

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

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

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30 September 2004**

CONTENTS	Page
Review report to the directors	2
Interim condensed consolidated financial statements	
Consolidated Balance sheet	3
Consolidated Statement of income	4
Consolidated Statement of changes in shareholders' funds	5
Consolidated Statement of cash flows	6
Notes to the interim condensed consolidated financial statements	7-13

REVIEW REPORT TO THE DIRECTORS

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

Doha

State of Qatar

We have reviewed the accompanying interim condensed consolidated financial statements of Qatar Telecom (Q-TEL) Q.S.C. as at, and for the nine months ended 30 September 2004 as set out on pages 3 to 13.

Respective responsibilities of directors and reviewing accountants

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

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim condensed consolidated 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 consolidated financial statements do not give a true and fair view, in accordance with International Financial Reporting Standards.

18 October 2004
Doha, State of Qatar

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

CONSOLIDATED BALANCE SHEET
as at 30 September 2004
In thousands of Qatari Riyals

	Notes	30 September 2004 Reviewed	30 September 2003 Reviewed	31 December 2003 Audited
NET ASSETS EMPLOYED				
NON-CURRENT ASSETS				
Property, plant and equipment	3	1,499,306	1,217,204	1,272,927
Investment securities	4	963,841	489,542	473,607
TOTAL NON-CURRENT ASSETS		2,463,147	1,706,746	1,746,534
CURRENT ASSETS				
Inventories		31,541	53,942	33,345
Accounts receivable and prepayments		400,459	338,037	329,281
Amounts due from other international carriers		19,051	20,724	20,339
Cash and cash equivalents		1,054,515	1,339,988	1,362,676
TOTAL CURRENT ASSETS		1,505,566	1,752,691	1,745,641
CURRENT LIABILITIES				
Accounts payable and accruals		482,861	431,009	444,751
Amounts due to other international carriers		80,699	88,557	87,476
Current account with The State of Qatar		2,566	239,893	2,549
TOTAL CURRENT LIABILITIES		566,126	759,459	534,776
NET CURRENT ASSETS		939,440	993,232	1,210,865
NON-CURRENT LIABILITIES				
		(71,805)	(104,064)	(103,857)
		3,330,782	2,595,914	2,853,542
SHAREHOLDERS' FUNDS				
Share capital		1,000,000	1,000,000	1,000,000
Legal reserve		500,000	405,628	431,613
Proposed dividend		-	-	400,000
Retained earnings		1,711,068	1,075,656	909,520
Fair value reserve		119,714	114,630	112,409
		3,330,782	2,595,914	2,853,542

 Abdullah Bin Mohamed Bin Saud Al-Thani
Chairman

 Mohammad Bin Isa Al-Mouhanadi
Member of the Board

The attached notes 1 to 12 form an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
for the nine months ended 30 September 2004

In thousands of Qatari Riyals

	Notes	Three months ended		Nine months ended	
		30 September 2004 Reviewed	30 September 2003 Reviewed	30 September 2004 Reviewed	30 September 2003 Reviewed
REVENUE		583,751	504,103	1,732,675	1,476,475
EXPENSES					
Staff salaries and related expenses		58,996	55,170	186,496	166,906
Outpayments to other international carriers		43,490	42,655	143,004	130,743
Depreciation		40,826	40,241	135,972	113,061
General and administration expenses		44,156	23,121	114,727	82,053
Operating and maintenance expenses		30,584	26,306	90,678	76,884
Cost of equipment sold and other services		11,372	9,096	30,535	24,810
		229,424	196,589	701,412	594,457
OPERATING PROFIT FOR THE PERIOD		354,327	307,514	1,031,263	882,018
Other income	5	42,659	10,763	114,225	34,266
Provision for impairment of investments		-	(9,104)	-	(27,311)
NET PROFIT FOR THE PERIOD		396,986	309,173	1,145,488	888,973
EARNINGS PER SHARE – BASIC (expressed in QR per share)	7	3.97	3.09	11.45	8.89

The attached notes 1 to 12 form an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS
for the nine months ended 30 September 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	-	-	-	888,973	-	-	888,973
Transfer to legal reserve	-	88,897	-	(88,897)	-	-	-
Interim dividend for 2003	-	-	-	(330,000)	-	-	(330,000)
Fair value adjustment at end of the period	-	-	-	-	78,390	-	78,390
As at 30 September	<u>1,000,000</u>	<u>405,628</u>	<u>-</u>	<u>1,075,656</u>	<u>114,630</u>	<u>-</u>	<u>2,595,914</u>
2004	Share capital	Legal reserve	Proposed dividend	Retained earnings	Fair value reserve	Revaluation surplus	Total
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	-	-	-	1,145,488	-	-	1,145,488
Transfer to legal reserve	-	68,387	-	(68,387)	-	-	-
Interim dividend for 2004	-	-	-	(365,000)	-	-	(365,000)
Directors remuneration	-	-	-	(4,700)	-	-	(4,700)
Revaluation of investment property (land)	-	-	-	-	-	94,147	94,147
Revaluation surplus transferred to Retained earnings on disposal (Note 8)	-	-	-	94,147	-	(94,147)	-
Fair value adjustment at end of the period	-	-	-	-	7,305	-	7,305
As at 30 September	<u>1,000,000</u>	<u>500,000</u>	<u>-</u>	<u>1,711,068</u>	<u>119,714</u>	<u>-</u>	<u>3,330,782</u>

The attached notes 1 to 12 form an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the nine months ended 30 September 2004
In thousands of Qatari Riyals

	2004	2003
	Reviewed	Reviewed
OPERATING ACTIVITIES		
Net Profit for the period	1,145,488	888,973
Adjustments for:		
Depreciation	135,972	113,061
Investment and interest income	(34,535)	(34,266)
Gain on sale of investments	(79,690)	-
Provision for impairment in value of investments	-	27,311
(Gain) / loss on disposal of property, plant and equipment	(2)	313
	1,167,233	995,392
Operating profit before working capital changes		
Decrease / (increase) in inventories	1,804	(3,969)
Increase in accounts receivable	(71,178)	(60,785)
Decrease in payables to other international carriers (net)	(5,489)	(1,076)
Increase / (Decrease) in accounts payable	6,058	(37,006)
Movement in current account with The State of Qatar	17	(114,513)
	1,098,445	778,043
NET CASH FROM OPERATING ACTIVITIES		
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(272,041)	(252,845)
Increase in investment securities	(488,959)	(122,564)
Proceeds from sale of property, plant and equipment	3,839	521
Proceeds from sale of investments	85,720	-
Investment and interest income	34,535	34,266
	(636,906)	(340,622)
NET CASH USED IN INVESTING ACTIVITIES		
FINANCING ACTIVITIES		
Dividends paid	(765,000)	(710,000)
Directors remuneration	(4,700)	(4,700)
	(769,700)	(714,700)
NET CASH USED IN FINANCING ACTIVITIES		
DECREASE IN CASH AND CASH EQUIVALENTS	(308,161)	(277,279)
Cash and Cash equivalents at 1 January	1,362,676	1,617,267
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	1,054,515	1,339,988

The attached notes 1 to 12 form an integral part of the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the nine months ended 30 September 2004****In thousands of Qatari Riyals**

1 ACCOUNTING POLICIES

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

These interim condensed consolidated 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 nine months' results reported in these interim condensed consolidated statements may not represent a proportionate share of the overall annual income.

2 BASIS OF CONSOLIDATION*(i) Subsidiary*

The consolidated financial statements incorporate the financial statements of Q-TEL Investment Holdings B.S.C ("QIH"), a closed company incorporated in Bahrain, fully owned by Q-TEL, established for the purpose of acting as the holding company for Q-TEL's investments outside Qatar.

During the period, the Company represented through a consortium, has been awarded a license to operate the second mobile telephony service in the Sultanate of Oman. Although the Omani entity is still under formation, various operating expenses have been incurred by Q-TEL during the period. As a matter of prudence, the Company has included QIH's share of 55.3% of these expenses under general and administrative expenses for the period.

(ii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized gains arising from intra-group transactions are eliminated in preparing the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30 September 2004

In thousands of Qatari Riyals

3 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Exchanges and line plant	International communication links	Subscriber apparatus and other equipment	Capital work in progress	Total
Cost:						
At 1 January 2004	200,005	1,375,030	174,512	520,073	488,627	2,758,247
Additions	-	-	-	-	366,188	366,188
Capitalisations	60,437	126,133	573	49,140	(236,283)	-
Disposals	(3)	(1,691)	-	(2,800)	-	(4,494)
Transfer to investment property	(3,698)	-	-	-	-	(3,698)
At 30 September 2004	256,741	1,499,472	175,085	566,413	618,532	3,116,243
Depreciation:						
At 1 January 2004	125,358	876,249	83,729	399,984	-	1,485,320
Provided during the period	6,902	89,057	5,380	34,633	-	135,972
Reclassifications and disposals	-	(1,650)	-	(2,705)	-	(4,355)
At 30 September 2004	132,260	963,656	89,109	431,912	-	1,616,937
Net book values:						
At 30 September 2004	124,481	535,816	85,976	134,501	618,532	1,499,306
At 30 September 2003	75,641	538,354	92,461	123,173	387,575	1,217,204

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 second quarter, 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 8).

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 CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30 September 2004

In thousands of Qatari Riyals

4 INVESTMENT SECURITIES

	30 September 2004			30 September 2003			31 December 2003		
	Reviewed			Reviewed			Audited		
Available for sale - Quoted									
State of Qatar Euro Bonds			126,723			124,648			125,854
Qatar Electricity and Water Company			114,000			99,600			94,000
Qatar Shipping Company S.A.Q.			-			42,000			37,500
Sudan Telecom Company			17,853			16,000			16,684
Orascom Telecom Company			34,719			10,525			14,966
Industries of Qatar			16,515			-			-
New Skies Satellites N.V			6,501			4,833			6,005
Qatar National Bank			1,620			-			-
			<u>317,931</u>			<u>297,606</u>			<u>295,009</u>
Available for sale – Unquoted Shares	Cost	Provision for impairment	Net book value	Cost	Provision for impairment	Net book value	Cost	Provision for impairment	Net book value
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	(63,726)	118,349	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>(138,190)</u>	<u>191,936</u>	<u>325,892</u>	<u>(147,294)</u>	<u>178,598</u>
Investment in hedge funds	Cost	Fair value adjustment	Net book value	Cost	Fair value adjustment	Net book value	Cost	Fair value adjustment	Net book value
Investment in hedge funds	470,978	(3,666)	467,312	-	-	-	-	-	-
Total investment securities			<u>963,841</u>			<u>489,542</u>			<u>473,607</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the nine months ended 30 September 2004****In thousands of Qatari Riyals****5 OTHER INCOME**

	Three months ended		Nine months ended	
	30 September 2004	30 September 2003	30 September 2004	30 September 2003
Interest income	6,646	8,270	22,237	24,428
Income from investment securities	2,054	2,493	12,298	9,838
Gain on sale of investment	33,959	-	79,690	-
TOTAL	42,659	10,763	114,225	34,266

The gain on sale of investment relates to a sale of shares in Qatar Shipping Company.

6 DIVIDENDS

At the balance sheet date the following interim dividends were proposed and approved by the Board of Directors.

	Nine months ended	
	30 September 2004	30 September 2003
Interim dividends - QR 3.65 (2003: QR 3.30 per share)	365,000	330,000

Interim dividends of QR 365,000 (QR 3.65 per share) relating to 2004 and final dividends of QR 400,000 (QR 4.00 per share) were paid during the period.

7 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:

	Three months ended		Nine months ended	
	30 September 2004	30 September 2003	30 September 2004	30 September 2003
Profit for the period	396,986	309,173	1,145,488	888,973
Weighted average number of shares outstanding during the period	100,000	100,000	100,000	100,000
Earnings per share (expressed in QR per share)	3.97	3.09	11.45	8.89

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the nine months ended 30 September 2004****In thousands of Qatari Riyals**

8 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 second quarter. 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 3).

9 COMMITMENTS

As at 30 September 2004, future capital expenditure approved by the Board of Directors amounted to QR 1,681,164 (30 September 2003: QR 1,443,860), of which QR 379,929 (30 September 2003: QR 292,710) is committed.

The forward exchange contracts outstanding at 30 September 2004 in component currencies of SDR amounted to an equivalent of SDR 3,046,000 (30 September 2003: SDR 4,923,500) over a future period upto four months. 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.

10 CONTINGENT LIABILITIES**a) Claims**

There were no significant claims against the Company not acknowledged as debts as at 30 September 2004 (30 September 2003: QR 958).

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 September 2004 (30 September 2003: QR 208,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30 September 2004

In thousands of Qatari Riyals

11 SEGMENTAL INFORMATION

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

2004	Three months ended 30 September 2004				Nine months ended 30 September 2004			
	Wireline Services	Wireless Services	Other Services	Total	Wireline Services	Wireless Services	Other Services	Total
Revenue	<u>217,881</u>	<u>347,201</u>	<u>18,669</u>	<u>583,751</u>	<u>658,451</u>	<u>1,019,189</u>	<u>55,035</u>	<u>1,732,675</u>
Segmental results	131,735	275,094	5,605	412,434	396,352	795,917	14,303	1,206,572
Unallocated costs				<u>(58,107)</u>				<u>(175,309)</u>
OPERATING PROFIT				<u>354,327</u>				<u>1,031,263</u>
Other income				<u>42,659</u>				<u>114,225</u>
NET PROFIT				<u><u>396,986</u></u>				<u><u>1,145,488</u></u>
2003	Three months ended 30 September 2003				Nine months ended 30 September 2003			
	Wireline Services	Wireless Services	Other Services	Total	Wireline Services	Wireless Services	Other Services	Total
Revenue	<u>199,338</u>	<u>284,837</u>	<u>19,928</u>	<u>504,103</u>	<u>586,616</u>	<u>824,190</u>	<u>65,669</u>	<u>1,476,475</u>
Segmental results	128,350	224,133	5,295	357,778	366,819	654,773	21,797	1,043,389
Unallocated costs				<u>(50,264)</u>				<u>(161,371)</u>
OPERATING PROFIT				<u>307,514</u>				<u>882,018</u>
Other income				<u>10,763</u>				<u>34,266</u>
Provision for impairment of investments				<u>(9,104)</u>				<u>(27,311)</u>
NET PROFIT				<u><u>309,173</u></u>				<u><u>888,973</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the nine months ended 30 September 2004 **In thousands of Qatari**
Riyals

12 COMPARATIVE FIGURES

The corresponding figures presented for 2003 have been reclassified and restated where necessary to preserve consistency with the 2004 figures.