</u>	<u>6,103,490</u>	<u>6,547,197</u>	<u>-</u>	<u>1,692,333,277</u>

# QATAR NATIONAL CEMENT COMPANY Q.S.C.

## Notes to the financial statements

For the year ended 31 December 2011

In Qatari Riyals

### 4. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company's cement plants and sand plants are constructed on land leased from the Government of State of Qatar.

The depreciation charge for the year is included in the statement of income as follows:

	2011	2010
Cost of sales	128,032,669	119,070,310
Selling and distribution expenses	1,272,903	2,271,677
General and administrative expenses	2,822,961	2,322,784
	<u>132,128,533</u>	<u>123,664,771</u>

### 5. INVESTMENT PROPERTIES

	2011	2010
<b>Cost:</b>		
Balance as at 1 January	42,222,428	42,222,428
Additions for the year	334,571	-
Balance as at 31 December	<u>42,556,999</u>	<u>42,222,428</u>
<b>Depreciation:</b>		
Balance as at 1 January	28,636,017	27,137,271
Charge for the year	1,640,274	1,498,746
Balance as at 31 December	<u>30,276,291</u>	<u>28,636,017</u>
<b>Net book value as at 31 December</b>	<u>12,280,708</u>	<u>13,586,411</u>

In the statement of income, rental income includes an amount of QR 8.67 million as rent received from investment properties for the year ended 31 December 2011 (2010: QR 8.61 million). As per management estimates, the fair value of the investment properties as at 31 December 2011 is QR 499 million (2010: QR 497 million).

### 6. INVESTMENT IN ASSOCIATES

The investment in associates are represented as follows:

	Ownership	2011	2010
Qatar Saudi Gypsum Industries Co. (W.L.L)	33.33%	22,546,359	21,570,499
Qatar Quarries and Building Materials Company P.Q.S.C.	20%	22,661,998	21,866,333
<b>Balance as at 31 December</b>		<u>45,208,357</u>	<u>43,436,832</u>

**Notes to the financial statements**  
**For the year ended 31 December 2011**

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**6. INVESTMENT IN ASSOCIATES (CONTINUED)**

Movements in the investment in associates balance during the year are represented as follows:

	<b>2011</b>	2010
Balance at 1 January	43,436,832	41,794,715
Share of net results of associates	1,319,327	2,132,492
Movement in fair value reserve of associates (Note 13a)	1,782,198	839,625
Dividend received from associates	(1,330,000)	(1,330,000)
<b>Balance as at 31 December</b>	<b>45,208,357</b>	43,436,832

The share of net results of associates are based on the latest available financial statements:

	<b>Qatar Saudi Gypsum Industries Co. (W.L.L)</b>	<b>Qatar Quarries and Building Materials Company P.Q.S.C.</b>
Total assets	<b>73,715,921</b>	<b>120,640,620</b>
Total liabilities	<b>2,068,933</b>	<b>11,995, 719</b>
Total revenue	<b>13,451,861</b>	<b>236,768,140</b>

**7. INVESTMENT SECURITIES**

The investments comprise of investments in shares of listed companies on Doha Exchange classified as available-for-sale financial assets.

	<b>2011</b>	2010
<b>Balance at 1 January</b>	176,637,735	163,469,766
Additions during the year	14,026,519	11,495,122
Net change in fair value reserve (Note 13)	(5,677,093)	44,988,990
Fair value of disposals during the year	(28,322,779)	(31,316,143)
Impairment loss	(7,472,825)	(12,000,000)
<b>Balance as at 31 December</b>	<b>149,191,557</b>	176,637,735

**8. INVENTORIES**

	<b>2011</b>	2010
Work in progress including imported clinker	89,043,707	152,693,163
Spare parts	103,005,098	198,730,197
Raw materials	39,859,571	37,278,574
Goods in transit	12,392,005	29,909,115
Finished goods	33,665,598	40,321,229
Fuel oil and lubricants	1,920,702	1,042,391
Other miscellaneous stocks	2,621,988	5,155,393
<b>Total</b>	<b>282,508,669</b>	465,130,062
Less: provision for obsolescence and slow moving inventories	(14,943,047)	(25,549,400)
<b>Balance as at 31 December</b>	<b>267,565,622</b>	439,580,662

**Notes to the financial statements**  
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**8. INVENTORIES (CONTINUED)**

The movement in provision for obsolete and slow moving inventories was as follows:

	2011	2010
Balance at 1 January	25,549,400	25,074,519
Additions	-	474,881
Provision amount transferred to fixed assets along with cost	(10,606,353)	-
<b>Balance as at 31 December</b>	<b>14,943,047</b>	<b>25,549,400</b>

During the year, the Company has transferred major spare parts amounting to QR 147,540,804 along with related provision of QR 10,606,353 to plant and machinery under property, plant and equipment. These spare parts represent critical spare parts that are required to be kept in stock at all times to ensure the continued operation of the cement and other plants.

**9. ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	2011	2010
Accounts receivable	145,719,015	135,025,172
Prepayments and other receivables	12,469,319	5,628,188
Claims from the Government of State of Qatar	3,341,179	3,056,811
<b>Total</b>	<b>161,529,513</b>	<b>143,710,171</b>
Less: provision for doubtful debts	(1,295,889)	(1,295,889)
<b>Balance as at 31 December</b>	<b>160,233,624</b>	<b>142,414,282</b>

**10. CASH AND CASH EQUIVALENTS**

	2011	2010
Cash in hand	18,260	-
Balances in call and current accounts	4,520,857	12,477,977
Fixed deposits	250,029,028	87,326,963
<b>Balance as at 31 December</b>	<b>254,568,145</b>	<b>99,804,940</b>

The balances in fixed deposit and call accounts have a profit rate of 1.75% to 3.25% per annum (2010: 2% to 3.25% per annum).

**NOTES TO THE FINANCIAL STATEMENTS  
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**11. SHARE CAPITAL**

	<b>2011</b>	2010
Authorized, issued and fully paid up capital	446,369,050	446,369,050
Bonus shares issue	<u>44,636,910</u>	<u>-</u>
<b>Balance as at 31 December</b>	<b><u>491,005,960</u></b>	<b><u>446,369,050</u></b>

The authorized and paid up share capital of the Company amounts to QR 491.01 million as at 31 December 2011 (2010: QR 446.37 million) comprising 49.10 million (2010: 44.64 million) shares of QR 10 each, all of equal class and voting rights.

**12. LEGAL RESERVE**

In accordance with Qatar Commercial Companies Law No.5 of 2002 and the Company's Articles of Association, 10% of the net income for the year should be transferred to legal reserve until the balance in this reserve equals 50% of the paid capital. This reserve is not available for distribution except in circumstances specified in the above Law. QR 22.32 million has been transferred to the legal reserve in the current year to make the balance in the reserve equal to the 50% of the paid up capital (2010: QR 2.93 million).

**13. OTHER RESERVES**

	<b>2011</b>	2010
Fair value reserve	53,592,028	75,177,546
Development reserve	<u>406,588,511</u>	<u>406,588,511</u>
<b>Balance as at 31 December</b>	<b><u>460,180,539</u></b>	<b><u>481,766,057</u></b>

The development reserve was created in 1990 to finance the construction of cement plant II.

The movement in the fair value reserves was as follows:

	<b>2011</b>	2010
Balance at 1 January	75,177,546	37,556,119
<b>Movement:</b>		
Fair value transferred to statement of income on sale of available-for-sale financial assets	(17,690,623)	(8,207,188)
Revaluation on available-for-sale financial assets	(5,677,093)	44,988,990
Share of fair value reserve in associates	<u>1,782,198</u>	<u>839,625</u>
Net movement during the year	<b><u>21,585,518</u></b>	<b><u>37,621,427</u></b>
<b>Balance as at 31 December</b>	<b><u>53,592,028</u></b>	<b><u>75,177,546</u></b>

**14. DIVIDEND PROPOSED**

In a meeting held on 7 February 2012 the Board of Directors have proposed a cash dividend distribution of 60% of the paid up capital (2010: cash dividend distribution of 60% of the paid up capital and 10% bonus shares).



**Notes to the financial statements**  
**For the year ended 31 December 2011**

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**15. EMPLOYEES' END OF SERVICE BENEFITS**

	<b>2011</b>	<b>2010</b>
Balance at 1 January	8,766,345	7,328,963
Additions	1,762,688	1,617,556
Payments during the year	<u>(616,508)</u>	<u>(180,174)</u>
<b>Balance as at 31 December</b>	<b><u>9,912,525</u></b>	<b><u>8,766,345</u></b>

**16. TERM LOANS**

	<b>2011</b>	<b>2010</b>
Balance at 1 January	324,093,500	320,452,000
Additional loans obtained	163,867,500	163,867,500
Repayments	<u>(324,093,500)</u>	<u>(160,226,000)</u>
<b>Balance as at 31 December</b>	<b><u>163,867,500</u></b>	<b><u>324,093,500</u></b>

The balance is presented in the statement of financial position as follows:

Current portion of term loans	81,933,750	160,226,000
Non- current portion of term loans	<u>81,933,750</u>	<u>163,867,500</u>
<b>Total</b>	<b><u>163,867,500</u></b>	<b><u>324,093,500</u></b>

**Loan -1**

The Company entered into a loan agreement on 19 December 2004 with five leading banks for USD 120 million (equivalent to QR 436.98 million) to finance the construction of the Cement Plant III in Ummbab.

The loan carried an interest rate of 0.70% per annum over 3 months LIBOR and was repayable in 10 equal semi annual instalments starting from June 2007 to December 2011.

Accordingly, the final instalment was paid in December 2011 and as at the reporting date this loan had been repaid in full.

**Loan -2**

The Company entered into another loan agreement on 28 June 2008 with a foreign bank for USD 40 million (equivalent to QR 145.66 million) to finance the construction of the Cement Plant IV in Ummbab.

The interest rate of this loan was 0.90% per annum over 3 months LIBOR and was repayable in 2 equal semi annual instalments in November 2010 and May 2011.

Accordingly, the second and final instalment was paid in May 2011 and as at the reporting date this loan had been repaid in full.

**Notes to the financial statements**  
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**16. TERM LOANS (CONTINUED)****Loan -3**

The Company entered into an Islamic Murahaba facility in May 2010 with a foreign bank for USD 45 million (equivalent to QR 163.87 million).

It was a quarterly revolving facility, with a profit rate at 2.80% per annum over 3 months LIBOR and was repayable in four equal quarterly instalments starting from August 2012.

However, the Company repaid this loan in full in August 2011 by way of a fresh refinance loan obtained from a local commercial bank in Qatar.

**Loan -4**

The Company entered into a new loan agreement with a local commercial bank on 24 July 2011 for USD 45 million (equivalent to QR 163.87 million) to refinance the loan -3 above.

The loan carries an interest rate of 0.95% per annum over 1,3 or 6 month LIBOR and is repayable in 4 equal quarterly instalments starting from August 2012 to May 2013.

There is no mortgage over assets of the Company for this loan.

**17. ACCOUNTS AND OTHER PAYABLES**

	<b>2011</b>	2010
Accounts payable	22,799,509	27,353,420
Directors' remuneration payable	9,175,000	8,500,000
Accruals and provisions	38,308,390	31,970,945
Other payables	59,719,645	47,371,590
<b>Balance as at 31 December</b>	<b><u>130,002,544</u></b>	<b><u>115,195,955</u></b>

**18. SEGMENT REPORTING**

The Company is organized into one business segment, which comprises the manufacture and sale of cement, sand and other by products. Geographically, the company's entire business operations are concentrated in Qatar. The Chief Operating Decision Maker evaluates the results of the Company for this overall segment.

**19. OTHER INCOME**

	<b>2011</b>	2010
Gain from sale of available-for-sale financial assets	17,690,623	8,207,188
Dividend income	8,692,510	9,181,394
Interest income	2,268,619	4,048,603
Transportation income	5,663,222	14,138,349
Rental income from investment property	8,669,000	8,614,294
Gain on disposal of fixed assets	58,953	-
Other miscellaneous income	1,896,785	2,650,157
	<b><u>44,939,712</u></b>	<b><u>46,839,985</u></b>

**Notes to the financial statements**  
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**20. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2011</b>	2010
Salaries and benefits	29,206,842	28,702,597
Depreciation of property, plant and equipment and investment property	4,463,237	3,821,531
Directors' remuneration (Note 22)	9,175,000	8,500,000
Other miscellaneous expenses	5,398,688	6,093,406
	<b>48,243,767</b>	47,117,534

Total staff cost during the year amounted to QR 81.08 million (2010: QR 83.33 million), of which QR 50.43 million (2010: QR 53.12 million) was charged to cost of sales and QR 1.44 million (2010: QR 1.51 million) was charged to selling and distribution expenses.

**21. SOCIAL FUND CONTRIBUTION**

Pursuant to the Qatar Law No. 13 of 2008 and the related clarifications issued in 2010, which is applicable for all Qatari listed shareholding companies with publicly traded shares, the Company has made an appropriation of 2.5% of its adjusted net profit to a state social fund.

**22. RELATED PARTY DISCLOSURES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include entities over which the Company exercises significant influence, shareholders and key management personnel of the Company.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

**(a) Transactions with Government and its agencies**

The Government of Qatar holds 43% of the Company's share capital. In the normal course of business, the Company supplies its products to various Government and semi Government agencies in the State of Qatar. The Company also avails various services from Government and semi Government agencies in the State of Qatar.

During the year 2011 the Company has booked a claim from the Government of Qatar amounting to QR 3.3 million (2010: QR 3.0 million) which was deducted from operating costs.

The rental income includes a sum of QR 5.0 million (2010: 5.0 million) from the Government of Qatar.

**(b) Compensation of key management personnel**

Key management personnel comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the Company. The remuneration paid to the Board of Directors during the year has been recognised within general and administrative expenses (Note 20).

During the year QR 0.78 million (2010: QR 1.26 million) has been paid to committees representing certain key members of the management and salaries and benefits paid to key members of the management amounted to QR 3.2 million (2010: QR 3.2 million).

**Notes to the financial statements**  
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**23. COMMITMENTS AND CONTINGENCIES**

	<b>2011</b>	2010
Capital commitments	<b>8,010,677</b>	27,000,000
Letters of credit	<b>9,366,498</b>	34,000,000
Commitment for balance of associate share capital	<b>6,000,000</b>	12,000,000

During the year 2011, Qatar Quarries & Building Materials Co., an associate of the Company, has made a distribution by way of recognising 50% of the unpaid share capital as paid up capital. Accordingly, the Company's share of QR 6 million was recognised as paid up capital and as at the reporting date the Company has a commitment for the remaining unpaid share capital of QR 6 million.

**24. BASIC EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit for the year attributable to share holders of the Company by the weighted average number of ordinary shares outstanding at the statement of financial position date.

	<b>2011</b>	2010
Net profit attributable to the share holders of the Company	<b>444,650,650</b>	466,992,875
Adjusted weighted average number of outstanding shares*	<b>49,100,596</b>	49,100,596
<b>Basic earnings per share</b>	<b><u>9.06</u></b>	<b><u>9.51</u></b>

\* Weighted average number of outstanding shares for the comparative period was adjusted by the bonus shares issued during the period.

The basic and diluted earnings per share are the same as there were no dilutive effects on earnings during the current and prior years.

**25. FINANCIAL RISK MANAGEMENT**

Financial instrument represents the Company's financial assets and liabilities. Financial assets include cash and cash equivalents, available-for-sale and receivable from customers and others. The significant financial liabilities include term loan and accounts and other payables. The policy for financial instruments is set out in Note 3(d)

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk; and
- Other risk;

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

**Notes to the financial statements**  
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**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Company's exposure to credit risk is as indicated by the carrying amount of its financial assets which consist principally of accounts receivable available-for-sale financial assets and bank balances.

**Accounts receivables**

The management has a credit policy in place and the exposure to the credit risk is monitored on an ongoing basis. The Company manages its credit risk by obtaining bank guarantees from the customers. Also, further credit evaluations are performed on all customers requiring credit and are approved by the management.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Company may have a secured claim. The Company requires collaterals in the form of letters of credit in respect of sales to non related parties.

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. The Company maintains a provision of doubtful debts; the estimation of such provision is reviewed periodically and established on case by case basis. 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. Provision for doubtful debts is disclosed in note 9.

*Ageing analysis of accounts receivable*

	<b>Gross</b>	<b>Provision</b>	<b>Net</b>
<b>31 December 2011</b>	<b>2011</b>	<b>2011</b>	<b>2011</b>
Not past due	73,609,093	-	73,609,093
Past due 0 to 30 days	40,605,527	-	40,605,527
Past due 31 to 120 days	28,815,642	-	28,815,642
More than 120 days	2,688,753	(1,295,889)	1,392,864
	<u><b>145,719,015</b></u>	<u><b>(1,295,889)</b></u>	<u><b>144,423,126</b></u>
	Gross	Provision	Net
<b>31 December 2010</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
Not past due	73,894,958	-	73,894,958
Past due 0 to 30 days	36,776,120	-	36,776,120
Past due 31 to 120 days	21,881,094	-	21,881,094
More than 120 days	2,473,000	(1,295,889)	1,177,111
	<u><b>135,025,172</b></u>	<u><b>(1,295,889)</b></u>	<u><b>133,729,283</b></u>

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****(i) Credit risk (continued)****Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other financial instrument categories. The Company's investments in equity securities are classified as available-for-sale investments and represents equity securities of locally listed companies.

**Bank balances**

The Company reduces the exposure of credit risk arising from bank balances by maintaining bank accounts with reputed banks having strong credit ratings.

With respect to credit risk arising from the above financial assets the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

**(ii) Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The followings are the contractual maturities of financial liabilities including finance cost payments and excluding the impact of netting agreements, if any:

**Gross undiscounted cash flows**

<b>2011</b>	<b>Carrying Amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1 – 2 years</b>	<b>2 – 5 Years</b>
Term loans	163,867,500	(163,867,500)	81,933,750	81,933,750	-
Accounts and other payables	130,002,544	(130,002,544)	130,002,544	-	-
	<b>293,870,044</b>	<b>(293,870,044)</b>	<b>211,936,294</b>	<b>81,933,750</b>	<b>-</b>

**Gross undiscounted cash flows**

<b>2010</b>	<b>Carrying Amount</b>	<b>Contractual cash flows</b>	<b>Less than 1 year</b>	<b>1 – 2 years</b>	<b>2 – 5 Years</b>
Term loans	324,093,500	(324,093,500)	160,226,000	81,933,750	81,933,750
Accounts and other payables	103,738,301	(103,738,301)	103,738,301	-	-
	<b>427,831,801</b>	<b>(427,831,801)</b>	<b>263,964,301</b>	<b>81,933,750</b>	<b>81,933,750</b>

The expected cash flows do not differ significantly from the above analysis.

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**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****(iii) Market risk**

Market risk is the risk that changes in market prices, such as interest rates, foreign currency exchange rates and equity prices will affect the Company's profit, equity or value of its holding of financial instruments. The objective of market risk management is to manage and control the market risk exposure within acceptable parameters, while optimizing return.

The Company is subject to market risk in relation to available-for-sale financial assets and term loans. The Company evaluates the current market value and other factors including normal volatility in share price for quoted equities and other relevant factors such as management's periodical reports relating to unquoted equities in order to manage its market risk.

A 10% increase or decrease in market values of the Company's portfolio of available-for-sale financial assets is expected to result in an increase or decrease of QR 14.92 million (2010: 17.66 million) in the assets and equity of the Company.

**a) Foreign Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company's exposure to foreign currency risk on the transactions that are denominated in a currency other than Qatari Riyal is minimal as they are either denominated in USD (to which Qatari Riyal is pegged) or Euro (which is not significant to the financial statements).

The Company's exposure to the foreign currency risk is as follows based on notional amounts.

<b>31 December 2011</b>	<b>USD (in QR)</b>	<b>Euro (in QR)</b>	<b>Total (in QR)</b>
Accounts receivables	4,110,820	1,527,228	<b>5,638,048</b>
Call and fixed deposits	435,055	79,066	<b>514,121</b>
<b>Total financial assets</b>	<b>4,545,875</b>	<b>1,606,294</b>	<b>6,152,169</b>
Term loans	163,867,500	-	<b>163,867,500</b>
Accounts and other payables	2,647,167	812,957	<b>3,460,124</b>
<b>Total financial liabilities</b>	<b>166,514,667</b>	<b>812,957</b>	<b>167,327,624</b>
 31 December 2010	 USD (in QR)	 Euro (in QR)	 Total (in QR)
Accounts receivables	32,612	3,773,421	3,806,033
Call and fixed deposits	1,272,954	625,390	1,898,344
<b>Total financial assets</b>	<b>1,305,566</b>	<b>4,398,811</b>	<b>5,704,377</b>
Term loans	324,093,500	-	324,093,500
Accounts and other payables	4,311,065	670,881	4,981,946
<b>Total financial liabilities</b>	<b>328,404,565</b>	<b>670,881</b>	<b>329,075,446</b>

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****(iii) Market risk (continued)****b) Interest rate risk**

The Company adopts a policy of ensuring that interest rates are reviewed quarterly, and that interest rates are not subject to frequent fluctuations.

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. Management does not hedge its interest rate risk.

**Profile**

At the reporting date the interest-bearing financial instruments were:

**Variable rate instruments**

	<b>Carrying amounts</b>	
	<b>2011</b>	<b>2010</b>
Financial assets (fixed and call deposits)	<b>254,549,883</b>	99,277,460
Financial liabilities (term loans)	<b>(163,867,500)</b>	(324,093,500)
	<b>90,682,383</b>	(224,816,040)

The following table sets out the interest rate risk profile of the Company's financial assets and liabilities as at 31 December 2011.

	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>					
Fixed and call deposits	<u>254,549,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,549,883</u>
<b>Liabilities</b>					
Term loans	<u>-</u>	<u>81,933,750</u>	<u>81,933,750</u>	<u>-</u>	<u>163,867,500</u>
<b>Interest rate sensitivity gap</b>	<u>254,549,883</u>	<u>(81,933,750)</u>	<u>(81,933,750)</u>	<u>-</u>	<u>90,682,383</u>

The following table sets out the interest rate risk profile of the Company's financial assets and liabilities as 31 December 2010:

	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Assets</b>					
Fixed and call deposits	<u>99,277,460</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,277,460</u>
<b>Liabilities</b>					
Term loans	<u>-</u>	<u>160,226,000</u>	<u>163,867,500</u>	<u>-</u>	<u>324,093,500</u>
<b>Interest rate sensitivity gap</b>	<u>99,277,460</u>	<u>(160,226,000)</u>	<u>(163,867,500)</u>	<u>-</u>	<u>(224,816,040)</u>



**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****(iii) Market risk (continued)****b) Interest rate risk (continued)****Sensitivity analysis**

The following table demonstrates the sensitivity of the Company'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 Company's profit for one year, based on the floating rate financial assets and financial liabilities held at reporting dates.

2011	Equity		Profit or loss	
	100 bp Increase	100 bp decrease	100 bp increase	100 bp Decrease
Variable rate financial assets	2,545,499	(2,545,499)	2,545,499	(2,545,499)
Variable rate financial liabilities	(1,638,675)	1,638,675	(1,638,675)	1,638,675

  

2010	Equity		Profit or loss	
	100 bp Increase	100 bp decrease	100 bp increase	100 bp Decrease
Variable rate financial assets	992,775	(992,775)	992,775	(992,775)
Variable rate financial liabilities	(3,240,935)	3,240,935	(3,240,935)	3,240,935

**c) Equity price risk**

Equity price risk is the risk that the fair values of equity instruments decrease as a result of changes in the price indices of investments in other entities' equity instruments as part of the Company's investment portfolio.

The following table demonstrates the sensitivity of the effect of cumulative changes in fair value to reasonably possible changes in quoted equity share prices, with all other variables held constant. The effect of decreases in equity prices is expected to be equal and opposite to the effect of the increase shown.

	Change in Equity Prices	Effect on Equity
<b>2011</b>		
Available-for-sale investments	±10%	<u>±14,919,156</u>
<b>2010</b>		
Available-for-sale investments	±10%	<u>±17,663,774</u>

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**(iv) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. This responsibility is supported by the development of overall Company standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

**(v) Other risks**

Other risks to which the Company is exposed are regulatory risk, legal risk, and reputational risk.

- Regulatory risk is controlled through a framework of compliance policies and procedures. The operations of the Company are subject to regulatory requirements of the State of Qatar.
- Legal risk is managed through the effective use of internal and external legal advisers.
- Reputational risk is controlled through the Company regular examination of issues that are considered to have reputational repercussions for the Company, with guidelines and policies being issued as appropriate.

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****(vi) Fair values versus carrying amounts**

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

	<b>2011</b>	
	<b>Carrying amounts</b>	<b>Fair values</b>
<b>Assets carried at fair value</b>		
Available-for-sale financial assets	149,191,557	149,191,557
<b>Assets carried at amortized cost</b>		
Cash and bank balances	254,568,145	254,568,145
Accounts receivables	145,719,015	145,719,015
<b>Liabilities carried at fair value</b>		
<b>Liabilities carried at amortized cost</b>		
Term loans	163,867,500	163,867,500
Accounts and other payables	130,002,544	130,002,544

	<b>2010</b>	
	<b>Carrying amounts</b>	<b>Fair values</b>
<b>Assets carried at fair value</b>		
Available-for-sale financial assets	176,637,735	176,637,735
<b>Assets carried at amortized cost</b>		
Cash and bank balances	99,804,940	99,804,940
Accounts receivables	135,025,172	135,025,172
<b>Liabilities carried at amortized cost</b>		
Term loans	324,093,500	324,093,500
Accounts and other payables	103,738,301	103,738,301

**(vii) Capital management**

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity, excluding minority interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company reviews its capital structure regularly and considers the cost of capital and risks associated with it. It manages its capital to ensure that it will be able to support its operations while maximizing the return to stakeholders through the optimization of debt and equity balance.

**25. FINANCIAL RISK MANAGEMENT (CONTINUED)****(vii) Capital risk management (continued)*****Gearing Ratio***

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

The gearing ratio at the year end was as follow:

	2011	2010
Debt	163,867,500	324,093,500
Net debt	163,867,500	324,093,500
Equity	2,314,982,040	2,159,738,339
<b>Net debt to equity</b>	<b>0.07:1.00</b>	<b>0.15:1.00</b>

**26. FAIR VALUE & CLASSIFICATION OF FINANCIAL INSTRUMENT**

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices ) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market price in an active market for a similar instrument, quoted price for an identical instrument in markets that are considered less active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using unobservable inputs.

Fair values of financial assets and liabilities that are traded in active markets are based on quoted market prices or dealer quotations. For all other financial instruments the Company determines fair value using valuation techniques.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

**Fair value measurement at end of 31 December 2011 using:**

	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Available-for-sale investments	149,191,557	149,191,557	-	-

**Fair value measurement at end of 31 December 2010 using:**

	Fair value	Level 1	Level 2	Level 3
<b>Financial assets</b>				
Available-for-sale investments	176,637,735	176,637,735	-	-

**Notes to the financial statements**  
**For the year ended 31 December 2011**

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**27. ACCOUNTING ESTIMATES AND JUDGEMENTS**

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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

**(i) Impairment of receivables**

An estimate of the collectible amount of trade accounts receivables and due from related parties 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, the allowance for impairment of account receivables amounted to QR 1,295,889 (2010: QR 1,295,889)

**(ii) Provision for slow moving inventories**

The Company's management determines the estimated amount of slow moving inventories. This estimate is based on the age of items in inventories and this provision is subject to change as a result of technical innovations and the usage of items.

**(iii) Impairment of available-for-sale equity investments**

The Company treats available-for-sale equity 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 and the future cash flows and the discount factors for unquoted equities, if any.

**(iv) Classification of investment securities**

On acquisition of an investment security, the Company decides on classification. The Company follows the guidance of IAS 39 on classifying its investments. The Company classifies investments as "held for trading" if they are acquired primarily for the purpose of short term profit making and cash generation. All other investments are classified as "available-for-sale". The Company accounts for investments in equity securities as investment in associates only when significant influence over the investee's operations can be proved to exercise, else and regardless of the ownership share, the investment is classified as available-for-sale.

**(v) Depreciation and impairment of property and equipment**

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, the repair and maintenance program and technological obsolescence arising from changes. The management has not considered any residual value as it is deemed immaterial.

The carrying amounts of the Company's property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

**28. COMPARATIVE FIGURES**

Certain comparative figures were reclassified to conform to the current year's presentation. These reclassifications did not have any effect on the comparative net profit or equity.