

QATAR TELECOM (Qtel) Q.S.C.
INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
30 June 2005

Qatar Telecom (Qtel) Q.S.C.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS for the six months ended 30 June 2005

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	7-14

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

We have reviewed the accompanying interim consolidated balance sheet of Qatar Telecom (Qtel) Q.S.C. (the "Company") and its subsidiaries (together referred to as the "Group") as of 30 June 2005, and the related statements of income, changes in equity and cash flows ("the interim condensed consolidated financial information") for the six month period then ended.

Respective responsibilities of the management and the reviewing accountants

This interim condensed consolidated financial information is the responsibility of the Company's management. Our responsibility is to issue a report on this interim condensed consolidated financial information based on our review.

Basis of opinion

We conducted our review in accordance with the International Standard on Review Engagements 2400. A review is limited primarily to inquiries 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 information is not presented fairly, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

20 July 2005
Doha, State of Qatar

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

CONSOLIDATED BALANCE SHEET
as at 30 June 2005
In thousands of Qatari Riyals

	Notes	30 June 2005 Reviewed	30 June 2004 Reviewed	31 December 2004 Audited
NON-CURRENT ASSETS				
Property, plant and equipment	3	2,117,913	1,465,768	1,766,152
Licence costs		375,895	-	382,728
Other assets		103,479	-	92,449
Investments	4	1,126,406	969,104	962,305
TOTAL NON-CURRENT ASSETS		3,723,693	2,434,872	3,203,634
CURRENT ASSETS				
Inventories		25,827	35,261	23,291
Accounts receivable and prepayments		514,704	397,474	455,258
Cash and cash equivalents		904,657	1,067,015	1,370,869
TOTAL CURRENT ASSETS		1,445,188	1,499,750	1,849,418
CURRENT LIABILITIES		(1,029,389)	(543,375)	(1,140,600)
NON-CURRENT LIABILITIES		(88,450)	(82,841)	(87,341)
		4,051,042	3,308,406	3,825,111
TOTAL SHAREHOLDERS' FUNDS				
Share capital		1,000,000	1,000,000	1,000,000
Legal reserve		647,360	500,000	582,320
Retained earnings		1,987,805	1,679,082	1,962,692
Fair value reserve		350,689	129,324	157,419
Translation reserve		150	-	150
Minority interest		65,038	-	122,530
		4,051,042	3,308,406	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 six months ended 30 June 2005
In thousands of Qatari Riyals

	Notes	Three months ended		Six months ended	
		30 June	30 June	30 June	30 June
		2005	2004	2005	2004
		Reviewed	Reviewed	Reviewed	Reviewed
REVENUE	11	704,605	583,680	1,353,227	1,148,924
EXPENSES					
General and administrative expenses	5	246,988	154,708	483,459	310,987
Other operating expenses	6	106,119	80,838	189,493	161,001
		353,107	235,546	672,952	471,988
OPERATING PROFIT FOR THE PERIOD		351,498	348,134	680,275	676,936
Other income		16,808	61,275	36,779	71,566
		368,306	409,409	717,054	748,502
Royalty	7	(99,299)	-	(194,693)	-
NET PROFIT FOR THE PERIOD		269,007	409,409	522,361	748,502
ATTRIBUTABLE TO					
Equity holders of the Company		294,466	409,409	579,853	748,502
Minority interest		(25,459)	-	(57,492)	-
NET PROFIT FOR THE PERIOD		269,007	409,409	522,361	748,502
EARNINGS PER SHARE – BASIC (expressed in QR per share)	9	2.94	4.09	5.80	7.49

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 six months ended 30 June 2005**

In thousands of Qatari Riyals

2004	Share capital	Legal reserve	Fair value reserve	Revaluation surplus	Translation reserve	Retained earnings	Minority interest	Total equity
As at 1 January	1,000,000	431,613	112,409	-	-	1,309,520	-	2,853,542
Final dividend 2003	-	-	-	-	-	(400,000)	-	(400,000)
Directors remuneration 2003	-	-	-	-	-	(4,700)	-	(4,700)
Net profit for the period	-	-	-	-	-	748,502	-	748,502
Transfer to legal reserve	-	68,387	-	-	-	(68,387)	-	-
Revaluation of investment property (land)	-	-	-	94,147	-	-	-	94,147
Revaluation surplus	-	-	-	(94,147)	-	94,147	-	-
Fair value adjustment	-	-	16,915	-	-	-	-	16,915
As at 30 June	<u>1,000,000</u>	<u>500,000</u>	<u>129,324</u>	<u>-</u>	<u>-</u>	<u>1,679,082</u>	<u>-</u>	<u>3,308,406</u>
2005	Share capital	Legal reserve	Fair value reserve	Revaluation surplus	Translation reserve	Retained earnings	Minority interest	Total equity
As at 1 January	1,000,000	582,320	157,419	-	150	1,962,692	122,530	3,825,111
Final dividend 2004	-	-	-	-	-	(485,000)	-	(485,000)
Directors remuneration 2004	-	-	-	-	-	(4,700)	-	(4,700)
Net profit for the period	-	-	-	-	-	579,853	(57,492)	522,361
Transfer to legal reserve	-	65,040	-	-	-	(65,040)	-	-
Fair value adjustment	-	-	193,270	-	-	-	-	193,270
As at 30 June	<u>1,000,000</u>	<u>647,360</u>	<u>350,689</u>	<u>-</u>	<u>150</u>	<u>1,987,805</u>	<u>65,038</u>	<u>4,051,042</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 six months ended 30 June 2005**
In thousands of Qatari Riyals

	Note	2005 Reviewed	2004 Reviewed
OPERATING ACTIVITIES			
Operating profit before working capital changes	10	605,104	772,081
Increase in inventories		(2,536)	(1,916)
Increase in accounts receivable		(59,446)	(47,854)
Decrease in accounts payable		(110,102)	(12,417)
NET CASH FROM OPERATING ACTIVITIES		433,020	709,894
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(465,271)	(197,632)
Decrease in licence costs		377	-
Increase in other assets		(1,090)	-
Increase in investments		(96,942)	(481,597)
Proceeds from sale of property, plant and equipment		444	3,793
Proceeds from sale of investments		139,452	48,746
Investment and interest income		23,438	25,835
NET CASH USED IN INVESTING ACTIVITIES		(399,592)	(600,855)
FINANCING ACTIVITIES			
Dividends paid		(485,000)	(400,000)
Directors remuneration		(4,700)	(4,700)
Deferred financing costs		(9,940)	-
NET CASH USED IN FINANCING ACTIVITIES		(499,640)	(404,700)
DECREASE IN CASH AND CASH EQUIVALENTS		(466,212)	(295,661)
Cash and cash equivalents at 1 January		1,370,869	1,362,676
CASH AND CASH EQUIVALENTS AT 30 JUNE		904,657	1,067,015

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 six months ended 30 June 2005****In thousands of Qatari Riyals****1 ACCOUNTING POLICIES**

The interim condensed consolidated financial statements for the six months ended 30 June 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 six months ended 30 June 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	-	-	-	-	465,271	465,271
Capitalisations	10,973	162,167	-	121,149	(294,289)	-
Reclassifications and disposals	-	(3,452)	(2,450)	(3,244)	-	(9,146)
At 30 June 2005	268,115	1,557,304	177,128	690,992	1,078,784	3,772,323
Depreciation:						
At 1 January 2005	134,734	881,957	90,903	442,452	-	1,550,046
Provided during the period	4,202	65,846	3,638	39,701	-	113,387
Reclassifications and disposals	-	(3,416)	(2,450)	(3,157)	-	(9,023)
At 30 June 2005	138,936	944,387	92,091	478,996	-	1,654,410
Net book values:						
At 30 June 2005	129,179	612,917	85,037	211,996	1,078,784	2,117,913
At 30 June 2004	129,658	549,671	87,616	121,468	577,355	1,465,768

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2005

In thousands of Qatari Riyals

4 INVESTMENTS

	30 June 2005	30 June 2004	31 December 2004
Available for sale			
- Quoted	502,537	318,774	298,830
- Unquoted	167,509	178,598	178,598
- Investment in hedge funds	456,360	471,732	484,877
	<u>1,126,406</u>	<u>969,104</u>	<u>962,305</u>

5 GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Six months ended	
	30 June	30 June	30 June	30 June
	2005	2004	2005	2004
Employee salaries and associated costs	80,344	64,471	165,276	127,500
Depreciation and amortisation	69,893	45,043	119,843	95,146
Rentals and utilities	20,141	14,618	39,224	27,932
Repairs and maintenance	16,278	12,929	48,576	22,205
Marketing costs and donations	32,920	8,093	50,557	15,656
Legal and professional fees	6,376	3,432	18,364	6,194
Provision for receivables	3,196	(1,114)	12,412	1,937
Other expenses	17,840	7,236	29,207	14,417
	<u>246,988</u>	<u>154,708</u>	<u>483,459</u>	<u>310,987</u>
Number of employees as at 30 June				
Qatar Telecom (Qtel) Q.S.C.			1,863	1,834
Omani Qatari Telecommunications Company S.A.O.C.			284	-
			<u>2,147</u>	<u>1,834</u>

Employee salaries and associated costs include:

	Three months ended		Six months ended	
	30 June	30 June	30 June	30 June
	2005	2004	2005	2004
Salaries and allowances	69,964	55,023	144,696	108,350
End of service benefits	3,797	3,164	7,691	8,345
Training and related costs	4,497	4,817	9,057	7,882
Pension contribution	2,086	1,467	3,832	2,923
	<u>80,344</u>	<u>64,471</u>	<u>165,276</u>	<u>127,500</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2005

In thousands of Qatari Riyals

6 OTHER OPERATING EXPENSES

	Three months ended		Six months ended	
	30 June 2005	30 June 2004	30 June 2005	30 June 2004
Outpayments to international carriers	62,220	49,625	108,258	99,514
Cost of equipment sold and other services	17,980	9,523	29,221	19,163
Commissions on cards	11,966	9,501	24,345	18,680
Leased circuit rentals	13,953	12,189	27,669	23,644
	<u>106,119</u>	<u>80,838</u>	<u>189,493</u>	<u>161,001</u>

7 ROYALTY

	Three months ended		Six months ended	
	30 June 2005	30 June 2004	30 June 2005	30 June 2004
Royalty to the State of Qatar	98,155	-	193,284	-
Royalty to the Government of Sultanate of Oman	1,144	-	1,409	-
	<u>99,299</u>	<u>-</u>	<u>194,693</u>	<u>-</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, effective March 2005.

8 DIVIDENDS

	Six months ended	
	30 June 2005	30 June 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).

Subsequent to the balance sheet date, the Board of Directors in their meeting held on 4 July 2005, proposed and approved interim dividends of QR 3.65 per share totalling QR 365,000 (2004: QR 365,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the six months ended 30 June 2005****In thousands of Qatari Riyals****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.

	Three months ended		Six months ended	
	30 June	30 June	30 June	30 June
	2005	2004	2005	2004
Profit for the period attributable to the Company's shareholders	<u>294,466</u>	<u>409,409</u>	<u>579,853</u>	<u>748,502</u>
Weighted average number of shares outstanding during the period	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Earnings per share (expressed in QR per share)	<u>2.94</u>	<u>4.09</u>	<u>5.80</u>	<u>7.49</u>

10 OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES

	Six months ended	
	30 June	30 June
	2005	2004
Net profit for the period	522,361	748,502
Adjustments for:		
Depreciation and amortisation	119,843	95,146
Other income	(36,779)	(71,566)
Gain on disposal of property, plant and equipment	(321)	(1)
	<u>605,104</u>	<u>772,081</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30 June 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	Three months ended 30 June 2005			Six months ended 30 June 2005			Total
	Wireless services	Wireline services	Special business	Wireless services	Wireline services	Special business	
Revenue	448,540	239,743	16,322	704,605	457,193	35,208	1,353,227
Contribution	291,749	146,651	(1,407)	436,993	272,196	2810	827,879
Unallocated costs				(85,495)			(147,604)
Operating profit				351,498			680,275
Other income				16,808			36,779
Royalty				(99,299)			(194,693)
Net profit				269,007			522,361
2004	Three months ended 30 June 2004			Six months ended 30 June 2004			Total
	Wireless services	Wireline services	Special business	Wireless services	Wireline services	Special business	
Revenue	341,297	224,160	18,223	583,680	440,570	36,366	1,148,924
Contribution	265,797	136,786	4,773	407,356	264,617	8,698	794,138
Unallocated costs				(59,222)			(117,202)
Operating profit				348,134			676,936
Other income				61,275			71,566
Royalty				-			-
Net profit				409,409			748,502

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the six months ended 30 June 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	Three months ended 30 June 2005			Six months ended 30 June 2005		
	Qatar	Other GCC Countries	Total	Qatar	Other GCC Countries	Total
Revenue	684,667	19,938	704,605	1,330,109	23,118	1,353,227
Expenses	(226,722)	(56,492)	(283,214)	(430,158)	(122,951)	(553,109)
EBITDA	457,945	(36,554)	421,391	899,951	(99,833)	800,118
Depreciation and amortisation	(59,801)	(10,092)	(69,893)	(109,751)	(10,092)	(119,843)
Operating profit	398,144	(46,646)	351,498	790,200	(109,925)	680,275
Other income	16,230	578	16,808	35,309	1,470	36,779
Royalty	(98,155)	(1,144)	(99,299)	(193,284)	(1,409)	(194,693)
Net profit	316,219	(47,212)	269,007	632,225	(109,864)	522,361
	Three months ended 30 June 2004			Six months ended 30 June 2004		
2004	Qatar	Other GCC Countries	Total	Qatar	Other GCC Countries	Total
Revenue	583,680	-	583,680	1,148,924	-	1,148,924
Expenses	(190,503)	-	(190,503)	(376,842)	-	(376,842)
EBITDA	393,177	-	393,177	772,082	-	772,082
Depreciation and amortisation	(45,043)	-	(45,043)	(95,146)	-	(95,146)
Operating profit	348,134	-	348,134	676,936	-	676,936
Other income	61,275	-	61,275	71,566	-	71,566
Royalty	-	-	-	-	-	-
Net profit	409,409	-	409,409	748,502	-	748,502

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**for the six months ended 30 June 2005****In thousands of Qatari Riyals****12 COMMITMENTS***a) Capital Commitments*

At 30 June 2005, future capital expenditure approved and contracted for is as follows:

	30 June 2005		30 June 2004	
	Approved	Contracted	Approved	Contracted
Due within 1 year	1,403,827	598,763	1,154,738	313,861
Due after 1 year	969,502	-	715,321	-
	<u>2,373,329</u>	<u>598,763</u>	<u>1,870,059</u>	<u>313,861</u>

13 CONTINGENT LIABILITIES*a) 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. The obligation of the Group under this guarantee amounts to QR 152,943 as at 30 June 2005 (30 June 2004: QR 196,700).

b) Letters of Credit and Guarantees

The Group's banks have issued letters of credit of QR 86,602 as at 30 June 2005 (30 June 2004: Nil) and guarantees of QR 131 as at 30 June 2005 (30 June 2004: Nil).

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 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 the last quarter of 2004.