

Halul Offshore Services Company W.L.L.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
HALUL OFFSHORE SERVICES COMPANY W.L.L.****Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Halul Offshore Services Company W.L.L. ('the Company') and its subsidiary (together the "Group"), which comprise the consolidated statement of finance position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 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 about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010 and its financial performance and 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, proper books of accounts have been kept by the Company, an inventory count has been conducted in accordance with established principles and the financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association. We have obtained all the information and explanations we required for the purpose of our audit, and are not aware of any violations of the above mentioned law or the 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.



Firas Qoussous
of Ernst & Young
Auditor's Registration No. 236

Date: 9 January 2011
Doha



Halul Offshore Services Company W.L.L.

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2010

		2010 QR'000	2009 QR'000
Operating income	<i>Notes</i>	500,186	559,564
Operating expenses	3	<u>(257,759)</u>	<u>(258,890)</u>
NET OPERATING INCOME		242,427	300,674
Investment income	4	9,971	1,804
Other income	5	6,114	3,707
Liquidated damages received		-	15,856
Profit on disposal of property and equipment		6,951	14
General and administration expenses	6	(50,624)	(44,514)
Impairment loss on available-for-sale-investments	17	-	(565)
Interest income		6,138	5,600
Finance costs		<u>(3,423)</u>	<u>(5,602)</u>
PROFIT FOR THE YEAR	7	<u>217,554</u>	<u>276,974</u>
Profit for the year attributable to:			
Owners of the parent		217,554	276,974
Non-controlling interests		<u>-</u>	<u>-</u>
		<u>217,554</u>	<u>276,974</u>

The attached notes 1 to 27 form part of these consolidated financial statements.

Halul Offshore Services Company W.L.L.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	<i>Notes</i>	<i>2010 QR'000</i>	<i>2009 QR'000</i>
Profit for the year		<u>217,554</u>	<u>276,974</u>
Movement in cash flow hedges	17	995	1,023
Net movement in fair value of available-for-sale investments	17	<u>(1,286)</u>	<u>1,736</u>
Other comprehensive income for the year		<u>(291)</u>	<u>2,759</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>217,263</u>	<u>279,733</u>
Total comprehensive income for the year attributable to:			
Owners of the parent		217,263	279,733
Non-controlling interests		<u>-</u>	<u>-</u>
		<u>217,263</u>	<u>279,733</u>

The attached notes 1 to 27 form part of these consolidated financial statements.

Halul Offshore Services Company W.L.L.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	<i>Notes</i>	<i>2010</i> QR'000	<i>2009</i> QR'000
ASSETS			
Non-current assets			
Property and equipment	8	806,026	644,237
Dry docking costs	9	23,993	13,025
Available-for-sale investments	10	-	20,906
		830,019	678,168
Current assets			
Inventories	11	321	995
Accounts receivable and prepayments	12	128,945	151,165
Investments held for trading	13	28,045	-
Investment in term deposits	14	126,146	-
Cash and cash equivalents	14	73,894	200,464
		357,351	352,624
TOTAL ASSETS		1,187,370	1,030,792
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	15	300,000	150,000
Legal reserve	16	96,755	75,000
Cumulative changes in fair values	17	(96)	195
Proposed bonus issue	15	-	150,000
Retained earnings		474,364	278,565
Equity attributable to owners of the parent		871,023	653,760
Non-controlling interests		-	-
Total equity		871,023	653,760
Non-current liabilities			
Non-current portion of term loans	18	186,724	246,472
Employees' end of service benefits	19	5,623	5,962
		192,347	252,434
Current liabilities			
Accounts payable and accruals	20	64,252	54,139
Current portion of term loans	18	59,748	70,459
		124,000	124,598
Total liabilities		316,347	377,032
TOTAL EQUITY AND LIABILITIES		1,187,370	1,030,792

.....
H.E. Salim Bin Butti Al-Naimi
Chairman

.....
H.E.Sh. Ali Bin Jassim Al-Thani
Vice Chairman and Managing Director

.....
Khalifa Mohd. Al Hitmi
Chief Executive Officer

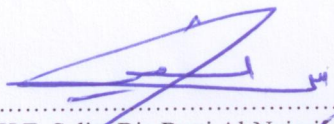
The attached notes 1 to 27 form part of these consolidated financial statements.

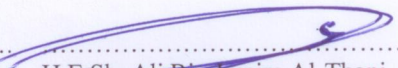
Halul Offshore Services Company W.L.L.

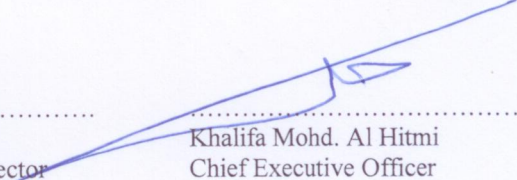
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 QR'000	2009 QR'000
ASSETS			
Non-current assets			
Property and equipment	8	806,026	644,237
Dry docking costs	9	23,993	13,025
Available-for-sale investments	10	-	20,906
		<u>830,019</u>	<u>678,168</u>
Current assets			
Inventories	11	321	995
Accounts receivable and prepayments	12	128,945	151,165
Investments held for trading	13	28,045	-
Investment in term deposits	14	126,146	-
Cash and cash equivalents	14	73,894	200,464
		<u>357,351</u>	<u>352,624</u>
TOTAL ASSETS		<u>1,187,370</u>	<u>1,030,792</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	15	300,000	150,000
Legal reserve	16	96,755	75,000
Cumulative changes in fair values	17	(96)	195
Proposed bonus issue	15	-	150,000
Retained earnings		474,364	278,565
Equity attributable to owners of the parent		<u>871,023</u>	<u>653,760</u>
Non-controlling interests		-	-
Total equity		<u>871,023</u>	<u>653,760</u>
Non-current liabilities			
Non-current portion of term loans	18	186,724	246,472
Employees' end of service benefits	19	5,623	5,962
		<u>192,347</u>	<u>252,434</u>
Current liabilities			
Accounts payable and accruals	20	64,252	54,139
Current portion of term loans	18	59,748	70,459
		<u>124,000</u>	<u>124,598</u>
Total liabilities		<u>316,347</u>	<u>377,032</u>
TOTAL EQUITY AND LIABILITIES		<u>1,187,370</u>	<u>1,030,792</u>


H.E. Salim Bin Butti Al-Naimi
Chairman


H.E. Sh. Ali Bin Jassim Al-Thani
Vice Chairman and Managing Director


Khalifa Mohd. Al Hitmi
Chief Executive Officer

The attached notes 1 to 27 form part of these consolidated financial statements.

Halul Offshore Services Company W.L.L.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	<i>Attributable to the equity holders of the parent</i>						<i>Non-controlling interest</i>	<i>Total</i>
	<i>Share capital</i>	<i>Legal reserve</i>	<i>Cumulative changes in fair value</i>	<i>Proposed bonus issue</i>	<i>Retained earnings</i>	<i>Total</i>		
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
Balance at 1 January 2009	150,000	48,625	(2,564)	-	277,966	474,027	-	474,027
Profit for the year	-	-	-	-	276,974	276,974	-	276,974
Other comprehensive income for the year	-	-	2,759	-	-	2,759	-	2,759
Total comprehensive income for the year	-	-	2,759	-	276,974	279,733	-	279,733
Proposed bonus issue	-	-	-	150,000	(150,000)	-	-	-
Dividend paid for 2009	-	-	-	-	(100,000)	(100,000)	-	(100,000)
Transfer to legal reserve	-	26,375	-	-	(26,375)	-	-	-
Balance at 31 December 2009	150,000	75,000	195	150,000	278,565	653,760	-	653,760
Profit for the year	-	-	-	-	217,554	217,554	-	217,554
Other comprehensive income for the year	-	-	(291)	-	-	(291)	-	(291)
Total comprehensive income for the year	-	-	(291)	-	217,554	217,263	-	217,263
Issue of bonus shares	150,000	-	-	(150,000)	-	-	-	-
Dividend paid for 2010	-	-	-	-	-	-	-	-
Transfer to legal reserve	-	21,755	-	-	(21,755)	-	-	-
Balance at 31 December 2010	300,000	96,755	(96)	-	474,364	871,023	-	871,023

The attached notes 1 to 27 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

1 ACTIVITIES

Halul Offshore Services Company W.L.L. (the “Company”) is a limited liability company registered in the State of Qatar. The Company was formed as an equally owned joint venture between Qatar Shipping Company Q.S.C. and Qatar Navigation Q.S.C. on 4 November 2000. In 2010, subsequent to the merger of Qatar Shipping Company Q.S.C. with Qatar Navigation Q.S.C, the Company became a wholly owned subsidiary of Qatar Navigation Q.S.C. The Company’s main activities include chartering of vessels, supply of diving personnel, diving equipment and other related offshore services. The registered office of the Company is situated in Doha, State of Qatar.

The Company has an effective stake of 100% in Halul United Business Offshore Services Company L.L.C, a limited liability company registered in the Kingdom of Saudi Arabia. The subsidiary’s main activities include chartering of vessels, supply of diving personnel, diving equipment and other related offshore services.

The financial statements were authorised for issue in accordance with a resolution of the directors on January 2011.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for cash flow hedges and available-for-sale financial assets that have been measured at fair value. The financial statements are presented in Qatari Riyals which is the Group’s functional and presentation currency and all values are rounded to nearest thousand (QR’000) except when otherwise indicated.

Statement of compliance

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the applicable requirements of Qatar Commercial Companies’ Law No. 5 of 2002.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary, Halul United Business Offshore Services Company L.L.C, a limited liability company registered in the Kingdom of Saudi Arabia, as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009
- Improvements to IFRSs (May 2008)
- Improvements to IFRSs (April 2009)

The adoption of the standards or interpretations is described below:

IFRS 2 *Share-based Payment (Revised)*

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)*

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group.

IFRIC 17 *Distribution of Non-cash Assets to Owners*

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

Improvements to IFRSs

In May 2008 and April 2009, the IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to some accounting policies but did not have any impact on the financial position or performance of the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in accounting policies and disclosures (continued)

Issued in May 2008

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction..

Issued in April 2009

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.
- IFRS 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IAS 7 *Statement of Cash Flows*: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- IAS 36 *Impairment of Assets*: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

Issued in April 2009

- IFRS 2 *Share-based Payment*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

Standards, amendments and interpretations issued but not adopted

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 24 *Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues (Amendment)*

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations issued but not adopted (continued)

IFRS 9 *Financial Instruments: Classification and Measurement*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 *Prepayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to have a reasonable possible impact on the Group:

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Revenue recognition

Operating income represents income earned and invoiced from chartering of vessels and supply of diving personnel and equipment, in accordance with the terms of the contracts entered into with customers.

Mobilisation revenue is recognised when the right to earn revenue is established as per the terms of the contract entered into with customers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

New vessels	20 years
Second hand vessels	3 to 10 years
Diving & vessels equipment	2 to 5 years
Leasehold improvements	20 years
Office equipment	1 to 3 years
Furniture and fixtures	1 to 5 years
Motor vehicles	1 to 4 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate 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, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

An item of property 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 income statement in the year the asset is derecognised.

The asset's residual values, useful lives and method of depreciation are viewed and adjusted, if appropriate, at each financial year end.

Dry docking costs

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss (continued)

The Group evaluated its financial assets held for trading, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the income statement. The losses arising from impairment are recognised in the income statement in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve.

The Group evaluated its available-for-sale financial assets whether the ability and intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing inventories to their present location and condition at purchase cost on a weighted average basis.

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

Trade receivables

Trade receivables are carried at original invoiced amount less provision for non-collectability of these receivables. A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the cash flow statements, bank balances and cash consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of bank overdrafts, if any.

Accounts payable and accruals

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

Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of time value of money is material, provisions are discounted using a current pre tax rate that reflects, when appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Employees' end of service benefits

The Company provides end of service 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 is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the period of employment.

With respect to its Qatari employees, the Company makes contributions to Government Pension Fund 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. A fund deposit account has been established with a local bank for this purpose and the contribution by both the Company and employees are credited to this account.

Borrowing costs

Borrowing costs that are directly attributable to acquisition or construction of property and equipment are capitalised as part of cost of the asset. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare for its intended use are completed. A capitalisation rate of 100% is used up to the date of completion of substantially all the activities necessary to prepare for its intended use as the entire loans are related to the acquisition of qualifying assets. Other borrowing costs are recognised as expense in the period in which they are incurred.

Derivative financial instruments

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 a 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. The fair value of interest rate swap contracts is determined by referring to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when the hedge is an exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where the hedge is an exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in the statement of comprehensive income and the ineffective portion is recognised in net profit or loss. When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net income, for example when the assets are capitalised and depreciated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to net income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net income for the year.

Foreign currencies

The Group's consolidated financial statements are presented in Qatari Riyals, which is also the parent company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the income statement with the exception of all monetary items that provide an effective hedge for a net investment in a foreign operation. These are recognised in other comprehensive income until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

ii) Group companies

The assets and liabilities of foreign operations are translated into Qatari Riyals at the rate of exchange prevailing at the reporting date and their income statements are translated at translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement. As the functional currency of the subsidiary is Saudi Riyals, the exchange rate differences are not considered material.

Fair values

For investments traded in active markets, fair value is determined by reference to quoted market bid prices. The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics. The fair value of interest rate swap contracts is calculated by reference to the market valuation of the swap contracts.

Halul Offshore Services Company W.L.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

3 OPERATING EXPENSES

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Staff costs	122,251	124,580
Insurance expenses	12,175	11,119
Hire charges	17,100	18,920
Spare parts	8,844	10,819
Maintenance and consumable expenses	22,384	18,291
Diving and equipment expenses	2,038	4,373
Depreciation and amortisation	53,578	51,653
Miscellaneous operating expenses	19,389	19,135
	<u>257,759</u>	<u>258,890</u>

4 INVESTMENT INCOME

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Gains on derecognition of available-for-sale investments	6,799	-
Gains on sale of held for trading investments	55	-
Net movement in the fair value of held for trading investments	1,572	-
Dividend income	1,545	1,804
	<u>9,971</u>	<u>1,804</u>

5 OTHER INCOME

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Gains on foreign exchange	1,087	186
Miscellaneous income	5,027	3,521
	<u>6,114</u>	<u>3,707</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

6 GENERAL AND ADMINISTRATION EXPENSES

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Staff costs	28,193	24,430
Board of Directors remuneration	10,000	10,000
Depreciation	1,725	1,431
Rent	2,276	2,312
Travelling expenses	1,694	1,128
Professional fee	1,102	-
Advertising and sales promotions	1,251	637
Communication expenses	829	802
Immigration expenses	292	172
Insurance	849	892
Vehicle running expenses	147	194
Entertainment expenses	169	165
Printing and stationery	268	96
Utilities	119	92
Hardware/ software maintenance expenses	127	448
Legal and management fees	141	165
Miscellaneous expenses	1,442	1,550
	<u>50,624</u>	<u>44,514</u>

7 PROFIT FOR THE YEAR

The profit for the year is stated after charging:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Staff costs	<u>150,444</u>	<u>149,010</u>
Rent - operating leases	<u>2,318</u>	<u>2,129</u>

Halul Offshore Services Company W.L.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

8 PROPERTY AND EQUIPMENT

	<i>Vessels QR'000</i>	<i>Diving & vessels equipment QR'000</i>	<i>Vessels under construction QR'000</i>	<i>Leasehold improvements QR'000</i>	<i>Furniture and office equipment QR'000</i>	<i>Motor vehicles QR'000</i>	<i>Total QR'000</i>
Cost:							
At 1 January 2010	692,754	58,948	100,147	2,680	7,472	2,197	864,198
Additions	62,013	5,225	138,480	-	1,635	247	207,600
Disposal	(10,571)	(886)	-	-	(179)	(261)	(11,897)
At 31 December 2010	<u>744,196</u>	<u>63,287</u>	<u>238,627</u>	<u>2,680</u>	<u>8,928</u>	<u>2,183</u>	<u>1,059,901</u>
Depreciation:							
At 1 January 2010	173,776	39,147	-	568	5,092	1,378	219,961
Depreciation charge for the year	35,105	8,211	-	549	1,349	419	45,633
Disposal	(10,571)	(806)	-	-	(81)	(261)	(11,719)
At 31 December 2010	<u>198,310</u>	<u>46,552</u>	<u>-</u>	<u>1,117</u>	<u>6,360</u>	<u>1,536</u>	<u>253,875</u>
Net carrying amounts:							
At 31 December 2010	<u>545,886</u>	<u>16,735</u>	<u>238,627</u>	<u>1,563</u>	<u>2,568</u>	<u>647</u>	<u>806,026</u>

Halul Offshore Services Company W.L.L.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

8 PROPERTY AND EQUIPMENT (continued)

	<i>Vessels QR'000</i>	<i>Diving & vessels equipment QR'000</i>	<i>Vessels under construction QR'000</i>	<i>Leasehold improvements QR'000</i>	<i>Furniture and office equipment QR'000</i>	<i>Motor vehicles QR'000</i>	<i>Total QR'000</i>
Cost:							
At 1 January 2009	625,453	55,283	82,518	871	6,628	1,873	772,626
Additions	2,640	3,665	82,290	1,809	912	369	91,685
Transfers	64,661	-	(64,661)	-	-	-	-
Disposal	-	-	-	-	(68)	(45)	(113)
At 31 December 2009	<u>692,754</u>	<u>58,948</u>	<u>100,147</u>	<u>2,680</u>	<u>7,472</u>	<u>2,197</u>	<u>864,198</u>
Depreciation:							
At 1 January 2009	141,119	31,002	-	351	4,045	1,015	177,532
Depreciation charge for the year	32,657	8,145	-	217	1,093	408	42,520
Disposal	-	-	-	-	(46)	(45)	(91)
At 31 December 2009	<u>173,776</u>	<u>39,147</u>	<u>-</u>	<u>568</u>	<u>5,092</u>	<u>1,378</u>	<u>219,961</u>
Net carrying amounts:							
At 31 December 2009	<u>518,978</u>	<u>19,801</u>	<u>100,147</u>	<u>2,112</u>	<u>2,380</u>	<u>819</u>	<u>644,237</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

8 PROPERTY AND EQUIPMENT (continued)

Notes :

(i) The depreciation charge has been allocated in the statement of income as follows:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Operating expenses	43,908	41,089
General and administration expenses	<u>1,725</u>	<u>1,431</u>
	<u>45,633</u>	<u>42,520</u>

(ii) The vessels under construction relates to costs incurred on the construction of two vessels including the saturation system (31 December 2009: 1 vessel). It also includes progress payments made to shipyards towards construction of ships and the related borrowing costs capitalised in respect of these vessels. The borrowing cost capitalised during the year amounted to QR 834,524 (2009: QR 3,756,753).

9 DRY DOCKING COSTS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Costs:		
At 1 January	46,881	40,258
Additions	21,321	6,623
Write off	<u>(4,187)</u>	<u>-</u>
At 31 December	<u>64,015</u>	<u>46,881</u>
Amortisation:		
At 1 January	33,856	23,292
Amortisation	9,670	10,564
Write off	<u>(3,504)</u>	<u>-</u>
At 31 December	<u>40,022</u>	<u>33,856</u>
Net carrying amount:		
At 31 December	<u>23,993</u>	<u>13,025</u>

10 AVAILABLE-FOR-SALE INVESTMENTS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Quoted shares	<u>-</u>	<u>20,906</u>

During the year, the Group appointed an external investment manager to manage its investment portfolio. Accordingly, the Group reclassified its available-for-sale investments to held for trading investments and the previously recognised gains that have been included in the equity amounting to QR 6.8 million have been recognised as the date of the reclassification in the statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2010

11 INVENTORIES

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Spares and consumables	1,612	2,286
Less: Provision for slow moving items	(1,291)	(1,291)
	321	995

12 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Trade receivables	67,201	98,355
Advances to suppliers	5,231	3,626
Prepaid expenses	9,222	9,498
Accrued income	49,321	39,279
Other receivables	3,273	5,710
	134,248	156,468
Less: Provision for impairment of receivables	(5,303)	(5,303)
	128,945	151,165

As at 31 December 2010, trade receivables at nominal value of QR 5,302,768 (2009: QR 5,302,768) were impaired. Movements in the allowance for impairment of receivables were as follows:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
At 1 January	5,303	5,303
Charge for the year	-	-
Amounts written-off during the year	-	-
Transfer to Provision	-	-
At 31 December	5,303	5,303

As at 31 December 2010 and 2009, the ageing of unimpaired trade receivables is as follows:

	<i>Total</i> <i>QR</i>	<i>Neither</i> <i>past due</i> <i>nor</i> <i>impaired</i> <i>QR</i>	<i>Past due but not impaired</i>			
			<i>< 60 days</i> <i>QR</i>	<i>60 – 90</i> <i>days</i> <i>QR</i>	<i>90-180</i> <i>days</i> <i>QR</i>	<i>> 180</i> <i>days</i> <i>QR</i>
2010	61,898	61,075	108	418	297	-
2009	93,052	45,133	39,330	3,543	1,798	3,248

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over receivables and the vast majority are, therefore, unsecured.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

13 INVESTMENTS HELD FOR TRADING

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
At 1 January 2009	-	-
Transfer from available for sale investments (Note 10)	26,418	-
Additions	17,867	-
Disposals	(17,812)	-
Movements in the fair value	1,572	-
	<u>28,045</u>	<u>-</u>

14 CASH AND CASH EQUIVALENTS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Bank balances and cash	200,040	200,464
Less: Term deposits maturing after 90 days	(126,146)	-
	<u>73,894</u>	<u>200,464</u>

The term deposits are denominated in Qatari Riyals and carry an effective interest rate of 3.19%

15 SHARE CAPITAL

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Authorised, issued and fully paid up:		
300,000 shares of QR 1,000 each (2009: 150,000 shares of QR 1,000 each)	<u>300,000</u>	<u>150,000</u>

In 2010, the Company issued bonus shares equivalent to 100% of the Company's capital as at 31 December 2009 based on the approval at the annual general assembly.

16 LEGAL RESERVE

As required by Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association, 10% of the net profit has been transferred to legal reserve. The Company may resolve to discontinue such annual transfer when the reserve totals 50% of the issued share capital. The reserve is not available for distribution except in the circumstances stipulated in the above law.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

17 CUMULATIVE CHANGES IN FAIR VALUE

	<i>Cash flow hedges QR'000</i>	<i>Available for sale investments QR'000</i>	<i>2010 Total QR'000</i>	<i>2009 Total QR'000</i>
Balance at 1 January	(1,091)	1,286	195	(2,564)
Net movement in fair values during the year	995	5,513	6,508	2,194
Recognised gains and losses on reclassification	-	(6,799)	(6,799)	-
Transfer to income statement on impairment	-	-	-	565
Net movement during the year	995	(1,286)	(291)	2,759
Balance at 31 December	(96)	-	(96)	195

18 TERM LOANS

	<i>2010 QR'000</i>	<i>2009 QR'000</i>
Loan 1 (i)	10,710	32,131
Loan 2 (ii)	14,459	20,885
Loan 3 (iii)	24,783	31,863
Loan 4 (iv)	27,418	34,273
Loan 5 (v)	32,546	38,463
Loan 6 (vi)	136,556	159,316
	246,472	316,931
Presented in the balance sheet as follows:		
Current portion	59,748	70,459
Non-current portion	186,724	246,472
	246,472	316,931

Notes:

- (i) Loan 1 is repayable in 17 equal semi-annual instalments of QR 10.7 million each commencing from February 2003 and carries interest at LIBOR plus a margin of 0.82%. The loan is obtained to finance the purchase and construction of vessels and is secured by a corporate guarantee of the shareholders of the Company.
- (ii) Loan 2 has been obtained to finance the purchase of nine vessels. The loan is repayable in 34 equal quarterly instalments of QR 1.6 million each commencing from December 2004 and loan carries interest at LIBOR plus a margin of 0.70%.
- (iii) Loan 3 has been obtained to finance the purchase of two anchor handling tug vessels. The loan is repayable in 18 semi-annual equal instalments of QR 3.5 million each commencing from December 2006 and carries interest at LIBOR plus a margin of 0.65%.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

18 TERM LOANS (continued)

- (iv) Loan 4 has been obtained to finance the purchase of two vessels. The loan is repayable in 17 equal semi-annual instalments of QR 3.40 million commencing from September 2006 and carries interest at LIBOR plus a margin of 0.70%.
- (v) Loan 5 has been obtained to finance the purchase of 4 utility standby safety vessels. The loan is repayable in 16 semi-annual instalments commencing from July 2008 and carries interest at LIBOR plus a margin of 0.60%.
- (vi) Loan 6 has been obtained to finance the purchase of two platform supply vessels, which are currently under construction. The loan is repayable in 16 semi-annual instalments commencing from April 2009 and carries interest at LIBOR plus a margin of 0.60%.

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

The repayment schedule of the utilised loan facilities is as follows:

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
In one year	59,748	70,459
Between 1 and 3 years	93,257	108,787
Between 3 and 5 years	67,749	111,967
Over 5 years	25,718	25,718
	<u>246,472</u>	<u>316,931</u>

19 EMPLOYEES' END OF SERVICE BENEFITS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Movements in the provision recognised in the statement of financial position are as follows:		
Provision as at 1 January	5,962	4,923
Charge for the year	1,928	1,156
End of service benefits paid during the year	<u>(2,267)</u>	<u>(117)</u>
Provision as at 31 December	<u>5,623</u>	<u>5,962</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

20 ACCOUNTS PAYABLE AND ACCRUALS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Trade accounts payable	26,858	18,023
Amounts due to related parties (Note 24)	2,309	2,726
Accrued expenses	34,329	32,255
Negative fair value of interest rate swap	96	1,092
Deferred revenues	629	27
Other payables	31	16
	<u>64,252</u>	<u>54,139</u>

22 DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 2010, the Company had an interest rate swap agreement in place with a notional amount of US\$ 2,941,176 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 Loan 1 included in Note 18 above. The term loan and interest rate swap have the same critical terms.

The Company has recognised the fair value of the interest rate swap amounting to QR 96,560 as at 31 December 2010 (2009: QR 1,091,554). The loss on this cash flow hedge has been reflected in the statement of comprehensive income representing the cumulative changes in fair value. The fair value of the interest rate swap is calculated by reference to the market valuation of the swap agreement.

22 EXPENDITURE COMMITMENTS

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Capital expenditure commitments		
Estimated capital expenditure contracted for at the balance sheet date but not provided for:		
Property and equipment	<u>446,084</u>	<u>72,970</u>

23 CONTINGENT LIABILITIES

The Company had contingent liabilities in respect of bank and other guarantees arising in the ordinary course of business from which it is anticipated that no material liabilities will arise.

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

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Guarantees against tender bonds	54,007	31,420
Guarantees against performance bonds	300,891	171,864
Letter of credit	52,598	3,489
	<u>407,496</u>	<u>206,773</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

24 RELATED PARTY TRANSACTIONS

Related parties represent shareholders, directors and key management personnel of the Company. Pricing policies and terms of these transactions are approved by the Company's management.

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

	<i>Payables</i>	
	<i>2010</i>	<i>2009</i>
	<i>QR'000</i>	<i>QR'000</i>
<i>Shareholders:</i>		
Qatar Navigation Q.S.C.	<u>2,309</u>	<u>2,726</u>

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

	<i>2010</i>	<i>2009</i>
	<i>QR'000</i>	<i>QR'000</i>
Purchases from Qatar Navigation Q.S.C.	<u>30,287</u>	<u>19,912</u>
Payments to Qatar Shipping Company Q.S.C. for the construction works	<u>-</u>	<u>6,986</u>
Liquidated damages received from Qatar Shipping Company Q.S.C.	<u>-</u>	<u>15,856</u>

Compensation of key management personnel

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

	<i>2010</i>	<i>2009</i>
	<i>QR'000</i>	<i>QR'000</i>
Short-term benefits	<u>13,874</u>	<u>13,752</u>
Employees' end of service benefits	<u>299</u>	<u>200</u>
	<u>14,173</u>	<u>13,952</u>

Amounts due to related parties are disclosed in Note 20.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

25 FINANCIAL RISK MANAGEMENT

Objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise term loans, accounts payable and certain accruals and due to related parties.. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as held for trading investments, accounts receivables and certain other receivables, amounts due from related parties and cash and short-term deposits, which arise directly from its operations. The Group also enters into derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout 2010 and 2009 the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk, equity price risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The Company is exposed to interest rate risk on its interest bearing assets and liabilities (bank deposits, bank overdraft and term loan).

The following table demonstrates the sensitivity of the statement of income to reasonably possible changes in interest rates, with all other variables held constant, of the Company's profit. The sensitivity of the statement of income is the effect of the assumed changes in interest rates on the Company's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2010 and 2009. There is no impact on the Company's equity.

	<i>Increase/decrease in basis points</i>	<i>Effect on profit for the year QR'000</i>
31 December 2010		
QR	+25	(78)
QR	-25	78
31 December 2009		
QR	+25	(26)
QR	-25	26

Currency risk

The Company does not hedge its currency exposure. However, in the opinion of the management, the Company's exposure to currency risk is minimal as most of the foreign currency financial liabilities are denominated in US Dollars. As the Qatari Riyal is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

Equity price risk

The following table demonstrates the sensitivity of the cumulative changes in fair value to reasonably possible changes in equity 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 increases shown.

	<i>Change in equity price 2010 QR</i>	<i>Effect on equity 2010 QR'000</i>	<i>income 2010 QR'000</i>	<i>Change in equity price 2009 QR</i>	<i>Effect on equity 2009 QR'000</i>	<i>income 2009 QR'000</i>
Doha Securities Market	+10%	-	2,805	+10%	2,091	-

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

25 FINANCIAL RISK MANAGEMENT (continued)

Credit risk

The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

The Company provides its services to a small number of oil and gas companies. Its three largest customers account for 84% of outstanding accounts receivable at 31 December 2010 (2009: 84%).

Liquidity risk

The Company limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sales require amounts to be paid within 45 days of the date of sale.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2010 and 2009, based on contractual payment dates and current market interest rates.

At 31 December 2010

	<i>Less than 3 months QR'000</i>	<i>3 to 12 months QR'000</i>	<i>1 to 5 years QR'000</i>	<i>More than 5 years QR'000</i>	<i>Total QR'000</i>
Term loans	19,183	44,983	171,601	26,164	261,931
Derivative financial instruments:					
- Contractual amounts receivable	-	11,291	-	-	11,291
- Contractual amounts payable	-	(10,774)	-	-	(10,774)
Accounts payable and accruals	60,040	4,116			64,156
	79,223	49,616	171,601	26,164	326,604

At 31 December 2009

	<i>Less than 3 months QR'000</i>	<i>3 to 12 months QR'000</i>	<i>1 to 5 years QR'000</i>	<i>More than 5 years QR'000</i>	<i>Total QR'000</i>
Term loans	19,491	38,766	352,122	29,671	440,050
Derivative financial instruments:					
- Contractual amounts receivable	-	11,582	22,293	-	33,875
- Contractual amounts payable	-	(10,890)	(21,600)	-	(32,490)
Accounts payable and accruals	49,425	3,622	-		53,047
	68,916	43,080	352,815	29,671	494,482

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

25 FINANCIAL RISK MANAGEMENT (continued)

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, after fulfilling senior debt obligations, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2010 and 31 December 2009.

The Company monitors capital using a gearing ratio, which is debt divided by capital plus debt. The Company includes within debt, interest bearing loans and borrowings and trade and other payables. Capital includes equity less any net unrealised gains reserve.

	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Interest bearing loans and borrowings	246,472	316,931
Trade and other payable	<u>69,875</u>	<u>60,101</u>
Net debt	<u>316,347</u>	<u>377,032</u>
Equity	871,023	653,760
Net unrealised (gains) losses reserve	<u>96</u>	<u>(195)</u>
Total Capital	<u>871,119</u>	<u>653,565</u>
Capital and net debt	<u>1,187,466</u>	<u>1,030,597</u>
Gearing Ratio	27%	36%

26 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivatives.

Financial assets consist of bank balances and cash and trade receivables. Financial liabilities consist of term loans and payables. Derivatives consist of interest rates swaps.

A comparison by class of the carrying value and fair value of the Company's financial instruments that are carried in the financial statements are set out below:

	<i>Carrying amount</i>		<i>Fair value</i>	
	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>	<i>2010</i> <i>QR'000</i>	<i>2009</i> <i>QR'000</i>
Financial assets				
Trade and other receivables	128,945	151,165	128,945	151,165
Available-for-sale investments	-	20,906	-	20,906
Investments held for trading	28,045	-	28,045	-
Bank balances and cash	<u>200,040</u>	<u>200,464</u>	<u>200,040</u>	<u>200,464</u>
	<u>357,030</u>	<u>372,535</u>	<u>357,030</u>	<u>372,535</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

26 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

	<i>Carrying amount</i>		<i>Fair value</i>	
	<i>2010</i>	<i>2009</i>	<i>2010</i>	<i>2009</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
Financial liabilities				
Term loans	246,472	316,931	246,472	316,931
Trade and other payables	64,156	49,425	64,156	49,425
Interest rate swaps	96	1,092	96	1,092
	<u>310,724</u>	<u>367,448</u>	<u>310,724</u>	<u>367,448</u>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Bank balances and cash, trade receivables, trade payables, and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair value of available-for-sale financial assets is derived from quoted market prices in active markets.
- The Company enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Derivatives are valued based on market valuation provided by the respective counterparties.

Fair value hierarchy

As at 31 December 2010, the Company held the following financial instruments measured at fair value:

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	<i>2010</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>	<i>QR'000</i>
Assets measured at fair value				
Investments held for trading	<u>28,045</u>	<u>28,045</u>	<u>-</u>	<u>-</u>
Liabilities measured at fair value				
Interest rate swaps	<u>96</u>	<u>-</u>	<u>96</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2010

26 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

	<i>2009</i> <i>QR'000</i>	<i>Level 1</i> <i>QR'000</i>	<i>Level 2</i> <i>QR'000</i>	<i>Level 3</i> <i>QR'000</i>
Assets measured at fair value				
Available-for-sale investments	<u>20,906</u>	<u>20,906</u>	<u>-</u>	<u>-</u>
Liabilities measured at fair value				
Interest rate swaps	<u>1,092</u>	<u>-</u>	<u>1,092</u>	<u>-</u>

During the reporting year ending 31 December 2010, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

27 KEY SOURCES OF ESTIMATION UNCERTAINTY

Impairment of trade and other receivables

An estimate of the collectible amount of trade and other receivable 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 balance sheet date, gross trade accounts receivable were QR 67,201,459 (2009: QR 98,355,527) and the provision for doubtful debts was QR 5,302,768 (2009: QR 5,302,768). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

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. Amounts 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 realizable value.

At the balance sheet date, gross stores and spares were QR 1,612,365 (2009: QR 2,286,184), with provisions for old and obsolete inventories of QR 1,290,681 (2009: QR 1,290,681). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the income statement.

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.