

QATAR TELECOM (Qtel) Q.S.C.

**CONSOLIDATED FINANCIAL
STATEMENTS**

31 DECEMBER 2005

Qatar Telecom (Qtel) Q.S.C.

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005**

CONTENTS	Page
Report of the auditors	1
Consolidated financial statements	
Consolidated balance sheet	2
Consolidated income statement	3
Consolidated statement of changes in shareholders' equity	4
Consolidated statement of cash flows	5
Notes to the consolidated financial statements	6-23

REPORT OF AUDITORS

To the shareholders of Qatar Telecom (Qtel) Q.S.C.
Doha
State of Qatar

We have audited the accompanying consolidated financial statements of Qatar Telecom (Qtel) Q.S.C. (the "Company") and its subsidiaries (the "Group") as at, and for the year ended 31 December 2005 as set out on pages 2 to 23.

Respective responsibilities of management and auditors

These consolidated financial statements are the responsibility of the management of the Group. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with the International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of the Group as at 31 December 2005, the results of its operations, the changes in its equity and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other regulatory matters

In addition, in our opinion, the group has maintained proper accounting records and the consolidated financial statements are in agreement therewith. The contents of the directors' report which relates to the financial information are in agreement with the Group's consolidated financial statements. To the best of our knowledge and belief, no violations of the provisions of the Qatar Commercial Companies Law No. 5 of 2002 or the terms of the Articles of Association of the Company, have occurred during the year that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

1 February 2006
Doha, State of Qatar

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

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

	Note	2005	2004
NON-CURRENT ASSETS			
Property, plant and equipment	4	2,491,227	1,766,152
License costs	5	380,518	382,728
Other assets	6	94,917	92,449
Investments	7	1,198,683	962,305
TOTAL NON-CURRENT ASSETS		4,165,345	3,203,634
CURRENT ASSETS			
Inventories	8	23,869	23,291
Accounts receivable and prepayments	9	541,733	455,258
Cash and cash equivalents	10	1,645,359	1,370,869
TOTAL CURRENT ASSETS		2,210,961	1,849,418
CURRENT LIABILITIES	11	(1,386,988)	(1,140,600)
NON-CURRENT LIABILITIES			
Long term loan from banks	12	(573,413)	-
Other non-current liabilities	13	(128,758)	(87,341)
		4,287,147	3,825,111
TOTAL SHAREHOLDERS' EQUITY			
Share capital	15	1,000,000	1,000,000
Legal reserve	15	713,199	582,320
Retained earnings		2,167,560	1,962,692
Fair value reserve	15	380,683	157,419
Translation reserve		150	150
Equity attributable to parent shareholders		4,261,592	3,702,581
Minority interest		25,555	122,530
		4,287,147	3,825,111

The consolidated financial statements consisting of pages 2 to 23 were approved on 1 February 2006 and signed on behalf of the Board of Directors of the Group by:

Abdullah Bin Mohamed Bin Saud Al-Thani
Chairman

Ali Sharif Al Emadi
Member of the Board

The attached notes 1 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2005

In thousands of Qatari Riyals

	Note	2005	2004
REVENUE	16	2,982,400	2,346,104
EXPENSES			
General and administrative expenses	17	(1,124,177)	(693,489)
Other operating expenses	18	(436,492)	(319,963)
OTHER INCOME	19	76,709	124,507
ROYALTY	20	(404,968)	-
NET PROFIT FOR THE YEAR		<u>1,093,472</u>	<u>1,457,159</u>
ATTRIBUTABLE TO			
Parent shareholders		1,190,447	1,479,432
Minority interest		<u>(96,975)</u>	<u>(22,273)</u>
NET PROFIT FOR THE YEAR		<u>1,093,472</u>	<u>1,457,159</u>
EARNINGS PER SHARE – BASIC (expressed in QR per share)	21	<u>11.90</u>	<u>14.79</u>

The attached notes 1 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the year ended 31 December 2005

In thousands of Qatari Riyals

	Share capital	Legal reserve	Investment fair value reserve	Revaluation surplus	Translation reserve	Retained earnings	Attributable to parent shareholders	Minority interest	Total
As at 1 January 2004	1,000,000	431,613	112,409	-	-	1,309,520	2,853,542	-	2,853,542
Final dividend 2003	-	-	-	-	-	(400,000)	(400,000)	-	(400,000)
Directors remuneration 2003	-	-	-	-	-	(4,700)	(4,700)	-	(4,700)
Minority interest	-	-	-	-	-	-	-	144,803	144,803
Net profit for the year	-	-	-	-	-	1,479,432	1,479,432	(22,273)	1,457,159
Transfer to legal reserve	-	150,707	-	-	-	(150,707)	-	-	-
Interim dividend 2004	-	-	-	-	-	(365,000)	(365,000)	-	(365,000)
Foreign currency translations	-	-	-	-	150	-	150	-	150
Revaluation of investment property	-	-	-	94,147	-	-	94,147	-	94,147
Revaluation surplus	-	-	-	(94,147)	-	94,147	-	-	-
Fair value adjustment	-	-	45,010	-	-	-	45,010	-	45,010
As at 31 December 2004	1,000,000	582,320	157,419	-	150	1,962,692	3,702,581	122,530	3,825,111
Final dividend 2004	-	-	-	-	-	(485,000)	(485,000)	-	(485,000)
Directors remuneration 2004	-	-	-	-	-	(4,700)	(4,700)	-	(4,700)
Net profit for the year	-	-	-	-	-	1,190,447	1,190,447	(96,975)	1,093,472
Transfer to legal reserve	-	130,879	-	-	-	(130,879)	-	-	-
Interim dividend 2005	-	-	-	-	-	(365,000)	(365,000)	-	(365,000)
Fair value adjustment	-	-	223,264	-	-	-	223,264	-	223,264
As at 31 December 2005	1,000,000	713,199	380,683	-	150	2,167,560	4,261,592	25,555	4,287,147

The attached notes 1 to 31 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2005

In thousands of Qatari Riyals

	Note	2005	2004
OPERATING ACTIVITIES			
Operating profit before working capital changes	22	1,334,424	1,518,297
(Increase) / decrease in inventories		(579)	10,054
Increase in accounts receivable		(95,816)	(105,638)
(Decrease) / increase in accounts payable		(108,026)	590,322
Increase in license costs		(18,028)	(382,728)
Movements in current account with the State of Qatar		395,534	(1,014)
NET CASH FROM OPERATING ACTIVITIES		1,507,509	1,629,293
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,022,809)	(589,805)
Increase in other assets		(2,468)	(92,449)
Increase in investments		(284,885)	(488,632)
Proceeds from sale of property, plant and equipment		604	5,082
Proceeds from sale of investments		283,886	125,408
Investment and interest income		64,594	44,193
NET CASH USED IN INVESTING ACTIVITIES		(961,078)	(996,203)
FINANCING ACTIVITIES			
Dividends paid		(850,000)	(765,000)
Directors remuneration		(4,700)	(4,700)
Long term loan from bank		582,759	-
Share capital from minority interest		-	144,803
NET CASH USED IN FINANCING ACTIVITIES		(271,941)	(624,897)
INCREASE IN CASH AND CASH EQUIVALENTS		274,490	8,193
Cash and cash equivalents at 1 January		1,370,869	1,362,676
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,645,359	1,370,869

The attached notes 1 to 31 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

1 FORMATION AND ACTIVITIES

Qatar Public Telecommunications Corporation was formed on 29 June 1987 by Law No. 13 of 1987 to provide domestic and international telecommunication services within the State of Qatar.

The Corporation was transformed into a Qatari Shareholding Company under the name of Qatar Telecom (Qtel) Q.S.C. (the "Company") on 25 November 1998, pursuant to Law No.21 of 1998. Under that Law, Qatar Telecom (Qtel) Q.S.C. is exclusively entitled to provide domestic and international telecommunication services in Qatar for a period of 15 years and has the right to own, operate, maintain and develop telecommunications network in Qatar.

Under Law No. 21 of 1998 the Company is not subject to taxation on its earnings for a period of ten years commencing from 1 January 1999.

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

2 BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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.	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 will be primarily engaged in providing mobile telecommunication services in the Sultanate of Oman.

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

Qtel Investment Holdings B.S.C is a closed company incorporated in Bahrain, fully owned by the Company, established primarily for the purpose of acting as the holding company for Qtel's investments outside Qatar.

(ii) Transactions eliminated on consolidation

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

(iii) Minority interest

The Group obtained controlling interest in the above subsidiary companies during 2004. Minority interests in these subsidiary companies are presented in the consolidated statement of changes in shareholders' equity.

(iv) Foreign currency

On consolidation all assets, liabilities, revenues and expenses of foreign subsidiaries are translated into Qatari Riyal at year end exchange rates. Exchange differences arising from the translation of the net investment in foreign subsidiaries are taken to the statement of changes in shareholders' equity. All other exchange gains or losses are taken through the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

3 SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standard Board.

b. Accounting convention

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale investments and derivative financial instruments. The accounting policies have been consistently applied by the Group and are consistent with those used in the previous year except for the adoption of International Accounting Standard (“IAS”) no. 12 – Income Taxes in the preparation and presentation of these financial statements.

c. Property, plant and equipment

Property, plant and equipment are recorded at cost or deemed cost less accumulated depreciation and impairment losses, if any.

Freehold land is not depreciated. The cost of other property, plant and equipment is depreciated with effect from the month following the date of first use over the estimated useful lives of the assets. Depreciation methods and useful lives, as well as residual values are reassessed annually. The currently used rates of depreciation are based upon the following estimated useful lives:

Buildings	5 - 20 years
Exchanges and line plant	5 - 20 years
International communication links	10 - 25 years
Subscriber apparatus and other equipment	1 - 10 years

d. Leased assets

Leases for which substantially all the risks and rewards of ownership are assumed, are classified as finance lease. Assets acquired under finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease less accumulated depreciation and impairment losses, if any. Lease liabilities are reduced by the repayment of principal amount while the finance charge component of the lease payment is charged directly to the income statement. Lease payments are allocated between lease finance cost and capital repayments using the effective interest method.

e. License costs

License costs incurred for obtaining the license to operate as a second mobile telecommunication service provider in the Sultanate of Oman. License costs are amortised on a straight line basis over a period of 15 years from the date of commencement of operations in the Sultanate of Oman.

f. Investments

All investments are initially recognized at cost, being the fair value of the consideration given including transaction charges associated with the investment.

Available for sale – Quoted

After initial recognition, investments which are classified “available for sale - quoted” are remeasured at fair value, with any resultant gain or loss directly recognised as a separate component of equity until the investment is sold, collected, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement for the year.

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date.

Available for sale - Unquoted

Due to the nature of cash flows arising from the Group’s unquoted investments, the fair value of these investments cannot be reliably measured. Consequently, these investments are carried at cost, less provision for any impairment losses, if any.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005**

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

g. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition. Cost is determined on a weighted average basis. Net realisable value is based on estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

h. Accounts receivable

Accounts receivable represent amounts billed and outstanding at the balance sheet date net of provisions for amounts estimated to be uncollectible. The Group's terms of credit vary in line with individual services provided to customers. An estimate for doubtful debts is made when collection of the amount is no longer probable. Bad debts are written off as incurred.

i. Cash and cash equivalents

Cash and cash equivalents comprises cash on hand and balances with banks under current, call and fixed deposits.

j. Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the income statement whenever the carrying amounts of an asset exceeds its recoverable amount. Impairment losses are reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

k. Accounts payable and accruals

Accounts payable and accruals are stated at amortized cost for amounts payable for goods or services received, whether or not billed to the Group. Accounts payable are normally settled within 30 to 45 days from the date the service or the date the supply is received.

l. Employee benefits

(i) End of service benefits

Provision is made for amounts contractually payable to employees for end of service benefits on the basis of the employees' accumulated periods of service at the balance sheet date.

(ii) Defined contribution plans

Obligations for contributions to government pension plans are recognised as an expense in the consolidated income statement as incurred.

(iii) Defined benefit plans

Provisions are made for future benefits to Qatari employees who retired prior to 2003 and are recognised as an expense in the consolidated income statement as incurred.

m. Revenue recognition

Revenue represents the value of services provided and equipment sold or rented. Revenue is recognised in the consolidated income statement over the period to which the charges relate.

n. Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

o. Derivative financial instruments

Derivative financial instruments are contracts, the value of which are derived from one or more underlying financial instruments or indices, and include a call option to repurchase equity at a predetermined price.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value of a derivative is the equivalent of the unrealized gain or loss from marking to market the derivative using prevailing market rates. The Group enters into derivative instruments to hedge foreign currency and interest rate risks.

Changes in the fair value of derivative financial instruments that are designated, and qualify as fair value hedges, are included in the income statement together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk being hedged. Unrealized gains or losses on the hedging instrument which are attributable to the hedged risk are adjusted against the carrying values of the hedged assets or liabilities.

p. Interest bearing borrowings

Interest bearing borrowings are recognized initially at fair value of the amounts borrowed, less related financing costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost using the effective interest method, with any differences between the cost and final settlement values being recognized in the income statement over the period of borrowings.

q. Deferred financing costs

The cost of obtaining long-term financing is deferred and amortized over the term of the long-term loans using the effective interest rate method. Deferred financing costs less accumulated amortization are offset against the drawn amount of long-term loans.

r. Deferred tax

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused taxable losses and credits can be utilized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

4 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Exchanges and line plant (i)	International communica- tion 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	-	-	-	-	1,022,809	1,022,809
Capitalization	336,502	744,414	433	293,967	(1,375,316)	-
Reclassifications and disposals	-	(3,452)	(2,450)	(4,343)	-	(10,245)
At 31 December 2005	<u>593,644</u>	<u>2,139,551</u>	<u>177,561</u>	<u>862,711</u>	<u>555,295</u>	<u>4,328,762</u>
Depreciation:						
At 1 January 2005	134,734	881,957	90,903	442,452	-	1,550,046
Provided during the year	16,596	138,355	7,424	84,737	-	247,112
Impairment of assets (ii)	-	50,387	-	-	-	50,387
Reclassifications and disposals	-	(3,416)	(2,450)	(4,144)	-	(10,010)
At 31 December 2005	<u>151,330</u>	<u>1,067,283</u>	<u>95,877</u>	<u>523,045</u>	<u>-</u>	<u>1,837,535</u>
Net book value:						
At 31 December 2005	<u>442,314</u>	<u>1,072,268</u>	<u>81,684</u>	<u>339,666</u>	<u>555,295</u>	<u>2,491,227</u>
At 31 December 2004	<u>122,408</u>	<u>516,632</u>	<u>88,675</u>	<u>130,635</u>	<u>907,802</u>	<u>1,766,152</u>

Notes:

- (i) Exchanges and line plant include equipment obtained by finance lease from Omantel (note 3.d). The net book value of the leased assets amounts to QR 7,044 as at 31 December 2005 (2004: QR Nil).
- (ii) Impairment of assets represents additional depreciation provided during the year (2004: QR 7,867) for replaced and impaired assets.

5 LICENSE COSTS

The Group was granted a license from the Telecommunication Regulatory Authority of the Sultanate of Oman to operate as the second mobile telecommunication service provider for a period of 15 years. License costs are amortized over this period.

	2005	2004
Cost:		
At 1 January	382,728	-
Add: Additions	<u>18,028</u>	<u>382,728</u>
At 31 December	<u>400,756</u>	<u>382,728</u>
Amortization:		
At 1 January	-	-
Amortization	<u>(20,238)</u>	<u>-</u>
At 31 December	<u>(20,238)</u>	<u>-</u>
Net book value	<u><u>380,518</u></u>	<u><u>382,728</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

6 OTHER ASSETS

	2005	2004
Fair value of call option	46,715	46,715
Long term loan	48,202	45,734
	94,917	92,449

As part of the agreement for the formation of TDC-Qtel MENA Investcom B.S.C., the Group was granted a call option for the purchase of all of the shares held by the minority holder. This option is exercisable six years from the date on which the license to operate as the second mobile telecommunication service provider in the Sultanate of Oman is awarded.

In 2004, the Group granted a loan to a third party for the purpose of investing in telecommunications outside Qatar. The loan carries compound interest and is repayable within a period of five years.

7 INVESTMENTS

	2005	2004
Available for sale		
Unquoted investments	314,803	325,892
Less: Provision for impairment	(147,294)	(147,294)
	167,509	178,598
Quoted investments	664,668	298,830
Investment in hedge funds	326,526	484,877
Investment in mutual funds	39,980	-
	1,198,683	962,305

8 INVENTORIES

	2005	2004
Subscribers' equipment	12,175	13,028
Pay TV equipment	7,202	12,957
Other equipment	16,543	11,367
Cables and transmission equipment	10,033	7,738
	45,953	45,090
Less: Provision for obsolete and slow moving inventories	(22,084)	(21,799)
	23,869	23,291

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2005	2004
Trade accounts receivable	426,046	410,480
Unbilled subscriber services	131,456	116,473
Other receivables and prepayments	117,723	53,615
Amounts due from international carriers	35,431	36,376
	<u>710,656</u>	<u>616,944</u>
Less: Provision for doubtful debts	(168,923)	(161,686)
	<u>541,733</u>	<u>455,258</u>

No individual or company represents more than 10% of the total receivables at 31 December 2005.

10 CASH AND CASH EQUIVALENTS

Cash and cash equivalents include fixed deposits maturing after 90 days. The Group is of the opinion that these fixed deposits are readily convertible to cash and is held for meeting short-term commitments.

11 CURRENT LIABILITIES

	2005	2004
Accounts payable and accruals		
Trade accounts payable	361,221	277,430
Deferred equipment rental income	204,667	172,233
Current account with the State of Qatar	397,069	1,535
Other payables	134,316	139,381
Accrued expenses	222,961	78,457
Amounts due to international carriers	66,461	92,485
Deferred taxes (note 24)	293	-
License costs payable	-	379,079
	<u>1,386,988</u>	<u>1,140,600</u>

Accounts payable and accruals include an amount of QR 553,608 (2004: QR 689,246) due in foreign currencies.

12 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 activities of Omani Qatari Telecommunications Company S.A.O.C. The term loan has been guaranteed by the Company and is secured on the property, plant and equipment of Omani Qatari Telecommunications Company S.A.O.C. As at 31 December 2005, an amount equivalent to QR 582,759 (2004: QR Nil) is outstanding.

	2005	2004
Long term loan from bank	582,759	-
Less: deferred financing costs (note 3.q)	(9,346)	-
	<u>573,413</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

12 TERM LOAN (continued)

The long term loan is repayable in nine semi-annual instalments commencing from 12 March 2008 as follows:

	2005	2004
Payable within one year	-	-
Payable between one to two years	-	-
Payable between two to five years	131,238	-
Payable after five years	451,521	-
	<hr/> 582,759 <hr/>	<hr/> - <hr/>

The loan facilities bear interest at six month LIBOR plus applicable margins.

13 OTHER NON-CURRENT LIABILITIES

	2005	2004
Terminal benefits entitlement for employees	73,846	48,499
Provision for retired Qatari employees	26,239	28,955
Non-current portion of retention payable	21,080	9,887
Finance lease payable	7,593	-
	<hr/> 128,758 <hr/>	<hr/> 87,341 <hr/>

Present value of minimum lease payments is as follows:

	2005	2004
Payable within one year	1,903	-
Payable between one to five years	5,690	-
Payable after five years	-	-
	<hr/> 7,593 <hr/>	<hr/> - <hr/>

14 MOVEMENT IN PROVISIONS

The movement on the different provisions classes during the year is represented as follows:

	Balance as at 1 January 2005	Provided during the year	Amounts reversed during the year	Utilized during the year	Balance as at 31 December 2005
Provision for doubtful debts	161,686	27,669	-	(20,432)	168,923
Provision for obsolete and slow moving inventories	21,799	285	-	-	22,084
Provision for terminal benefits entitlement and retirees pension	77,454	29,481	-	(6,850)	100,085
	<hr/> 260,939 <hr/>	<hr/> 57,435 <hr/>	<hr/> - <hr/>	<hr/> (27,282) <hr/>	<hr/> 291,092 <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

15 CAPITAL AND RESERVES

a. Share capital

	2005	2004
Authorized capital	<u>1,000,000</u>	<u>1,000,000</u>
Paid up capital	<u>1,000,000</u>	<u>1,000,000</u>

At 31 December 2005, the authorized and paid up share capital of the Group comprised 100,000,000 shares of nominal value of QR 10 each. The Government of the State of Qatar owns 55% of the share capital.

b. Legal reserve

In accordance with Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association, 10% of the profits of each year is transferred to the legal reserve. The reserve is not available for distribution except in the manner stated in the Companies' Law and the Company's Articles of Association.

c. Fair value reserve

Fair value reserve relates to revaluation of the investments held as available for sale.

16 REVENUES

	2005	2004
Wireless	1,972,796	1,392,202
Wireline	946,679	877,958
Special business	<u>62,925</u>	<u>75,944</u>
	<u>2,982,400</u>	<u>2,346,104</u>

17 GENERAL AND ADMINISTRATIVE EXPENSES

	2005	2004
Employee salaries and associated costs	379,210	284,431
Depreciation, impairment losses and amortization	317,737	186,488
Rentals and utilities	90,484	56,831
Repairs and maintenance	115,084	43,473
Marketing costs and donations	104,014	47,116
Legal and professional fees	43,326	38,240
Provision for receivables	27,669	6,185
Finance costs	4,497	-
Other expenses	<u>42,156</u>	<u>30,725</u>
	<u>1,124,177</u>	<u>693,489</u>

Employee salaries and associated costs include:

	2005	2004
Salaries and allowances	323,191	242,432
End of service benefits	29,481	23,034
Training and related costs	18,796	12,966
Pension contribution	<u>7,742</u>	<u>5,999</u>
	<u>379,210</u>	<u>284,431</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

18 OTHER OPERATING EXPENSES

	2005	2004
Outpayments to international carriers	268,494	185,202
Cost of equipment sold and other services	62,315	45,477
Commissions on cards	54,198	39,960
Leased circuit rentals	51,485	49,324
	<u>436,492</u>	<u>319,963</u>

19 OTHER INCOME

	2005	2004
Interest income	46,432	30,933
Income from investments	18,162	13,260
Gain on sale of investments	12,115	80,314
	<u>76,709</u>	<u>124,507</u>

Interest income represents interest earned on deposits with banks and from bonds. Income from investments represents dividend income from investments held. The gain on sale of investment represents gain on sale of shares, bonds and hedge funds.

20 ROYALTY

	2005	2004
Royalty to the State of Qatar	396,816	-
Royalty to the Government of Sultanate of Oman	8,152	-
	<u>404,968</u>	<u>-</u>

As per law no. 6 of 2002, 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 Omani Qatari Telecommunications Company S.A.O.C., to operate wireless telecommunication services in the Sultanate of Oman, royalty is payable to the Government of the Sultanate of Oman, effective March 2005.

21 EARNINGS PER SHARE

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

	2005	2004
Profit for the year attributable to the Company's shareholders	<u>1,190,447</u>	<u>1,479,432</u>
Weighted average number of shares outstanding during the year (in 000s)	<u>100,000</u>	<u>100,000</u>
Earnings per share (expressed in QR per share)	<u>11.90</u>	<u>14.79</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

22 OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES

	2005	2004
Net profit for the year	1,093,472	1,457,159
Adjustments for:		
Depreciation, impairment losses and amortization	317,737	186,488
Other income	(76,709)	(124,507)
Deferred taxes	293	-
(Gain) on disposal of property, plant and equipment	(369)	(843)
	<u>1,334,424</u>	<u>1,518,297</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

23 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 and is disclosed after elimination of inter company transactions.

	Year ended 31 December 2005				Year ended 31 December 2004			
	Wireless Services	Wireline Services	Special Business	Total	Wireless Services	Wireline Services	Special Business	Total
Revenue	<u>1,972,796</u>	<u>946,679</u>	<u>62,925</u>	<u>2,982,400</u>	<u>1,392,202</u>	<u>877,958</u>	<u>75,944</u>	<u>2,346,104</u>
Contribution	<u>1,218,021</u>	<u>564,785</u>	<u>3,141</u>	<u>1,785,947</u>	<u>1,049,906</u>	<u>529,796</u>	<u>20,413</u>	<u>1,600,115</u>
Unallocated costs				<u>(364,216)</u>				<u>(267,463)</u>
Operating profit				<u>1,421,731</u>				<u>1,332,652</u>
Other income				<u>76,709</u>				<u>124,507</u>
Royalty				<u>(404,968)</u>				<u>-</u>
Net profit				<u>1,093,472</u>				<u>1,457,159</u>
Segment assets	<u>1,605,258</u>	<u>661,220</u>	<u>14,319</u>	<u>2,280,797</u>	<u>1,424,912</u>	<u>572,467</u>	<u>24,254</u>	<u>2,021,633</u>
Unallocated assets				<u>4,095,509</u>				<u>3,031,419</u>
Total assets				<u>6,376,306</u>				<u>5,053,052</u>
Segment liabilities	<u>841,936</u>	<u>66,461</u>	<u>-</u>	<u>908,397</u>	<u>658,034</u>	<u>92,070</u>	<u>-</u>	<u>750,104</u>
Unallocated liabilities				<u>1,180,762</u>				<u>477,837</u>
Total liabilities				<u>2,089,159</u>				<u>1,227,941</u>
Capital expenditure	<u>619,337</u>	<u>159,904</u>	<u>857</u>		<u>683,392</u>	<u>138,592</u>	<u>827</u>	
Depreciation	<u>121,937</u>	<u>82,814</u>	<u>16,948</u>		<u>66,300</u>	<u>75,785</u>	<u>12,244</u>	
Impairment on assets	<u>37,964</u>	<u>6,040</u>	<u>6,383</u>		<u>5,361</u>	<u>605</u>	<u>1,066</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

23 SEGMENT INFORMATION (continued)

Geographic segments

The Group provides telecommunication services in the State of Qatar and the Sultanate of Oman. Segment information is disclosed after elimination of inter company transactions.

	Year ended 31 December 2005			Year ended 31 December 2004		
	Qatar	Other GCC countries	Total	Qatar	Other GCC countries	Total
Revenue	2,844,572	137,828	2,982,400	2,346,104	-	2,346,104
Expenses	(947,738)	(295,194)	(1,242,932)	(780,452)	(46,512)	(826,964)
EBITDA	1,896,834	(157,366)	1,739,468	1,565,652	(46,512)	1,519,140
Depreciation, impairment on assets and amortization (i)	(276,558)	(41,179)	(317,737)	(186,488)	-	(186,488)
Operating profit/(loss)	1,620,276	(198,545)	1,421,731	1,379,164	(46,512)	1,332,652
Other income	73,486	3,223	76,709	123,656	851	124,507
Royalty	(396,816)	(8,152)	(404,968)	-	-	-
Net profit/(loss)	1,296,946	(203,474)	1,093,472	1,502,820	(45,661)	1,457,159
Non-current assets	3,245,856	919,489	4,165,345	2,559,907	643,727	3,203,634
Current assets	2,122,972	87,989	2,210,961	1,467,659	381,759	1,849,418
Total assets	5,368,828	1,007,478	6,376,306	4,027,566	1,025,486	5,053,052
Current liabilities	1,133,013	253,975	1,386,988	611,051	529,549	1,140,600
Non-current liabilities	120,921	581,250	702,171	87,341	-	87,341
Total liabilities	1,253,934	835,225	2,089,159	698,392	529,549	1,227,941

(i) Depreciation, impairment on assets and amortization for Qatar includes additional depreciation provided during the year amounting to QR 50,387 (2004: QR 7,867) for replaced and impaired assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

24 DEFERRED TAXES

Deferred tax liability has been recognised by the Omani Qatari Telecommunications Company S.A.O.C. The components of the deferred tax liability are as follows:

	2005	2004
Depreciation on property, plant and equipment	567	-
Provision for receivables	(274)	-
	<u>293</u>	<u>-</u>

25 FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

a. Interest rate risk

A significant portion of the Group's financial assets and liabilities as at 31 December 2005 are exposed to interest rate fluctuations. The Group's exposure to interest rate risk and the effective interest rates on its financial assets and liabilities are summarised below:

	2005			2004		
	Interest bearing	Non-interest bearing	Total	Interest bearing	Non-interest bearing	Total
Financial assets						
Investments	108,808	1,089,875	1,198,683	94,715	867,590	962,305
Other assets	48,202	46,715	94,917	45,734	46,715	92,449
Accounts receivable	-	541,733	541,733	-	455,258	455,258
Cash and cash equivalents	<u>1,641,024</u>	<u>4,335</u>	<u>1,645,359</u>	<u>1,362,757</u>	<u>8,112</u>	<u>1,370,869</u>
	<u>1,798,034</u>	<u>1,682,658</u>	<u>3,480,692</u>	<u>1,503,206</u>	<u>1,377,675</u>	<u>2,880,881</u>
Financial liabilities						
Current liabilities	-	1,386,988	1,386,988	-	1,140,600	1,140,600
Long term loan from bank	573,413	-	573,413	-	-	-
Non-current liabilities	<u>-</u>	<u>128,758</u>	<u>128,758</u>	<u>-</u>	<u>87,341</u>	<u>87,341</u>
	<u>573,413</u>	<u>1,515,746</u>	<u>2,089,159</u>	<u>-</u>	<u>1,227,941</u>	<u>1,227,941</u>
Net financial assets	<u>1,224,621</u>	<u>166,912</u>	<u>1,391,533</u>	<u>1,503,206</u>	<u>149,734</u>	<u>1,652,940</u>

The above financial assets and liabilities with the exception of other assets, non-current liabilities and long term loans are expected to be realized and paid within one year. The effective interest rate on financial assets was 3.6% (2004: 2.5%) and the effective interest rate on financial liabilities was 4.8% (2004: Nil).

b. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's exposure to credit risk is as indicated by the carrying amount of its assets which consist principally of account receivables, other assets, and bank balances. Account receivables are shown net of provision for doubtful receivables and bank balances are with reputed banks. As at balance sheet date, there were no significant concentrations of credit risk. The Group monitors its exposure to credit risk on an ongoing basis and credit evaluations are performed on all customers prior to provision of services. Credit limits are monitored based on customer categories.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005****In thousands of Qatari Riyals**25 *FINANCIAL INSTRUMENTS (continued)***c. Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Group's exposure to currency risk is minimal and it uses forward foreign exchange contracts or options to hedge this exposure. The forward exchange contracts and options are used to hedge the foreign currency exposure of the Group's liabilities payable in foreign currencies.

d. Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether these changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Group is exposed to market risk with respect to its investments in available-for-sale securities. Investments are made only after proper investment appraisal process. Investments available for sale is carried at fair value and where fair values cannot be reliably estimated are carried at cost less provision for impairment, if any. In addition to diversifying its investment portfolio, the Group limits market risk by actively monitoring the key factors that affect market movements in addition to periodically analyzing the operating and financial performance of investees.

e. Fair values of financial assets and liabilities

Fair value is the amount for which an asset can be exchanged or a liability settled, between knowledgeable and willing parties transacting at "arms length". The accounting convention under which the financial statements have been prepared is disclosed in Note 3b i.e. historical cost convention except for investments measured at fair values and interest bearing borrowings, which are stated at amortized cost. In the opinion of the management, the carrying values of the financial assets and liabilities are not materially different from their fair values.

26 RELATED PARTIES**(i) Transactions with related parties**

The Company provides telecommunication services to various Government and semi Government agencies and Companies in the State of Qatar. The Company also avails of various services from Government and semi Government agencies and Companies in the State of Qatar.

(ii) Transactions with key management personnel

Key management personnel comprise the Board of Directors and key members of management having authority and responsibility for planning, directing and controlling the activities of the entity. The remuneration paid to the Board of Directors during the year has been separately disclosed in the Statement of Changes in Shareholders' Equity. On 1 February 2006, Directors remuneration of QR 6,300 (2004: QR 4,700) was proposed by the Board of Directors. In addition to the above, sitting fees paid to the members of the Committees of the Board of Directors amounts to QR 720 (2004: QR 720) and salaries and benefits paid to key members of management amounts to QR 10,138 (2004: QR 8,730).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

27 COMMITMENTS

a. Capital commitments

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

	2005		2004	
	Approved	Contracted	Approved	Contracted
Due within 1 year	1,458,478	651,315	1,214,582	649,707
Due after 1 year	<u>951,873</u>	<u>36,781</u>	<u>1,174,406</u>	<u>-</u>
	<u>2,410,351</u>	<u>688,096</u>	<u>2,388,988</u>	<u>649,707</u>

b. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	2005	2004
Future minimum lease payments:		
Not later than one year	12,668	19,713
Later than one year and not later than five years	34,752	55,736
Later than five years	<u>82,392</u>	<u>69,229</u>
Aggregate operating lease expenditure contracted for at 31 December	<u>129,812</u>	<u>144,678</u>

The above represents the future lease rental commitments for various land and buildings leased by the Group under operating lease agreements. During the year ended 31 December 2005, QR 22,060 (2004: QR 18,638) was recognised as an expense in the consolidated income statement in respect of operating leases.

c. Forward exchange contracts

Forward exchange contracts outstanding at 31 December 2005 for a future period upto seven months amounted to an equivalent of SDR 298,000 (2004: SDR 3,295,000) and Euro 4,121,000 (2004: Euro 1,137,000). The forward exchange contracts are designed to hedge the foreign currency exposure of liabilities.

28 CONTINGENT LIABILITIES

a. Claims

Claims against the Group not acknowledged as debts as at 31 December 2005 amounts to QR 5,180 (2004: QR 610).

b. Loan repayment guarantees to 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 115,000 as at 31 December 2005 (2004: QR 174,800).

c. Letters of credit and guarantees

The Group's banks have issued guarantees of QR 100 (31 December 2004: QR 4,828) and letters of credit of QR 57,000 as at 31 December 2005 (31 December 2004: QR 104,881).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005**

In thousands of Qatari Riyals

29 DIVIDENDS

The Board of Directors approved and distributed during the year interim dividends of QR 3.65 (2004: QR 3.65) per ordinary share, totalling QR 365,000 (2004: QR 365,000).

The Board of Directors has proposed a final dividend distribution of QR 4.85 per ordinary share bringing the total distribution for the year to QR 8.50 per share (2004: QR 8.50 per share). The proposed final dividend will be submitted for formal approval at the Annual General Meeting. This proposed final dividend, totalling QR 485,000 brings the total dividends for the year to QR 850,000 (2004: QR 850,000). The final dividend proposed in 2004 amounting to QR 485,000 was approved at the Annual General Meeting held on 27 February 2005 and was paid in 2005 following the approval.

30 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 for the year ended 31 December 2004 and the total Shareholders' equity as at 31 December 2004.

**31 SUMMARISED BALANCE SHEET AND INCOME STATEMENT OF THE PARENT COMPANY,
QATAR TELECOM (Qtel) Q.S.C.**

The following is a summary of the balance sheet as at 31 December 2005 and the income statement for the year then ended of the parent company, which is included in the consolidated financial statements of the Group:

	2005	2004
BALANCE SHEET		
NON-CURRENT ASSETS		
Property, plant and equipment	2,067,153	1,597,602
Investments	1,178,703	962,305
Investment in subsidiaries	<u>272,202</u>	<u>272,202</u>
TOTAL NON-CURRENT ASSETS	3,518,058	2,832,109
CURRENT ASSETS		
Inventories	20,291	23,291
Accounts receivable and prepayments	500,864	453,143
Inter-company receivable	20,398	128,694
Cash and cash equivalents	<u>1,601,817</u>	<u>991,225</u>
TOTAL CURRENT ASSETS	2,143,370	1,596,353
CURRENT LIABILITIES	(1,133,013)	(611,051)
NON-CURRENT LIABILITIES	<u>(120,921)</u>	<u>(87,341)</u>
	<u>4,407,494</u>	<u>3,730,070</u>
SHAREHOLDERS' EQUITY		
Share capital	1,000,000	1,000,000
Legal reserve	713,199	582,320
Retained earnings	2,313,542	1,990,331
Fair value reserve	<u>380,753</u>	<u>157,419</u>
	<u>4,407,494</u>	<u>3,730,070</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2005

In thousands of Qatari Riyals

31 SUMMARISED BALANCE SHEET AND INCOME STATEMENT OF THE PARENT COMPANY, QATAR TELECOM (Qtel) Q.S.C. (continued)

INCOME STATEMENT	2005	2004
REVENUE	2,844,572	2,346,104
EXPENSES		
General and administrative expenses	(865,065)	(646,977)
Other operating expenses	(359,231)	(319,963)
OTHER INCOME	85,330	127,907
ROYALTY	(396,816)	-
NET PROFIT FOR THE YEAR	<u>1,308,790</u>	<u>1,507,071</u>
EARNINGS PER SHARE – BASIC (expressed in QR per share)	<u>13.09</u>	<u>15.07</u>