

**QATAR TELECOM (Q-TEL) Q.S.C.**  
**INTERIM CONDENSED FINANCIAL**  
**STATEMENTS**  
**30 JUNE 2004**

**Qatar Telecom (Q-TEL) Q.S.C.**

**INTERIM CONDENSED FINANCIAL STATEMENTS  
for the six months ended 30 June 2004**

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**REVIEW REPORT TO THE DIRECTORS****Qatar Telecom (Q-TEL) Q.S.C.****Doha****State of Qatar**

We have reviewed the accompanying interim condensed financial statements of Qatar Telecom (Q-TEL) Q.S.C. as at, and for the six months ended 30 June 2004 as set out on pages 3 to 12. These interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 on interim financial reporting.

**Respective responsibilities of directors and reviewing accountants**

These interim condensed financial statements are the responsibility of the directors of the Company. Our responsibility is to issue a report on these interim condensed financial statements based on our review.

**Scope of review**

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed financial statements are free of material misstatement. A review is limited primarily to enquiries of company personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Review opinion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

18 July 2004  
Doha, State of Qatar

Abdul Hakim Al-Adhamy  
Qatar Auditor's Registry Number 105  
KPMG Peat Marwick

**BALANCE SHEET**  
 as at 30 June 2004

In thousands of Qatari Riyals

	Notes	30 June 2004 Reviewed	30 June 2003 Reviewed	31 December 2003 Audited
<b>NET ASSETS EMPLOYED</b>				
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	2	1,465,768	1,206,531	1,272,927
Investment securities	3	969,104	429,352	473,607
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,434,872</b>	<b>1,635,883</b>	<b>1,746,534</b>
<b>CURRENT ASSETS</b>				
Inventories		35,261	54,253	33,345
Accounts receivable and prepayments		366,178	319,935	329,281
Amounts due from other international carriers		31,296	21,094	20,339
Cash and cash equivalents		1,067,015	1,363,869	1,362,676
<b>TOTAL CURRENT ASSETS</b>		<b>1,499,750</b>	<b>1,759,151</b>	<b>1,745,641</b>
<b>CURRENT LIABILITIES</b>				
Interim dividend payable	5	-	330,000	-
Accounts payable and accruals		456,400	451,991	444,751
Amounts due to other international carriers		84,512	76,295	87,476
Current account with The State of Qatar		2,463	157,458	2,549
<b>TOTAL CURRENT LIABILITIES</b>		<b>543,375</b>	<b>1,015,744</b>	<b>534,776</b>
<b>NET CURRENT ASSETS</b>		<b>956,375</b>	<b>743,407</b>	<b>1,210,865</b>
<b>NON-CURRENT LIABILITIES</b>		<b>(82,841)</b>	<b>(108,128)</b>	<b>(103,857)</b>
		<b>3,308,406</b>	<b>2,271,162</b>	<b>2,853,542</b>
<b>SHAREHOLDERS' FUNDS</b>				
Share capital		1,000,000	1,000,000	1,000,000
Legal reserve		500,000	374,711	431,613
Proposed dividend		-	-	400,000
Retained earnings		1,679,082	797,400	909,520
Fair value reserve		129,324	99,051	112,409
		<b>3,308,406</b>	<b>2,271,162</b>	<b>2,853,542</b>

 Abdullah Bin Mohamed Bin Saud Al-Thani  
 Chairman

 Mohammad Bin Isa Al-Mouhanadi  
 Member of the Board

The attached notes 1 to 10 form an integral part of the interim condensed financial statements.

**STATEMENT OF INCOME**  
**for the six months ended 30 June 2004**
**In thousands of Qatari Riyals**

	Notes	Three months ended		Six months ended	
		<b>30 June 2004 Reviewed</b>	30 June 2003 Reviewed	<b>30 June 2004 Reviewed</b>	30 June 2003 Reviewed
<b>REVENUE</b>		<b>583,680</b>	502,004	<b>1,148,924</b>	972,372
<b>EXPENSES</b>					
Staff salaries and related expenses		<b>64,471</b>	54,451	<b>127,500</b>	111,736
Outpayments to other international carriers		<b>49,625</b>	44,069	<b>99,514</b>	88,088
Depreciation		<b>45,043</b>	34,560	<b>95,146</b>	72,820
General and administration expenses		<b>34,145</b>	29,369	<b>70,571</b>	58,932
Operating and maintenance expenses		<b>32,739</b>	26,705	<b>60,094</b>	50,578
Cost of equipment sold and other services		<b>9,523</b>	6,419	<b>19,163</b>	15,714
		<b>235,546</b>	195,573	<b>471,988</b>	397,868
<b>OPERATING PROFIT FOR THE PERIOD</b>		<b>348,134</b>	306,431	<b>676,936</b>	574,504
Other income	4	<b>61,275</b>	14,202	<b>71,566</b>	23,503
Provision for impairment of investments		-	(9,103)	-	(18,207)
<b>NET PROFIT FOR THE PERIOD</b>		<b>409,409</b>	311,530	<b>748,502</b>	579,800
<b>EARNINGS PER SHARE – BASIC (expressed in QR per share)</b>	6	<b>4.09</b>	3.12	<b>7.49</b>	5.80

The attached notes 1 to 10 form an integral part of the interim condensed financial statements.

**STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS**  
**for the six months ended 30 June 2004**

**In thousands of Qatari Riyals**

2003	Share capital	Legal reserve	Proposed dividend	Retained earnings	Fair value reserve	Revaluation surplus	Total
As at 1 January	1,000,000	316,731	380,000	605,580	36,240	-	2,338,551
Final dividend paid for 2002	-	-	(380,000)	-	-	-	(380,000)
Net profit for the period	-	-	-	579,800	-	-	579,800
Transfer to legal reserve	-	57,980	-	(57,980)	-	-	-
Interim dividend for 2003	-	-	-	(330,000)	-	-	(330,000)
Fair value adjustment at end of the period	-	-	-	-	62,811	-	62,811
As at 30 June	<u>1,000,000</u>	<u>374,711</u>	<u>-</u>	<u>797,400</u>	<u>99,051</u>	<u>-</u>	<u>2,271,162</u>
<b>2004</b>	<b>Share capital</b>	<b>Legal reserve</b>	<b>Proposed dividend</b>	<b>Retained earnings</b>	<b>Fair value reserve</b>	<b>Revaluation surplus</b>	<b>Total</b>
As at 1 January	1,000,000	431,613	400,000	909,520	112,409	-	2,853,542
Final dividend paid for 2003	-	-	(400,000)	-	-	-	(400,000)
Net profit for the period	-	-	-	748,502	-	-	748,502
Transfer to legal reserve	-	68,387	-	(68,387)	-	-	-
Directors remuneration	-	-	-	(4,700)	-	-	(4,700)
Revaluation of investment property (land)	-	-	-	-	-	94,147	94,147
Revaluation surplus transferred to Retained earnings on disposal (Note 7)	-	-	-	94,147	-	(94,147)	-
Fair value adjustment at end of the period	-	-	-	-	16,915	-	16,915
As at 30 June	<u>1,000,000</u>	<u>500,000</u>	<u>-</u>	<u>1,679,082</u>	<u>129,324</u>	<u>-</u>	<u>3,308,406</u>

The attached notes 1 to 10 form an integral part of these interim condensed financial statements.

**STATEMENT OF CASH FLOWS**  
**for the six months ended 30 June 2004**
**In thousands of Qatari Riyals**

	<b>2004</b>	2003
	<b>Reviewed</b>	Reviewed
<b>OPERATING ACTIVITIES</b>		
Net Profit for the period	748,502	579,800
Adjustments for:		
Depreciation	95,146	72,820
Investment and interest income	(25,835)	(23,503)
Gain on sale of investments	(45,731)	-
Provision for impairment in value of investments	-	18,207
(Gain) / loss on disposal of property, plant and equipment	(1)	241
Operating profit before working capital changes	<u>772,081</u>	647,565
Increase in inventories	(1,916)	(4,280)
Increase in accounts receivable	(36,897)	(42,683)
Decrease in payables to other international carriers (net)	(13,921)	(13,708)
Decrease in accounts payable	(9,367)	(11,960)
Movement in current account with The State of Qatar	(86)	(196,948)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u><b>709,894</b></u>	<u>377,986</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(197,632)	(201,838)
Increase in investment securities	(481,597)	(68,849)
Proceeds from sale of property, plant and equipment	3,793	500
Proceeds from sale of investments	48,746	-
Investment and interest income	25,835	23,503
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u><b>(600,855)</b></u>	<u>(246,684)</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(400,000)	(380,000)
Directors remuneration	(4,700)	(4,700)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u><b>(404,700)</b></u>	<u>(384,700)</u>
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u><b>(295,661)</b></u>	<u>(253,398)</u>
Cash and cash equivalents at 1 January	<u>1,362,676</u>	<u>1,617,267</u>
<b>CASH AND CASH EQUIVALENTS AT 30 JUNE</b>	<u><b>1,067,015</b></u>	<u>1,363,869</u>

The attached notes 1 to 10 form an integral part of the interim condensed financial statements.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
for the six months ended 30 June 2004**

**In thousands of Qatari Riyals**

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**1 ACCOUNTING POLICIES**

The interim condensed financial statements have been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting), which permits the interim condensed financial statements to be in summarised form.

These interim condensed financial statements have been prepared using the same accounting policies set out in the 2003 annual financial statements.

Due to the effect of seasonal variations, the six months' results reported in these interim condensed financial statements may not represent a proportionate share of the overall annual income.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
for the six months ended 30 June 2004

In thousands of Qatari Riyals

2 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Exchanges and line plant	International communication links	Subscriber apparatus and other equipment	Capital work in progress	Total
<b>Cost:</b>						
At 1 January 2004	200,005	1,375,030	174,512	520,073	488,627	2,758,247
Additions	-	-	-	-	291,779	291,779
Capitalisations	63,176	113,622	573	25,680	(203,051)	-
Disposals	-	(79)	-	(2,758)	-	(2,837)
Transfer to investment property	(3,698)	-	-	-	-	(3,698)
At 30 June 2004	<u>259,483</u>	<u>1,488,573</u>	<u>175,085</u>	<u>542,995</u>	<u>577,355</u>	<u>3,043,491</u>
<b>Accumulated Depreciation:</b>						
At 1 January 2004	125,358	876,249	83,729	399,984	-	1,485,320
Provided during the period	4,467	62,732	3,740	24,207	-	95,146
Reclassifications and disposals	-	(79)	-	(2,664)	-	(2,743)
At 30 June 2004	<u>129,825</u>	<u>938,902</u>	<u>87,469</u>	<u>421,527</u>	<u>-</u>	<u>1,577,723</u>
Net book values:						
At 30 June 2004	<u><b>129,658</b></u>	<u><b>549,671</b></u>	<u><b>87,616</b></u>	<u><b>121,468</b></u>	<u><b>577,355</b></u>	<u><b>1,465,768</b></u>
At 30 June 2003	<u>71,455</u>	<u>541,941</u>	<u>93,775</u>	<u>122,825</u>	<u>376,535</u>	<u>1,206,531</u>

Capital work in progress includes advance payments of QR 165,000 for the purchase of a new head office. The total consideration for the purchase comprises of a cash consideration of QR 220,000 and the transfer of certain land owned by the Company, costing QR 3,698. During the period, this land was transferred to investment property, revalued at its fair value and subsequently disposed off as consideration of the contracted settlement for purchase of new head office (refer Note 7).

The land on which the new head office building rests was registered in the name of the Company and was capitalised at a value of QR 59,400.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
for the six months ended 30 June 2004

In thousands of Qatari Riyals

## 3 INVESTMENT SECURITIES

	30 June 2004			30 June 2003			31 December 2003		
	Reviewed			Reviewed			Audited		
<b>Available for sale - Quoted</b>									
State of Qatar Euro Bonds			121,422			72,926			125,854
Qatar Electricity and Water Company			106,000			86,600			94,000
Qatar Shipping Company S.A.Q.			39,900			44,220			37,500
Sudan Telecom Company			15,589			13,102			16,684
Orascom Telecom Company			21,009			6,756			14,966
Industries of Qatar			7,004			-			-
New Skies Satellites N.V			6,500			4,708			6,005
Qatar National Bank			1,350			-			-
			<u>318,774</u>			<u>228,312</u>			<u>295,009</u>
<b>Available for sale – Unquoted - Shares</b>	<b>Cost</b>	<b>Provision for impairment</b>	<b>Net book value</b>	<b>Cost</b>	<b>Provision for impairment</b>	<b>Net book value</b>	<b>Cost</b>	<b>Provision for impairment</b>	<b>Net book value</b>
Arab Satellite Organization	58,264	-	58,264	58,264	-	58,264	58,264	-	58,264
Intelsat Ltd.	11,089	-	11,089	11,089	-	11,089	11,089	-	11,089
Thuraya Satellite Telecommunication Co.	182,075	(72,830)	109,245	182,075	(54,622)	127,453	182,075	(72,830)	109,245
ICO Global Communications (Holdings) Ltd	70,336	(70,336)	-	70,336	(70,336)	-	70,336	(70,336)	-
Commerce One Middle East Ltd.	4,128	(4,128)	-	4,128	(4,128)	-	4,128	(4,128)	-
Inmarsat Ventures Ltd.	-	-	-	4,234	-	4,234	-	-	-
	<u>325,892</u>	<u>(147,294)</u>	<u>178,598</u>	<u>330,126</u>	<u>(129,086)</u>	<u>201,040</u>	<u>325,892</u>	<u>(147,294)</u>	<u>178,598</u>
<b>- Investment in hedge funds</b>	<b>Cost</b>	<b>Fair value adjustment</b>	<b>Net book value</b>	<b>Cost</b>	<b>Fair value adjustment</b>	<b>Net book value</b>	<b>Cost</b>	<b>Fair value adjustment</b>	<b>Net book value</b>
Investment in hedge funds	473,245	(1,513)	471,732	-	-	-	-	-	-
			<u>471,732</u>			<u>-</u>			<u>-</u>
<b>Total investment securities</b>			<u>969,104</u>			<u>429,352</u>			<u>473,607</u>

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
for the six months ended 30 June 2004**

**In thousands of Qatari Riyals**

**4 OTHER INCOME**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2004</b>	30 June 2003	<b>30 June 2004</b>	30 June 2003
Interest income	<b>6,900</b>	8,157	<b>15,591</b>	16,158
Income from investment securities	<b>8,644</b>	6,045	<b>10,244</b>	7,345
Gain on sale of investment	<b>45,731</b>	-	<b>45,731</b>	-
<b>TOTAL</b>	<b>61,275</b>	14,202	<b>71,566</b>	23,503

The gain on sale of investment relates to a sale of 300,000 shares of Qatar Shipping Company.

**5 DIVIDENDS**

Subsequent to the balance sheet date, the Board of Directors in their meeting held on 5 July 2004, proposed and approved interim dividends of QR 3.65 per ordinary share totalling QR 365,000 (30 June 2003: QR 330,000).

Final dividends of QR 400,000 relating to 2003 were paid during the period (2003: final dividends of QR 380,000 relating to 2002).

**6 EARNINGS PER SHARE**

Basic earnings per share has been calculated by dividing the net profit for the period by the weighted average number of ordinary shares outstanding during the period as follows:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30 June 2004</b>	30 June 2003	<b>30 June 2004</b>	30 June 2003
Profit for the period	<b>409,409</b>	311,530	<b>748,502</b>	579,800
Weighted average number of shares outstanding during the period	<b>100,000</b>	100,000	<b>100,000</b>	100,000
Earnings per share ( <b>expressed in QR per share</b> )	<b>4.09</b>	3.12	<b>7.49</b>	5.80

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
for the six months ended 30 June 2004****In thousands of Qatari Riyals**

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**7 REVALUATION SURPLUS**

The Company reclassified land from property, plant and equipment to investment property and revalued the investment property at its fair value during the period. The resulting gain of QR 94,147 was taken to revaluation surplus in the statement of changes in shareholders' funds. The land was subsequently disposed off in the same period, resulting in the transfer of the revaluation surplus to retained earnings (refer Note 2).

**8 COMMITMENTS**

As at 30 June 2004, future capital expenditure approved by the Board of Directors amounted to QR 1,755,573 (30 June 2003: QR 1,494,868), of which QR 255,065 (30 June 2003: QR 316,560) is committed.

The forward exchange contracts outstanding at 30 June 2004 amounted to SDR 686,000 (30 June 2003: SDR 6,334,000). The forward exchange contracts are designed to hedge the foreign currency exposure of SDR liabilities due to the international carriers.

The Company, represented through a consortium, was awarded the second mobile licence in the Sultanate of Oman. The financial commitments of the Company for the project approximate to QR 747,200.

**9 CONTINGENT LIABILITIES****a) Claims**

There were no significant claims against the Company not acknowledged as debts as at 30 June 2004 (30 June 2003: QR 1,089).

**b) Loan repayment guarantees**

The Company has entered into an agreement to guarantee a portion of the loan repayments to Thuraya Satellite Telecommunications Company in respect of project financing for the construction of a satellite system. The obligation of the Company under this guarantee amounts to QR 196,700 as at 30 June 2004 (30 June 2003: QR 208,000).

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS  
for the six months ended 30 June 2004

In thousands of Qatari Riyals

10 SEGMENTAL INFORMATION

The segment information is presented based on the Company's management and internal reporting structure and comprise of Wireline Services, Wireless Services and Special Business. The company provides telecommunication services principally within the State of Qatar.

2004	Three months ended 30 June 2004				Six months ended 30 June 2004			
	Wireline Services	Wireless Services	Other Services	Total	Wireline Services	Wireless Services	Other Services	Total
Revenue	<u>224,160</u>	<u>341,297</u>	<u>18,223</u>	<u>583,680</u>	<u>440,570</u>	<u>671,988</u>	<u>36,366</u>	<u>1,148,924</u>
Segmental results	136,786	265,797	4,773	407,356	264,617	520,823	8,698	794,138
Unallocated costs				<u>(59,222)</u>				<u>(117,202)</u>
<b>OPERATING PROFIT</b>				<u>348,134</u>				<u>676,936</u>
Other income				<u>61,275</u>				<u>71,566</u>
<b>NET PROFIT</b>				<u><u>409,409</u></u>				<u><u>748,502</u></u>
2003	Three months ended 30 June 2003				Six months ended 30 June 2003			
	Wireline Services	Wireless Services	Other Services	Total	Wireline Services	Wireless Services	Other Services	Total
Revenue	<u>196,052</u>	<u>283,580</u>	<u>22,372</u>	<u>502,004</u>	<u>387,278</u>	<u>539,353</u>	<u>45,741</u>	<u>972,372</u>
Segmental results	123,828	228,062	9,660	361,550	238,469	430,640	16,502	685,611
Unallocated costs				<u>(55,119)</u>				<u>(111,107)</u>
<b>OPERATING PROFIT</b>				<u>306,431</u>				<u>574,504</u>
Other income				14,202				23,503
Provision for impairment of investments				<u>(9,103)</u>				<u>(18,207)</u>
<b>NET PROFIT</b>				<u><u>311,530</u></u>				<u><u>579,800</u></u>