



Annual Performance Report

2006

'We Make Steel Matter'


قطر ستيل
QATAR STEEL



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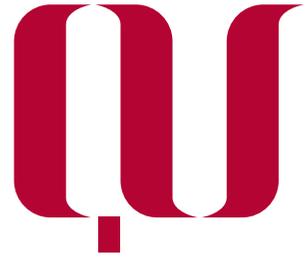
*In the Name of Allah,
the Most Compassionate, the Most Merciful*



H.H. Sheikh Hamad Bin Khalifa Al-Thani
Emir of the State of Qatar



H.H. Sheikh Tamim Bin Hamad Al-Thani
Heir Apparent



قطر ستييل

QATAR STEEL

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Board of Directors



H.E. Yousef Hussain Kamal
Chairman



H.E. Dr. Mohammed Saleh Al-Sadah
Vice Chairman



Sh. Nasser Bin Hamad Al-Thani
Director and General Manager



Mr. Fahad Hamad Al-Mohannadi
Director



Mr. Abdel Rahman Ahmed Al-Shaibi
Director



Dr. Nasser Mubarak Shafi Al-Shafi
Director



Mr. Mohamed Hitmi Ahmed Al-Hitmi
Director

Senior Management



**Sh. Nasser Bin Hamad
Al-Thani**
Director & General Manager



**Eng. Mohammed Tahir
Al-Hammadi**
Projects Division Manager



**Mr. Ali Bin Hassan
Al-Muraikhi**
Commercial Division Manager



**Mr. Saad Rashid
Al-Mohannadi**
Procurement & Warehousing
Division Manager



**Mr. Yousef Abdulla
Q. Al-Emadi**
Production Division Manager



**Mr. Kefah Mustafa
Al-Mulla**
Administration Division Manager



Mr. Husein Hassan Murrar
Business Development Manager



Mr. Malek Hamdieh
IT Manager



Dr. Idris I. Gamil
Senior Legal Advisor
& Board Secretary



Mr. Remy Rowhani
Finance Division Manager

Chairman's Message



H.E. Yousef Hussain Kamal
Chairman

I have immense pleasure in informing you that 2006 was a marvelous year for Qatar Steel with strong demand and excellent prices for its products. Qatar Steel recorded a remarkable 50% growth in the sales volume of rebars.

The progress of the construction and erection works of the new DRI, SMS and Bar Mill plants has been good and all the three are scheduled to commence production during the 2nd and 3rd quarters of 2007. The total cost of the projects will remain within US\$ 575 million, financed by Retained Earnings to the extent of US\$ 90 million and a Term Loan Facility for the balance US\$ 485 million.

The Qatar Steel joint venture project in Bahrain – United Stainless Steel Company – has also seen good progress. Production of cold rolled stainless steel coils and sheets will commence from this facility in the 2nd quarter of 2007.

The Consolidated Net Income of Qatar Steel was QR 534 million in 2006 compared to QR 387 million in 2005. Net Cash Income during 2006 was QR 602 million compared to QR 463 million in 2005.

2006 Performance Highlights

During the year 2006, the Sales far exceeded the Budget and the Production was close to the Budget or equal to the planned levels. This can be summarized as follows:

Total shipments reached 1,498 KMT, of which rebars accounted for 1,239 KMT and billets 259 KMT. Domestic shipments surpassed the 2005 shipments by 24% or 147 KMT and reached 751 KMT. Export Sales more than doubled compared to the 2005 figure of 222 KMT and reached 488 KMT, an increase of 120%.

Total DRI Production in 2006 was 877 KMT (355 operating days) - higher than the Budget of 840 KMT (350 operating days), and the figure of 815 KMT achieved in 2005 (334 operating days). Average daily production rate showed an increase of 1% over 2005.

A process loop for the independent control of DRI Carbon, cooling zone gas bleed, was designed and installed by our in-house experts in June 2006.

Production in the EF and CC plants was lower than the 2005 actuals. The average yields of Molten Steel (EF) and Billets (CC) during the year was 92% and 98% respectively, the same as the budget.

Various modifications and development projects were undertaken to reduce costs and steps were taken to reduce pollution from the product dust etc. Ladle Furnace for EF 3 was commissioned during the year. This is expected to further enhance the productivity and quality in 2007.

Rolling Mill recorded a production of 730 KMT in 2006 (791 KMT in 2005). The operating days for the plant were 349 in 2006 compared to 356 days in 2005.

During 2006, Qatar Steel rewrote its employee policy and procedure manual, upgraded the employee packages to competitive levels, enhanced its HR practices through participation of employee focus groups and trained and developed in-house expertise in performance management and Hay job evaluation techniques. Qatar Steel has also set aggressive KPIs (key performance indicators) and reward mechanisms to measure its overall performance during the year.

Qatar Steel was able to attract and recruit the required number of employees (399) to cater for attrition as well as for its expansion projects.

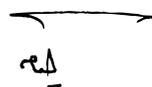
Qatar Steel's success in quality Qatarization is a result of its management's focus to Qatarize senior level positions which currently stand at 56%. Overall Qatarization is 14%.

Total number of training days during 2006 was 779. The courses covered various topics related to the industry. A total of 675 employees were trained 'in-house' and at various venues in Qatar. 101 employees were sent abroad for specialized training courses.

The sales and operations of Qatar Steel Company FZE were satisfactory. Total production of Bars and Coils was 190 KMT compared to 194 KMT in 2005 and Sales was 190 KMT compared to 183 KMT in 2005. Net Income for 2006 was QR 15 million compared to QR 14 million in 2005. Qatar Steel Company FZE is setting up a new bar mill with a capacity of 300 KMT, which is expected to commence production in the 3rd quarter of 2007.

Another notable accomplishment in 2006 was the certification of Qatar Steel to the 'ISO 14001 for Environment Management 2004 version', signifying its successful migration from the 1996 version. This reflects Qatar Steel's continuing commitment to Health, Safety and Environment both within the plant and the community at large.

Finally, I would like to thank Qatar Steel's management and staff for their continuing dedication to develop and improve the Company's performance in all respects. I would like to emphasize that the exceptional progress that Qatar Steel has achieved over the recent years is essentially driven by the stupendous growth of the Qatari economy under the leadership of H.H. Sheikh Hamad Bin Khalifa Al-Thani, Emir of the State of Qatar and H.H. Sheikh Tamim Bin Hamad Al-Thani, the Heir Apparent. On behalf of the Board of Directors and Management of Qatar Steel I express my sincere gratitude to them for their support and leadership. I conclude by once again thanking the people of Qatar Steel for this marvelous success and I urge them to maintain the momentum to achieve better results.



Yousef Hussain Kamal
Chairman

General Manager's Message



**Sh. Nasser Bin Hamad
Al-Thani**

Director & General Manager

We have the pleasure of presenting to you the third annual report of Qatar Steel Company (Qatar Steel), which gives a complete account of the successes of our production operations. The total production in 2006, reached around 876,885 tons of sponge iron, 1,039,138 tons of molten steel and 729,916 tons of reinforced bars. The production of Qatar Steel's branch in Dubai stood at around 189,334 tons of wire and steel bars. During the year we delivered 1,238,547 tons of reinforced bars and 259,249 tons of steel billets. Qatar Steel's Dubai branch sold around 190,620 tons of wire and reinforced bars.

The record output levels of our various production units, including the direct reduction, electric furnaces, continuous casting and rolling mill units, in 2006 is a direct reflection of the increasing demand for our products. It has been noticed that the steel produced at Qatar Steel has earned the Company a prominent position as one of the prime producers of the best

steel varieties in the world. In this context, Qatar Steel continues its efforts to maintain the best quality standards in all its daily operations and activities, from contacting the clients till meeting their requirements in line with their expectations.

The Company continued the implementation of its Phase I Expansion Project which consists of the Direct Reduction Plant, Electric Furnace, Continuous Casting Unit and Rolling Mill. This project was initiated in 2005 at a total cost of US\$ 575 million. During the year, remarkable progress was achieved as the civil construction and steel structure works for the entire project have been completed. Commissioning and start-up of all the plants were scheduled to take place in the latter part of 2006 and the first half of 2007. Upon completion of Phase I, the total production of DRI will reach 2.4 MTPA, Steel Billets will reach 1.6 MTPA and Steel Bars will reach 1.45 MTPA.

The Company is currently developing a technical, marketing, and economic feasibility study for adding a 4th Electric Arc Furnace, an affiliated Continuous Casting Unit with an annual production capacity of 1.2 MTPA of steel billets and a new Rolling Mill at a capacity of 800,000 MTPA of steel bars. Upon completion of the Phase II Project, the total production of steel bars will reach 2.25 MTPA and the billets available for sale will be 180,000 MTPA.

The Company is determined to pursue its future growth plans which is aimed at annually producing 4 million tons of steel during the next 5 years. We are also diligently working towards increasing our production capacity and developing our business by entering into overseas joint venture projects in the Mining and Pelletization sector in order to ensure a steady supply of raw materials for our increasing production capacity. Gulf Industrial Investment Company (GIIC) in Bahrain and El Aouj Project in Mauritania are two of such projects. With a view towards strengthening our relationship with El Aouj partners, we purchased a stock investment of around 10% in Sphere Investment Ltd. in Australia.

Qatar Steel pays great attention to the intake and training of qualified and skilled Qatari nationals. Qataris presently represent 37% of the workforce in the administration area and 7% in other sectors of the Company.

We are extremely grateful to H.H. Sheikh Hamad Bin Khalifa Al-Thani, Emir of the State of Qatar and H.H. Sheikh Tamim Bin Hamad Al-Thani, the Heir Apparent for their far-sighted vision and flawless wisdom. We are thankful to our Board of Directors, especially to our Chairman, H.E. Yousef Hussain Kamal, for their valuable guidance and support. We also express our gratitude and thanks to all ministries and organizations of the State for their continuous support and cooperation. Last, but not the least, I sincerely congratulate all our employees whose loyalty, hard work and dedication continue to contribute to the success of the Company.



Nasser Bin Hamad Al-Thani
Director & General Manager





DR Department

Qatar Steel's Direct Reduction Plant continued its outstanding track record of smooth plant operations with an average productivity of 2466 MT/Day compared to the budget of 2400 MT/Day and an all-time low outage of 14.54 calendar hours (0.166%). A significant milestone of 16 million tons of DRI was achieved on 13th April 2006 in 410 operation days compared to the previous million in 442 days. These results were achieved while maintaining consistent product quality and a high metallization of 95%.

During the year 2006, a series of outstanding achievements were recorded.

Operation Results

Best Plant Safety

Thirty months of plant operation without any personnel accident.

Best Productivity Record

Average productivity crossed 102.70 MT/Hour (Design capacity: 52 MT/Hour).

Five Daily Production Records

Daily production records were broken 5 times and the highest daily production record of 2,612 MTPD was achieved on 25th December, 2006.

Two Monthly Production records

Monthly production records were established twice and the latest record of 79,566 MT was achieved during the month of December 2006.

Yearly Production

The yearly production of 876,885 MT surpassed the previous record of 830,359 MT achieved in 2004.

Best (Lowest) Unscheduled Outage

Only 14.54 hours of outage was recorded in 2006, which is the best in our history of plant operations and the lowest among all similar plants in the world. Previous best was 16.62 hours in 2005.

Equipment Modifications

During the year 2006, Direct Reduction Plant improved the following:

- Improvement of preheaters' efficiency
- Conservation of the heat energy of the hot ducts
- Improvement of heat distribution in the reformer
- Cooling gas bleed line installation
- Reformed gas cooler by-pass

Staff Development

In-house leadership and supervisory development programs were conducted to develop a motivated team. In order to undertake the operations of HDRI/HBI of the DR-2 Module, we recruited freshers and provided them with in-house training, utilizing the expertise of our senior employees.

Looking Ahead

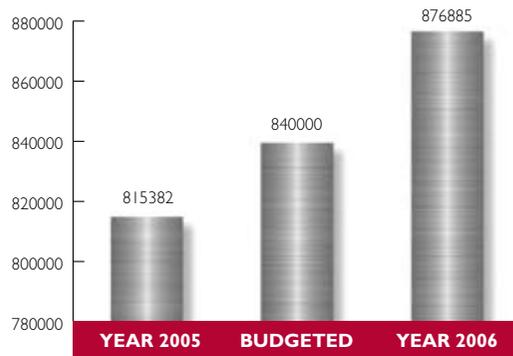
Our highly skilled and motivated team of both nationals & expatriates is looking forward towards owning and commissioning the green field DRI/HBI combo plant, the first of its kind in the world, in 2007. Our aim is to exceed the design capacity within the first week of operations in mid 2007.

DR Performance for Year 2006

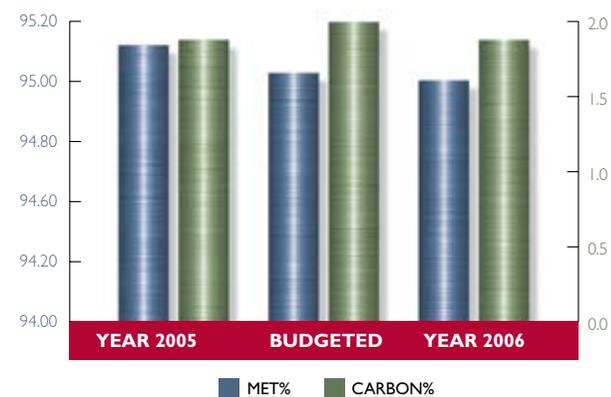
	Production MT	Met%	Carbon%	Power Kwh/ton	NG NCM/ton	Water M³/ton	Lime Kg/ton
2005	815382	95.11	1.88	96.4	270.4	0.22	1.348
Budget	840000	95.00	2.00	100.0	280.0	0.25	1.200
2006	876885	94.97	1.88	93.2	267.7	0.18	1.050

	Increased Production	Reduction in Power	Reduction in NG	Reduction in Water	Reduction in Lime
Against Budget	4.36%	6.80%	4.39%	28.0%	12.50%
Against Year 2005	7.51%	3.36%	1.01%	17.7%	22.12%

Production Figures (MT)



Metallization & Carbon%



Material Control Department

During the year 2006, the Material Control Department remarkably carried out its target of receiving/stacking & supplying raw materials, mainly iron ore pellets, HBI, ferro-alloys & scrap. The material requirements of the Direct Reduction Plant & EAF's including the Ladle Furnace was fulfilled by supplying all types of materials and maintaining the desired blending ratio. The newly installed Shore Crane and Receiving Hopper were regularized and utilized for full-fledged operations and recorded optimum results. The capacity of the oxide pellet yard increased by 20% and can now accommodate up to 550,000 MT.

Our efforts immensely contributed to the success of the downstream production departments and helped them to establish new production records and further heights of excellence.

Vital Statistics

Length of Quay	: 800 m
No. of Berths	: Berth No. 1, 2, 3 & part of 4
Sea Draft	: 15.5 m
Shore Crane	: 1 a) Lifting capacity: 104 T/22 m (with min. outreach) b) Lifting capacity: 37 T/48 m (with max. outreach)
Dock Side Cranes	: 1 (Lifting capacity: 12.5 MT)
Unloader	: 1 (Design capacity - 1,000 MT/Hour)
Belt Conveyors	: a) Receiving line capacity - 2,000 MT/Hour b) Supplying line capacity - 350 MT/Hour
Receiving Hopper	: 1 (Design capacity - 2,000 MT/Hour)
Storage Yards	: a) Pellet yard capacity - 550,000 MT b) Scrap yard capacity - 70,000 MT
Stacker/Reclaimer	: 2,000/350 MT/Hour

Raw Materials Received

Iron Ore Pellets	: 1,339,966 MT
HBI/DRI	: 60,121 MT
Lump Ore	: 64,384 MT
Import Scrap (HMS)	: 64,658 MT
Ferro Alloys	: 23,192 MT
Re-Bar Discharging	: 369,161 MT
Calcined, Dolomite & Sized Lime	: 46,260 MT

Operation Highlights

Cost reduction was achieved by receiving & processing (by Sub-Con.) about 31,963.20 MT of skull & return scrap from various operation stages and supplying the same to EAF.



Material Receiving & Utilization of Resources

Vessel Receiving/Discharging/Jetty Operations				
Material	No. of Vessels	Quantity (MT)	Berth Utilize (Hrs.)	Berth Utilize (%)
Pellets	20	1,339,966	1,867	28
HBI	2	60,121	160	
Lump Ore	1	64,384	114	
Project Items	9		334	
Berth No. 1	32	1,464,471	2,475	46
Ferro Alloys	5	23,192	204	
Steel Scrap	1	64,658	371	
Re-Bar Discharging	11	369,161	3,478	
Berth No. 2 & 3	17	457,011	4,053	

Note

Other than handling raw materials, the berths were utilized for discharging 9 vessels carrying the cargo/plant machineries, steel structures & materials required for the commissioning of the new projects i.e. the new DR plant & its subsidiaries. Material Control Department coordinated with all the concerned for the timely discharge of project cargoes, which was achieved by the proper allocation of berths and the efficient planning of discharge, always giving first priority to the Company's raw materials.

Achievements

1. Adopted a new method for slag dumping. Once the slag is dumped in the slag yard, it is sprayed/quenched with water to normalize the heat and is further dozed and shifted to other areas of stacking. The said practice is successful and continues to yield positive results, thereby saving the equipment from damage and casualty.
2. Continuing from last year, the Material Control Department bagged the Award for House-Keeping for the Year 2006 (Bronze, Category-II) for its efficient and systematic approach towards maintaining a clean and proper yard management/in-house activities.

Main Equipment Utilization				
Material	No. of Vessels	Quantity (MT)	Equipment Usage (Hrs.)	Equipment Usage (%)
UNLOADER (Pellet, HBI & Lump ore discharging)	11	771,240	1,584	18.0
RECLAIMER & Shovel (Oxide pellet supply to DR day bins)		738,128 + 513,777	3,304 & 3,020	37.0 & 34.0
DOCKSIDE CRANE	-	-	-	-
RECEIVING HOPPER	12	693,231	556	6.0
SHORE CRANE (LIEBHERR)	7	87,850	575	6.5
STACKER	20	1,339,966	1,867	21.0

Production Performance

PRODUCTION PERFORMANCE

Plant	Design Capacity in Tons	2006 Result in Tons
Electric Arc Furnace	804,000	1,039,220
Continuous Casting	1,232,117	1,013,072
Rolling Mill	470,000	729,916

ELECTRIC ARC FURNACE

Process Innovations during the Year 2006

1. The Gunning Robot, which was installed in EF3 during 2005, was in full operation during 2006. This equipment, which is used for auto scanning and automatic repair of EAF banks and slag line, increased the furnace availability by 440 hours during the year, resulting in the production of an additional 26,000 tons of molten steel during 2006.
2. Dololime was introduced in all the three Electric Arc Furnaces in order to reduce the furnace refractory erosion. This, in turn, increased the furnace availability by increasing the EF wall refractory life.
3. Ladle Refining Furnace for EF3 was commissioned on 24th October 2006, and has been fully operational since December 2006. This will increase the annual capacity of EF3 from 384,000 tons per year to 552,640 tons per year.
4. Use of Celox for instantaneous Carbon/Oxygen percentage measurement was introduced in EF3 during the end of December 2006. This will further reduce tap to tap time by eliminating the waiting time for Spectrometer results. The approximate saving is around 4 to 6 minutes per charge. The entire benefit from this change in operation is expected during the year 2007.



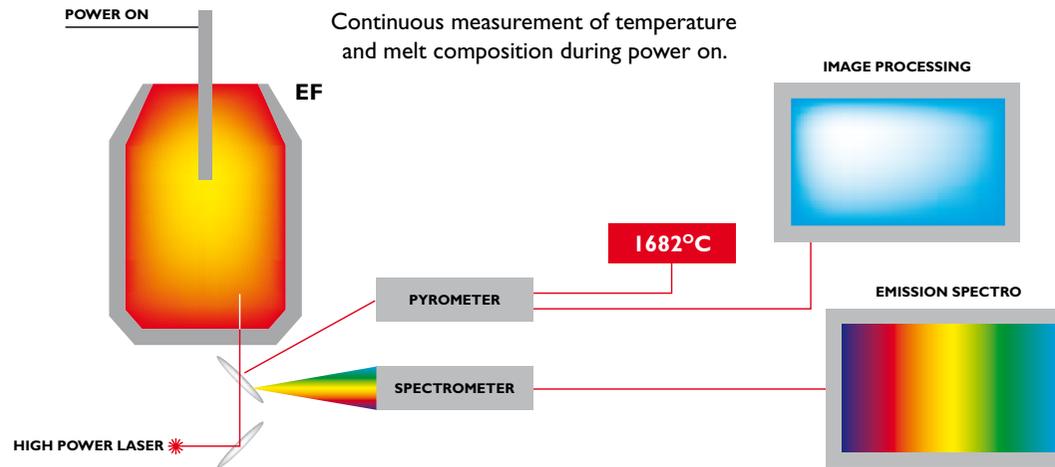
Projects Planned for 2007

1. Installation of Hijet in EF3 for carbon and oxygen injection, which will further reduce tap to tap time and will increase the EF3 capacity to 622,000 tons per year.
2. Commissioning of EF2R and LF2R by the end of May 2007 which will have a capacity of 666,000 tons of molten steel per year.
3. Installation of Gunning Robot in EF2R to increase the EF2R furnace availability.
4. Installation of the online measurement of temperature and molten steel analysis to further reduce the tap to tap time and thereby increase productivity.

The expected benefits are as follows:

- On-line control of the EAF process
- Possibility of on-demand temperature adjustment
- Less boiling & re-blows
- On-line analysis of molten steel
- Less stress on refractories as overheating can be completely prevented
- Reduced tap to tap time which will in turn increase productivity.

Development of New Technology - On-line Measurement of Temperature Sampling



CONTINUOUS CASTING

Developmental Activities during the Year

1. CNC (nozzle changing) device was used to the maximum of 16 heats in CC3. This has increased the yield.
2. Taken effective steps by doing the above for reducing conversion cost.
3. Reduced the super heat in casting by routing the heats through the ladle furnace.
4. Project work of CC 2R for the production of 130, 150 & 200 mm square billets was initiated. An enhanced production of 615,000 tons per year has been targeted. This will increase the production and enhance the capacity of Qatar Steel.

ROLLING MILL

Project work of RM-2 is in the commissioning stage and is expected to start in April 2007. This will increase the annual production by 1.5 million tons and will enhance the production capacity of Qatar Steel.

Maintenance Department

Revamping of Reheating Furnace Instrumentation and Control System

The Rolling Mill No. 1 of Qatar Steel was designed and supplied by Kobe Steel, Japan in 1978 for the production of deformed bars with diameters ranging from 10 mm to 32 mm.

Control of the reheating furnace was achieved through hardware-based, conventional analog type single loop controllers with relay based interlock circuits.

Due to the non availability of spares, it became very difficult and costly to maintain the conventional control system.

With the advent of technology, a modern DCS based control system with better combustion control, PC based visualization & monitoring system and reporting system was implemented.

The complete revamping of the instrumentation and control system of the reheating furnace was carried out during a 5-day short repair shutdown in RM.



The following jobs were carried out in order to have a long term benefit from the new system:

1. All field transmitters were replaced with smart type transmitters.
2. All field cables were replaced.
3. All conventional single loop hardware controllers were replaced with software-based controllers.
4. Oxygen and CO analyzers were introduced for proper combustion control.
5. Gas detector for combustion gases was replaced.
6. HMI based operation and monitoring of the plant.
7. Latest CCTV system was introduced for a better view of the Furnace and Billet Pusher area.
8. On-line reporting system was introduced.

The new Control & Automation System provides the following features:

- Furnace Start-up and Shutdown Sequence Control
- Combustion Control System
- Nitrogen Purging Control
- Furnace Pressure Control
- Zonal Temperature Control
- Gas and Air Flow Regulating Control System
- Furnace Waste Gas Temperature Control
- Actual Heating Pattern viz. Ideal Heating Curve as a guide to operator
- Raw Material (Billet) Tracking, which tracks and monitors the billet movement
- Furnace Capacity Output Quantification
- Historical Trends Curves
- Alarm and Message Recording
- Operation Event Recording
- Manual Data Entry
- On-line & Off-line Reports
- On-line Data Exchange between Rolling Mill Main Control Room Automation and Reheating Furnace Control Room

After implementation of the PMMS system, all ERP related data, which is now displayed on the HMI Screen will be automatically transferred to the PMMS system without the manual intervention of the operator.

Replacement of Mill Master Control System

The process controls of the rolling mill was being done through the Siemens Master Controller MMC 216 which was installed in the year 1993.

Non-availability of spares called for the replacement of the automation system. With the advent of technology, a modern system with fast communication and better visualization system was implemented.

The automation system is based on modern PCS7 - WINCC based system. The entire job of implementing the new automation system by replacing the MMC System was successfully carried out during the 5-day short shutdown of the rolling mill in March 2006.

The new automation system provides several benefits as listed below:

- Fast and accurate process control
- Better visualization & monitoring of rolling mill
- Better accuracy in rolling control which gives an opportunity for higher yield
- Web-based visualization of rolling mill operations through Qatar Steel's office network
- Modern Electronic Data Acquisition & Logging System which helps in troubleshooting.





Health, Safety & Environment Department

HEALTH

Heat Stress Management

Campaigns on the hazards of heat stress; pamphlets on the 'Do's & Don'ts to Beat the Heat'; awareness training program on heat stress by a Medical Officer, Safety Training Coordinator and Safety Engineer; and auditing of work places for heat stress management by HSE representatives were all part of our Heat Stress Management campaign during 2006. There was no heat related illness reported among employees during this year.

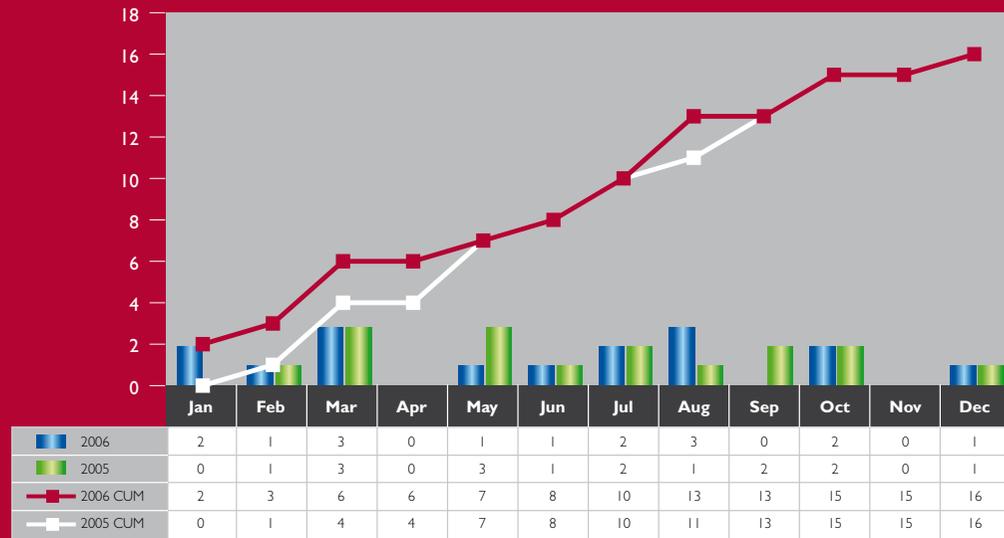
SAFETY

HSE Training

Safety education and training is a continuous process and Qatar Steel has a written standard for the basic and refresher HSE training of its staff and contractor employees working for Qatar Steel. All new Qatar Steel employees will undergo a Basic HSE Induction Training and the refresher will be after 2 years. It applies to the contractors also. In addition to this, various in-house training courses on HSE are being conducted in coordination with the Training Department.

Incident/Near Miss Reporting

No. of Lost Time Accidents in 2005 & 2006



Incidents/Near Misses are reported as per the accident/incident reporting procedure and the investigations carried out to recommend corrective actions. The objective of the accident investigation is to prevent recurrence of the incident and is not to blame the individuals involved.

The following table shows the Safety Performance during last three years.

Year	Lost Time Accidents	Frequency Rate	Days Lost due to Accidents
2003	23	7.30	393
2004	22	6.64	238
2005	16	5.27	6432*
2006	16	5.08	302

There is a considerable reduction in accidents caused by burn injuries due to increase in awareness regarding the usage of PPEs like aluminized jacket and caster/melter safety boot and continuous monitoring.

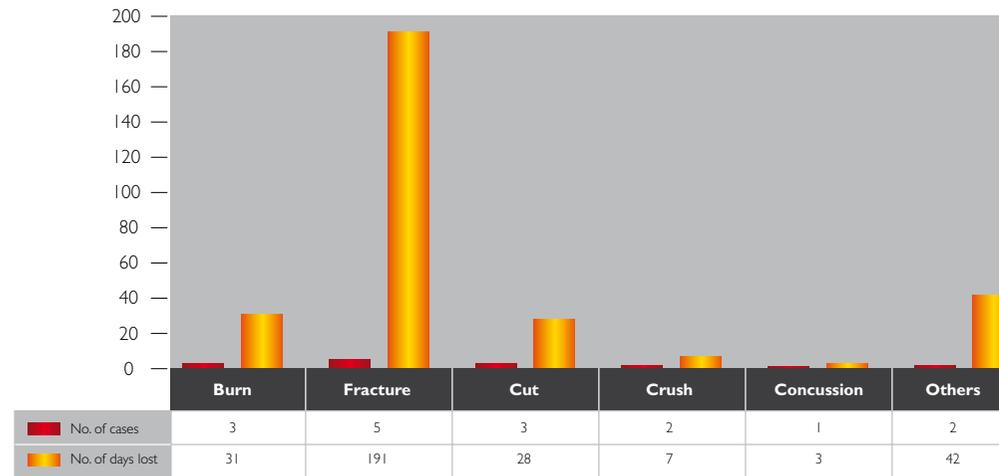
Work Permit System

In order to carry out the maintenance activities in plant areas safely, an integrated Work Permit System has been developed and was introduced during July 2006. Relevant training on implementing the work permit system was conducted for all the concerned personnel of various departments before implementing the system.

Motivational Schemes

The involvement of employees in our safety drive is further enhanced by various motivational schemes like safety suggestion scheme, safety poster and slogan competition, individual safety awards, and departmental awards for excellence in safety performance and housekeeping etc. which are conducted on a yearly basis. From this year onwards, cash awards will be presented to employees who report near misses and identify hazards of high accident potential.

Injury Type & Days Lost



ENVIRONMENT

Environment Management Program

HSE Department internally coordinates various projects with other departments under the Environment Management Program. Qatar Steel's most significant environmental problem is the diffusion of dust emission, which to a larger degree is related to our 1970s technology. Revamping of the dust collection system in our existing facilities is within the scope of these projects.

As a part of waste management, Qatar Steel is studying various options to reuse/recycle the production waste. Palletizing DR product dust and EF dust, recycling of refractory bricks and extracting iron from slag are some of the waste management programs that are under progress. Utilization of used tires as carbon source in the steel melting process is one of our salient achievements. This project will contribute towards solving or reducing a major waste problem of the community.



ISO 14001

Qatar Steel migrated to the new ISO 14001:2004 environmental standard, reflecting our commitment to conduct our operations according to globally accepted environment standards. Aligning our environmental objectives, targets and programs with the corporate HSE objectives and targets was considered to be a significant achievement during the transition. Qatar Steel succeeded in defining its communications with the interested parties, establishing an effective internal audit system and reviewing its performance with the top management. This achievement is considered to be a stepping stone towards developing an integrated management system in the future.

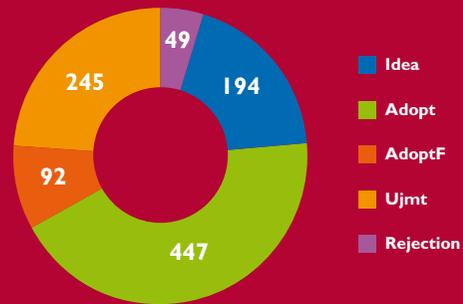


Technical Department

Suggestion System Activities

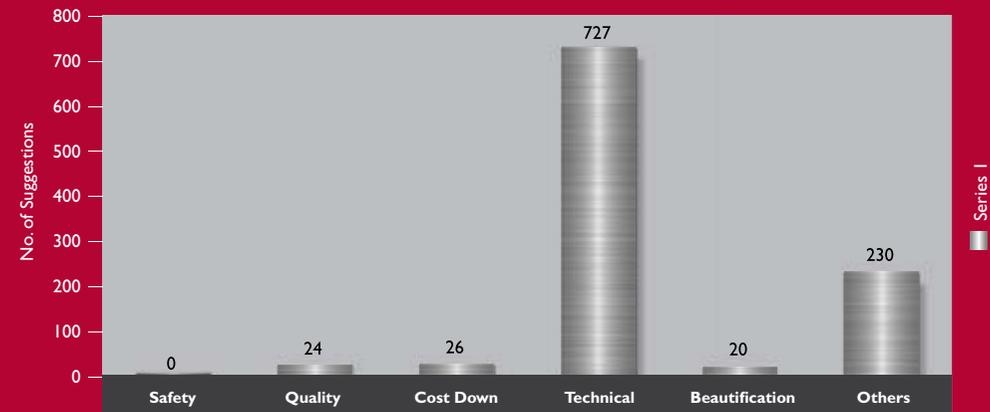
The pie chart shows the distribution of 1,027 suggestions received from January 2006 to December 2006. 447 suggestions were adopted and will go for further execution and 245 suggestions are under judgement.

2006 Performance Comparison



Suggestion Category

The vertical column represents the number of suggestions belonging to a specific category.



QC-Circle Activities

The 31st QC-Circle Conference was successfully conducted on 21st December, 2006 at Four Seasons Hotel Doha. More than 250 employees (Management, Senior Staff and Intermediate Staff) attended the conference. Out of the 30 circles registered with the Technical Department, 8 circles from various departments were presented at the Conference. Excellent performances were made by all the circles. Anticipated savings of QR 4.3 million and improvements in technologies, safety, etc. have been recorded.

No.	Department	Theme	Prize
1.	DR	Alternate Facility for Handling the Oxide Coating Crisis	General Manager
2.	MFG-LOGISTIC	Modification of Ladle Brick Lining Profile	General Manager
3.	MAINT-RM ELCT.	Improvement of HSFBM Cooling Bed Transfer Car Efficiency	PM-Gold
4.	MAINT-FINISHING	Improved Method for Replacing the Ladle Crane's Wire Rope	PM-Gold
5.	MAINT-MACHINING	CC3 Ducking Roller Re-conditioning	PM-Gold
6.	MC	Improvement of the Iron Ore Pellet Discharging System by the New A1 Hopper	PM-Silver
7.	MAINT-CC & CRANE ELECT.	Safe Maintenance of the Billet Yard Crane Bus Bar, Crane Wheel and Rails	PM-Silver
8.	MAINT-ELECT& INSTRUM.	Improvement in EF3 & Associated Equipment for Increased Production at Reduced Maintenance Costs	PM-Silver

International Standards

Cares Certification

The first surveillance audit was conducted by the UK-based CARES on the 25th and 26th of July, 2006. Audit results were satisfactory.

SASO Certification

SASO auditors visited Qatar Steel on 5th March, 2006. Site inspection as well as product testing were carried out. Audit result was satisfactory.

ISO 9001:2000

Internal Quality Audits

Internal Quality Audits were conducted in Sales, HR, Shipping (PD), RM, Maint. (Calibration), Training (Prod. Div.), EF, CC, Maint. - EF, CC, Maint. - DR, MC, MC (MH) and Tech. - QCC sections by trained and certified auditors from Qatar Steel. Twelve minor non-conformities and five observations were raised and closed by the end of December 2006.

Surveillance Audit

Surveillance Audit of Qatar Steel's Quality Management System was carried out by a Lead Auditor from ABS on the 12th and 14th of February 2006. Audit result was satisfactory.

JIS Certification

JIS inspection in connection with the renewal of the JIS certification was carried out by an inspector from the Japan Testing Center for Construction Material's authorized body MITI on the 22nd and 23rd of February 2006. Qatar Steel has satisfied the authorities that it operates a Quality System that complies with the requirements of JIS Certification and is entitled to use JIS Marking for the product under JIS G3112.



Projects Division

PRODUCTION CAPACITY Existing and Post Capacity Expansion



NEW DRI/HBI COMBO PLANT PROJECT

On 28th February 2004 Qatar Steel signed an agreement with Kobe Steel Ltd., Japan to build a New Direct Reduction Iron (DRI) Plant. The effective date of the EPC Contract was 5th December 2004.

The plant is designed to annually produce either 750,000 tons of DRI and 750,000 tons of HBI or 1.5 million tons of DRI.

Substantial progress has been achieved by the EPC Contractor, Kobe Steel Ltd.

Milestones that were planned for different phases of the projects have been achieved almost as per schedule. Engineering has been completed. Civil works in core area and sea water areas have been completed. All equipment are available at the site and erection of the same including refractory lining is nearing completion as per schedule. Support activities viz. utilities piping and auxiliary services and electrical including cabling are also under progress.



The proposed core plant is being integrated with all the necessary facilities such as a new 1,000 tons per hour loader for HBI/DRI, a stacker re-claimer, material handling systems, dust collection facilities as well as the necessary raw material handling facilities.

Switchboards including transformers at the Main Control Building have been energized and are being made ready for cold commissioning. Pre-commissioning testing in different areas has already been taken up and is under progress in various areas.

Material receiving (pellets) through new conveyors has commenced and stacking operation using a new Stacker Reclaimer has also commenced successfully.

Keeping in mind the present trend of site activities, it is expected that the proposed plant will be commissioned before the contractual schedule and all efforts are being made to achieve the same.

DRI Schedule for Completion of Major Milestones

Milestone Activity	Start Date	Finish Date	Status/Remarks
Engineering	6 May 04	5 Feb 06	Major works completed
Procurement	3 Sep 04	25 May 06	Completed
DRI Plant	3 Sep 04	5 May 06	
Material Handling Area	16 Sep 04	25 May 06	
Sea Water Area	5 Dec 04	11 Apr 06	
Construction & No Load Test	30 Dec 04	28 Jan 07	Likely to be completed as per schedule
DRI Plant Const.	28 Feb 05	19 Nov 06	
DRI Plant Non Load Test	1 Aug 06	28 Jan 07	
Material Handling Area Const.	30 Jun 05	3 Dec 06	
Mat Hand Area Non Load Test	3 Sep 06	28 Jan 07	
Sea Water Const.	26 Jul 05	5 Nov 06	
Sea Water Non Load Test	27 Aug 06	26 Nov 06	
Commissioning	1 Feb 07	4 Jun 07	Likely to be advanced

Projects Division (cont'd.)

NEW BAR MILL (NBM) PROJECT

Qatar Steel's project for installing a New Bar Mill was awarded to VAI POMINI, Italy with the effective date of contract being 18th April 2005.

The proposed capacity of the plant is 700,000 tons of bars per year bringing the cumulative capacity to 1.44 million tons per year during the post expansion period. Considering the prevalent market conditions and to improve the quality and cost down of the proposed products in the new bar mill, the THERMAX® REBAR QUENCHING SYSTEM is being integrated with the new 700,000 tpy bar mill plant.

According to the agreement, the new plant was to come on line with its total capacity during the end of September 2006.



Though the contractual commissioning date has already elapsed, all efforts are being made to achieve the commissioning of the plant by May 2007.

Engineering has been completed. Major equipment are available at site. Construction activities are in progress. Major civil works and the Main Steel Building works have been completed. Equipment erection in the cooling bed area, furnace including stack, mill & connected areas, THERMAX® REBAR QUENCHING SYSTEM, WTP etc. have been completed and balance erection work is in progress at full swing. Supporting activities viz erection of cranes, refractories, electrical & utilities are also under progress with topmost priority. All efforts are being made to achieve the commissioning as early as possible.



NBM Schedule of Completion for Major Milestones

S.N.	Milestone Activity	Contractual Finish Date	Anticipated Finish Date	Status Remarks
1.	Engineering	25 Jan 2006	30 Sep 2006	Completed
2.	Procurement & Shipment	18 Jul 2006	30 Nov 2006	Completed
3.	Erection/Construction	23 Jun 2006	15 Mar 2007	Major civil work completed. Erection work nearing completion.
4.	Commissioning	17 Sep 2006	15 May 2007	Likely to be completed during May 2007.

Projects Division (cont'd.)

STEEL MELT SHOP (SMS) EXPANSION PROJECT



Qatar Steel's 'Expansion of Steel Melt Shop project' was awarded to DANIELI, Italy with the effective date of contract being 21st April 2005. The capacity of the plant will be 1.6 million tons of billets per year during the post expansion period.

According to the agreement, the new plant was to come on-line with its total capacity during the end of December 2006. As an intermediate process of commissioning, Ladle furnace - LF3 has been commissioned to a convincing note, as envisaged under Phase-I, and is being used for production operations. Commissioning of the remaining plants are expected to be completed by May 2007.

Engineering activities have been completed and all major equipment are available at site. Construction activities under Phase-II are under progress with top most priority. Significant progress (94%) has been achieved on civil works. It is almost complete, except for finishing and minor works. The erection activities are proceeding at a good pace. The big lifts such as ladle turret and electric arc furnace including furnace transformers have been erected and supporting connections for electrical and utilities are under progress. Erection work for the auxiliary areas (WTP, SVC, FTP) are nearing completion.

Keeping in mind the present trend of site activities, it is expected that the proposed plant will be commissioned during May 2007 and DANIELI has promised to improve their schedule.



SMS Schedule of Completion for Major Milestones

S.N.	Milestone Activity	Contractual Finish Date	Anticipated Finish Date	Status Remarks
1.	Engineering	28 Feb 2006	-	Completed
2.	Equipment Manufacturing & Delivery to Site	17 May 2006	-	Completed
3.	Finish Construction & Erection	24 Oct 2006	15 Apr 2007	Major civil work completed. Erection work under progress with top most priority.
4.	Mechanical Completion	06 Dec 2006	31 May 2007	LF3 is commissioned. Improvement on the mechanical completion of the overall project is being exercised.

Human Resources Department

The aim and objective of the Human Resources Department is to increase the productivity of employees and enable them to enjoy a fuller and richer life with economic gains which will improve their efficiency. The Human Resources Department undertook numerous initiatives during 2006. It performed much better than the previous years by completing a number of major projects which play a vital role in strengthening employee relations.

The following are the accomplishments of the Human Resources Department during the year 2006:

1. Upgraded the employees' salaries and allowances to competitive levels.
2. Formed an internal Job Evaluation Panel to maintain and review the evaluation of the job grades of senior and intermediate staff in order to determine the rate of pay for each job and ensure that they are fair and equitable with other jobs in the Company.
3. Enhanced HR practices through the participation of employee focus groups.
4. Trained and developed in-house expertise in performance management and Hay evaluation techniques.
5. HR also set aggressive KPIs (Key Performance Indicators) and reward mechanisms to measure its overall performance during the year.
6. 675 employees underwent in-house training and 101 employees were sent abroad for specialized training.
7. HR was able to attract and recruit the number of employees (399) required to cater for attrition and the expansion projects.

Human Resources Department continues to perform a variety of employment-related functions, including the administration of the revised Personnel Policies and Procedures, employee training, salary administration, and the recruitment of high-caliber employees to meet the operational requirements.