

QATAR TELECOM (Qtel) Q.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
31 MARCH 2005

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31 March 2005**

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

We have reviewed the accompanying interim condensed consolidated financial statements of Qatar Telecom (Qtel) Q.S.C. (the "Company") and its subsidiaries (together referred to as the "Group"), as at, and for the three months ended 31 March 2005 as set out on pages 3 to 14. These interim condensed consolidated 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 consolidated financial statements are the responsibility of the directors of the Group. 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 the Group 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 are not presented fairly, in all material respects, in accordance with International Financial Reporting Standards.

19 April 2005
Doha, State of Qatar

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

CONSOLIDATED BALANCE SHEET
as at 31 March 2005
In thousands of Qatari Riyals

	Notes	31 March 2005 Reviewed	31 March 2004 Reviewed	31 December 2004 Audited
NON-CURRENT ASSETS				
Property, plant and equipment	3	1,967,899	1,302,867	1,766,152
License costs		400,778	-	382,728
Other assets		92,963	-	92,449
Investments	4	1,199,399	637,185	962,305
TOTAL NON-CURRENT ASSETS		3,661,039	1,940,052	3,203,634
CURRENT ASSETS				
Inventories		21,503	38,807	23,291
Accounts receivable and prepayments		517,366	362,900	455,258
Cash and cash equivalents		722,990	1,418,044	1,370,869
TOTAL CURRENT ASSETS		1,261,859	1,819,751	1,849,418
CURRENT LIABILITIES		(990,124)	(840,253)	(1,140,600)
NON-CURRENT LIABILITIES		(92,872)	(81,378)	(87,341)
		3,839,902	2,838,172	3,825,111
TOTAL SHAREHOLDERS' FUNDS				
Share capital		1,000,000	1,000,000	1,000,000
Legal reserve		614,793	465,522	582,320
Proposed dividend		-	-	485,000
Retained earnings		1,725,906	1,210,004	1,477,692
Fair value reserve		408,556	162,646	157,419
Translation reserve		150	-	150
Minority interest		90,497	-	122,530
		3,839,902	2,838,172	3,825,111

Abdullah Bin Mohamed Bin Saud Al-Thani
Chairman

Mohammad Bin Isa Al-Mouhanadi
Member of the Board

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
for the three months ended 31 March 2005

In thousands of Qatari Riyals

	Notes	Three months ended	
		31 March 2005 Reviewed	31 March 2004 Reviewed
REVENUE	11	<u>648,622</u>	<u>565,244</u>
EXPENSES			
General and administrative expenses	5	236,471	156,279
Other operating expenses	6	83,374	80,163
		<u>319,845</u>	<u>236,442</u>
OPERATING PROFIT FOR THE PERIOD		328,777	328,802
Other income		<u>19,971</u>	<u>10,291</u>
		348,748	339,093
Royalty	7	<u>(95,394)</u>	<u>-</u>
NET PROFIT FOR THE PERIOD		<u>253,354</u>	<u>339,093</u>
ATTRIBUTABLE TO			
Equity holders of the Company		285,387	339,093
Minority interest		<u>(32,033)</u>	<u>-</u>
NET PROFIT FOR THE PERIOD		<u>253,354</u>	<u>339,093</u>
EARNINGS PER SHARE – BASIC (expressed in QR per share)	9	<u>2.85</u>	<u>3.39</u>

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS
for the three months ended 31 March 2005**

In thousands of Qatari Riyals

2004	Share capital	Legal reserve	Proposed dividend	Fair value reserve	Translation reserve	Retained earnings	Minority interest	Total Equity
As at 1 January	1,000,000	431,613	400,000	112,409	-	909,520	-	2,853,542
Final dividend 2003	-	-	(400,000)	-	-	-	-	(400,000)
Directors remuneration 2003	-	-	-	-	-	(4,700)	-	(4,700)
Net profit for the period	-	-	-	-	-	339,093	-	339,093
Transfer to legal reserve	-	33,909	-	-	-	(33,909)	-	-
Fair value adjustment	-	-	-	50,237	-	-	-	50,237
As at 31 March	<u>1,000,000</u>	<u>465,522</u>	<u>-</u>	<u>162,646</u>	<u>-</u>	<u>1,210,004</u>	<u>-</u>	<u>2,838,172</u>
2005	Share capital	Legal reserve	Proposed dividend	Fair value reserve	Translation reserve	Retained earnings	Minority interest	Total Equity
As at 1 January	1,000,000	582,320	485,000	157,419	150	1,477,692	122,530	3,825,111
Final dividend 2004	-	-	(485,000)	-	-	-	-	(485,000)
Directors remuneration 2004	-	-	-	-	-	(4,700)	-	(4,700)
Net profit for the period	-	-	-	-	-	285,387	(32,033)	253,354
Transfer to legal reserve	-	32,473	-	-	-	(32,473)	-	-
Fair value adjustment	-	-	-	251,137	-	-	-	251,137
As at 31 March	<u>1,000,000</u>	<u>614,793</u>	<u>-</u>	<u>408,556</u>	<u>150</u>	<u>1,725,906</u>	<u>90,497</u>	<u>3,839,902</u>

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the three months ended 31 March 2005
In thousands of Qatari Riyals

	Note	2005 Reviewed	2004 Reviewed
OPERATING ACTIVITIES			
Operating profit before working capital changes	10	283,330	378,904
Decrease/ (increase) in inventories		1,788	(5,462)
Increase in accounts receivable		(52,824)	(13,280)
(Decrease)/ increase in accounts payable		(154,224)	282,998
NET CASH FROM OPERATING ACTIVITIES		78,070	643,160
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(251,735)	(80,098)
Increase in license costs		(18,055)	-
Increase in other assets		(514)	-
Increase in investments		(73,667)	(113,341)
Proceeds from sale of property, plant and equipment		41	56
Proceeds from sale of investments		93,327	-
Investment and interest income		14,354	10,291
NET CASH USED IN INVESTING ACTIVITIES		(236,249)	(183,092)
FINANCING ACTIVITIES			
Dividends paid		(485,000)	(400,000)
Directors remuneration		(4,700)	(4,700)
NET CASH USED IN FINANCING ACTIVITIES		(489,700)	(404,700)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(647,879)	55,368
Cash and cash equivalents at 1 January		1,370,869	1,362,676
CASH AND CASH EQUIVALENTS AT 31 MARCH		722,990	1,418,044

The attached notes 1 to 15 form an integral part of the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the three months ended 31 March 2005****In thousands of Qatari Riyals**

1 ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the three months ended 31 March 2005 comprise Qatar Telecom (Qtel) Q.S.C (the “Company”) and its subsidiaries (together referred to as the “Group”). These statements have been prepared using the same accounting policies set out in the 2004 annual financial statements.

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

2 CONSOLIDATION

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries at the balance sheet date:

Omani Qatari Telecommunications Company S.A.O.C. (“Nawras”)	55%
TDC – Qtel MENA Investcom B.S.C.	79%
Qtel Investment Holdings B.S.C.	100%

Omani Qatari Telecommunications Company S.A.O.C. was incorporated as an Omani closed joint stock company. The Company is engaged in providing mobile telecommunication services in the Sultanate of Oman and commenced operations in March 2005.

TDC – Qtel MENA Investcom B.S.C. is a closed company incorporated in Bahrain.

Qtel Investment Holdings B.S.C (“QIH”) is a closed company incorporated in Bahrain, fully owned by the Company, established for the purpose of acting as the holding company for Qtel’s investments outside Qatar.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31 March 2005

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 2005	257,142	1,398,589	179,578	573,087	907,802	3,316,198
Additions	-	-	-	-	251,735	251,735
Capitalisations	3,333	20,032	-	5,663	(29,028)	-
Reclassifications and disposals	-	(562)	-	(43)	-	(605)
At 31 March 2005	<u>260,475</u>	<u>1,418,059</u>	<u>179,578</u>	<u>578,707</u>	<u>1,130,509</u>	<u>3,567,328</u>
Depreciation:						
At 1 January 2005	134,734	881,957	90,903	442,452	-	1,550,046
Provided during the period	1,903	29,973	1,787	16,287	-	49,950
Reclassifications and disposals	-	(525)	-	(42)	-	(567)
At 31 March 2005	<u>136,637</u>	<u>911,405</u>	<u>92,690</u>	<u>458,697</u>	<u>-</u>	<u>1,599,429</u>
Net book values:						
At 31 March 2005	<u>123,838</u>	<u>506,654</u>	<u>86,888</u>	<u>120,010</u>	<u>1,130,509</u>	<u>1,967,899</u>
At 31 March 2004	<u>72,923</u>	<u>526,639</u>	<u>89,028</u>	<u>114,331</u>	<u>499,946</u>	<u>1,302,867</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the three months ended 31 March 2005

In thousands of Qatari Riyals

4 INVESTMENTS

	31 March 2005	31 March 2004	31 December 2004
Available for sale			
- Quoted	526,106	349,342	298,830
- Unquoted	178,598	178,598	178,598
- Investment in hedge funds	494,695	109,245	484,877
	<u>1,199,399</u>	<u>637,185</u>	<u>962,305</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	2005	2004
Employee salaries and associated costs	84,932	63,029
Depreciation	49,950	50,103
Rentals and utilities	19,083	13,314
Repairs and maintenance	32,298	9,276
Marketing costs and donations	17,637	7,563
Legal and professional fees	11,988	2,762
Provision for receivables	9,216	3,051
Other expenses	11,367	7,181
	<u>236,471</u>	<u>156,279</u>
Number of employees as at 31 March		
Qatar Telecom (Qtel) Q.S.C.	1,832	1,888
Omani Qatari Telecommunications Company S.A.O.C.	273	-
	<u>2,105</u>	<u>1,888</u>

Employee salaries and associated costs include:

	2005	2004
Salaries and allowances	74,732	53,327
End of service benefits	3,894	5,181
Training and related costs	4,560	3,065
Pension contribution	1,746	1,456
	<u>84,932</u>	<u>63,029</u>

6 OTHER OPERATING EXPENSES

	2005	2004
Outpayments to international carriers	46,038	49,889
Cost of equipment sold and other services	11,241	9,640
Commissions on cards	12,379	9,179
Leased circuit rentals	13,716	11,455
	<u>83,374</u>	<u>80,163</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the three months ended 31 March 2005

In thousands of Qatari Riyals

7 ROYALTY

	2005	2004
Royalty to the State of Qatar	95,129	-
Royalty to the Government of Sultanate of Oman	<u>265</u>	-
	<u>95,394</u>	-

Effective 1 January 2005, Qtel is liable to pay royalty to The State of Qatar for the exclusive right to provide telecommunication services in the State of Qatar. In accordance with the terms of licence granted to Nawras to operate mobile service in the Sultanate of Oman, royalty is payable to the Government of the Sultanate of Oman.

8 DIVIDENDS

	2005	2004
Final dividend of 2004 - QR 4.85 per share (2004: 2003 - QR 4.00 per share)	<u>485,000</u>	<u>400,000</u>

During the period, final dividend relating to the year ended 31 December 2004 amounting to QR 485,000 was approved at the Annual General Meeting held on 27 February 2005 and paid to the shareholders (2004: 2003 final dividend of QR 400,000).

9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the period attributable to the Company's shareholders by the weighted average number of ordinary shares outstanding during the period.

	2005	2004
Profit for the period attributable to the Company's shareholders	<u>285,387</u>	<u>339,093</u>
Weighted average number of shares outstanding during the period	<u>100,000</u>	<u>100,000</u>
Earnings per share (expressed in QR per share)	<u>2.85</u>	<u>3.39</u>

10 OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES

	2005	2004
Net profit for the period	253,354	339,093
Adjustments for:		
Depreciation	49,950	50,103
Other income	(19,971)	(10,291)
Gain on disposal of property, plant and equipment	<u>(3)</u>	<u>(1)</u>
	<u>283,330</u>	<u>378,904</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the three months ended 31 March 2005****In thousands of Qatari Riyals****11 SEGMENT INFORMATION****Business Segments**

The segment information is presented based on the Group's reporting structure and comprises of Wireless Services, Wireline Services and Special Business.

2005	Wireless services	Wireline services	Special Business	Total
Revenue	<u>412,286</u>	<u>217,450</u>	<u>18,886</u>	<u>648,622</u>
Contribution	261,124	125,545	4,217	390,886
Unallocated costs				<u>(62,109)</u>
Operating profit				328,777
Other income				19,971
Royalty				<u>(95,394)</u>
Net profit				<u><u>253,354</u></u>
2004	Wireless services	Wireline services	Special Business	Total
Revenue	<u>330,691</u>	<u>216,410</u>	<u>18,143</u>	<u>565,244</u>
Contribution	255,026	127,831	3,925	386,782
Unallocated costs				<u>(57,980)</u>
Operating profit				328,802
Other income				10,291
Royalty				<u>-</u>
Net profit				<u><u>339,093</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the three months ended 31 March 2005****In thousands of Qatari Riyals****11 SEGMENT INFORMATION** (continued)**Geographical segments**

The Group provides telecommunication services in the State of Qatar and the Sultanate of Oman.

2005

	Qatar	Other GCC countries	Total
Revenue	645,442	3,180	648,622
Expenses	<u>(253,386)</u>	<u>(66,459)</u>	<u>(319,845)</u>
Operating profit	392,056	(63,279)	328,777
Other income	19,079	892	19,971
Royalty	<u>(95,129)</u>	<u>(265)</u>	<u>(95,394)</u>
Net profit	<u>316,006</u>	<u>(62,652)</u>	<u>253,354</u>

2004

	Qatar	Other GCC countries	Total
Revenue	565,244	-	565,244
Expenses	<u>(236,442)</u>	<u>-</u>	<u>(236,442)</u>
Operating profit	328,802	-	328,802
Other income	10,291	-	10,291
Royalty	<u>-</u>	<u>-</u>	<u>-</u>
Net profit	<u>339,093</u>	<u>-</u>	<u>339,093</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the three months ended 31 March 2005 **In thousands of Qatari Riyals**

12 COMMITMENTS

a) Capital Commitments

At 31 March 2005, future capital expenditure approved and contracted for is as follows:

	31 March 2005		31 March 2004	
	Approved	Contracted	Approved	Contracted
Due within 1 year	1,188,091	631,388	1,154,738	313,861
Due after 1 year	<u>982,558</u>	<u>-</u>	<u>715,321</u>	<u>-</u>
	<u>2,170,649</u>	<u>631,388</u>	<u>1,870,059</u>	<u>313,861</u>

13 CONTINGENT LIABILITIES

a) Claims

There were no significant claims against the Group not acknowledged as debts as at 31 March 2005 (31 March 2004: QR 1,590).

b) Loan repayment guarantees

Thuraya Satellite Telecommunications Company

The Group has entered into an agreement to guarantee a portion of the loan repayments of Thuraya Satellite Telecommunications Company in respect of project financing for the construction of a satellite system. The obligation of the Group under this guarantee amounts to QR 174,800 as at 31 March 2005 (31 March 2004: QR 208,000).

c) Letters of Credit and Guarantees

The Group's banks have issued letters of credit of QR 110,668 as at 31 March 2005 (31 March 2004: Nil) and guarantees of QR 131 as at 31 March 2005 (31 March 2004: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the three months ended 31 March 2005****In thousands of Qatari Riyals**

14 TERM LOAN

The Group has entered into a facility agreement with a consortium of banks for a term loan of US Dollars 220 million in order to finance the start up activities of its Oman operations. As at the balance sheet date no draw-down had occurred under this facility.

15 COMPARATIVE FIGURES

The corresponding figures presented for 2004 have been reclassified where necessary to preserve consistency with the 2005 figures. However, such reclassification did not have any effect on the net profit or the total Shareholders' equity.

The corresponding figures presented for 2004 represent the results of Qatar Telecom (Qtel) Q.S.C. only, as the Company obtained controlling interest in subsidiary companies during last quarter of 2004.