

QATAR TELECOM (Q-TEL) Q.S.C.

**CONSOLIDATED FINANCIAL
STATEMENTS**

For the year ended 31 December 2004

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

**CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004**

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REPORT OF AUDITORS

To
The Shareholders
Qatar Telecom (Q-TEL) Q.S.C.
Doha
State of Qatar

We have audited the accompanying consolidated financial statements of Qatar Telecom (Q-TEL) Q.S.C. (the "Company") and its subsidiaries (the "Group") as at, and for the year ended 31 December 2004 as set out on pages 2 to 21.

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 2004, 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.

2 February 2005
Doha, State of Qatar

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

CONSOLIDATED BALANCE SHEET
 as at 31 December 2004

In thousands of Qatari Riyals

	Note	2004	2003
NON-CURRENT ASSETS			
Property, plant and equipment	4	1,766,152	1,272,927
License costs	5	382,728	-
Other assets	6	92,449	-
Investments	7	962,305	473,607
TOTAL NON-CURRENT ASSETS		3,203,634	1,746,534
CURRENT ASSETS			
Inventories	8	23,291	33,345
Accounts receivable and prepayments	9	455,258	349,620
Cash and cash equivalents	10	1,370,869	1,362,676
TOTAL CURRENT ASSETS		1,849,418	1,745,641
CURRENT LIABILITIES	11	(1,140,600)	(534,776)
NON-CURRENT LIABILITIES	12	(87,341)	(103,857)
		3,825,111	2,853,542
TOTAL SHAREHOLDERS' FUNDS			
Share capital	13	1,000,000	1,000,000
Legal reserve	13	582,320	431,613
Proposed dividend	26	485,000	400,000
Retained earnings		1,477,692	909,520
Fair value reserve	13	157,419	112,409
Translation reserve		150	-
Minority interest		122,530	-
		3,825,111	2,853,542

The consolidated financial statements consisting of pages 2 to 21 were approved on 2 February 2005 and signed on behalf of the Board of Directors of the Group by:

Abdullah Bin Mohamed Bin Saud Al-Thani
Chairman

Mohammad Bin Isa Al-Mouhanadi
Member of the Board

The attached notes 1 to 28 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
for the year ended 31 December 2004

In thousands of Qatari Riyals

	Note	2004	2003
REVENUE	15	<u>2,346,104</u>	<u>2,026,149</u>
EXPENSES			
General and administrative expenses	16	<u>693,489</u>	615,823
Other operating expenses	17	<u>319,963</u>	<u>272,697</u>
		<u>1,013,452</u>	<u>888,520</u>
OPERATING PROFIT FOR THE YEAR		1,332,652	1,137,629
Other income	18	<u>124,507</u>	47,608
Provision for impairment of investments		<u>-</u>	<u>(36,415)</u>
NET PROFIT FOR THE YEAR		<u>1,457,159</u>	<u>1,148,822</u>
ATTRIBUTABLE TO			
Equity holders of the Company		<u>1,479,432</u>	1,148,822
Minority interest		<u>(22,273)</u>	<u>-</u>
NET PROFIT FOR THE YEAR		<u>1,457,159</u>	<u>1,148,822</u>
EARNINGS PER SHARE – BASIC	19	<u>14.79</u>	<u>11.49</u>
(expressed in QR per share)			

The attached notes 1 to 28 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS
for the year ended 31 December 2004

In thousands of Qatari Riyals

	Share capital	Legal reserve	Proposed dividend	Fair value reserve	Revaluation surplus	Translation reserve	Retained earnings	Minority interest	Total equity
As at 1 January 2003	1,000,000	316,731	380,000	36,240	-	-	605,580	-	2,338,551
Final dividend 2002	-	-	(380,000)	-	-	-	-	-	(380,000)
Net profit for the year	-	-	-	-	-	-	1,148,822	-	1,148,822
Transfer to legal reserve	-	114,882	-	-	-	-	(114,882)	-	-
Interim dividend 2003	-	-	-	-	-	-	(330,000)	-	(330,000)
Fair value adjustment	-	-	-	76,169	-	-	-	-	76,169
Proposed final dividend 2003	-	-	400,000	-	-	-	(400,000)	-	-
As at 31 December 2003	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)
Minority interest	-	-	-	-	-	-	-	144,803	144,803
Net profit for the year	-	-	-	-	-	-	1,479,432	(22,273)	1,457,159
Transfer to legal reserve	-	150,707	-	-	-	-	(150,707)	-	-
Interim dividend 2004	-	-	-	-	-	-	(365,000)	-	(365,000)
Foreign currency translations	-	-	-	-	-	150	-	-	150
Revaluation of investment property (Note 14)	-	-	-	-	94,147	-	-	-	94,147
Revaluation surplus (Note 14)	-	-	-	-	(94,147)	-	94,147	-	-
Fair value adjustment	-	-	-	45,010	-	-	-	-	45,010
Proposed final dividend 2004	-	-	485,000	-	-	-	(485,000)	-	-
As at 31 December 2004	1,000,000	582,320	485,000	157,419	-	150	1,477,692	122,530	3,825,111

The attached notes 1 to 28 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2004

In thousands of Qatari Riyals

	Note	2004	2003
OPERATING ACTIVITIES			
Operating profit before working capital changes	20	1,518,297	1,316,840
Decrease in inventories		10,054	16,628
Increase in accounts receivable		(105,638)	(48,682)
Increase / (decrease) in accounts payable		589,308	(25,447)
Increase in license costs		(382,728)	-
Payment to the State of Qatar		-	<u>(355,000)</u>
NET CASH FROM OPERATING ACTIVITIES		<u>1,629,293</u>	<u>904,339</u>
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(589,805)	(374,997)
Increase in other assets		(92,449)	-
Increase in investments		(488,632)	(122,188)
Proceeds from sale of property, plant and equipment		5,082	1,113
Proceeds from sale of investments		125,408	8,541
Investment and interest income		44,193	<u>43,301</u>
NET CASH USED IN INVESTING ACTIVITIES		<u>(996,203)</u>	<u>(444,230)</u>
FINANCING ACTIVITIES			
Dividends paid		(765,000)	(710,000)
Directors remuneration		(4,700)	(4,700)
Share capital from minority interest		144,803	<u>-</u>
NET CASH USED IN FINANCING ACTIVITIES		<u>(624,897)</u>	<u>(714,700)</u>
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		8,193	(254,591)
Cash and cash equivalents at 1 January		<u>1,362,676</u>	<u>1,617,267</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		<u><u>1,370,869</u></u>	<u><u>1,362,676</u></u>

The attached notes 1 to 28 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

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 (Q-TEL) Q.S.C. (the "Company") on 25 November 1998, pursuant to Law No.21 of 1998. Under that Law, Qatar Telecom (Q-TEL) 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 2004 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.

Q-TEL 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 Q-TEL'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' funds.

(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' funds. All other exchange gains or losses are taken through the statement of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

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 (IASB).

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. The improvement version of IAS 27 *Consolidated and Separate Financial Statements* has been early adopted in the preparation of the Group's consolidated financial statements.

c. Property, plant and equipment

Property, plant and equipment are recorded at 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. The 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. License costs

License costs are expenses 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 granting such license.

e. 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 statement of income 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.

f. 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004****In thousands of Qatari Riyals****3 SIGNIFICANT ACCOUNTING POLICIES (continued)****g. 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 full amount is no longer probable. Bad debts are written off as incurred.

h. Cash and cash equivalents

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

i. 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 whenever the carrying amounts of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated statement of income.

j. Accounts payable and accruals

Accounts payable and accruals are stated at 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.

k. 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 statement of income 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 statement of income as incurred.

l. Revenue recognition

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

m. 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 statement of income.

n. Derivative financial instruments

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

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value and recognized in the consolidated statement of income.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004**

In thousands of Qatari Riyals

4 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	-	-	-	-	683,952	683,952
Capitalisations	60,838	139,150	5,066	59,723	(264,777)	-
Disposals	(3)	(115,591)	-	(6,709)	-	(122,303)
Transfer to investment property	(3,698)	-	-	-	-	(3,698)
At 31 December 2004	<u>257,142</u>	<u>1,398,589</u>	<u>179,578</u>	<u>573,087</u>	<u>907,802</u>	<u>3,316,198</u>
Depreciation:						
At 1 January 2004	125,358	876,249	83,729	399,984	-	1,485,320
Provided during the year	9,376	120,874	7,174	49,064	-	186,488
Reclassifications and disposals	-	(115,166)	-	(6,596)	-	(121,762)
At 31 December 2004	<u>134,734</u>	<u>881,957</u>	<u>90,903</u>	<u>442,452</u>	<u>-</u>	<u>1,550,046</u>
Net book value:						
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>
At 31 December 2003	<u>74,647</u>	<u>498,781</u>	<u>90,783</u>	<u>120,089</u>	<u>488,627</u>	<u>1,272,927</u>

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

5 LICENSE COSTS

The Group is in the process of obtaining 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 represent expenses paid during the year and contractual obligations expected to be paid during the next year.

6 OTHER ASSETS

	2004	2003
Fair value of call option	46,715	-
Long term loan	45,734	-
	<u>92,449</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

6 *OTHER ASSETS (continued)*

As part of the joint venture 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.

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 five years.

7 **INVESTMENTS**

	2004			2003		
Available for sale – Quoted						
State of Qatar Euro Bonds			94,715			125,854
Qatar Electricity and Water Company			111,200			94,000
Orascom Telecom Company			47,562			14,966
Sudan Telecom Company			23,666			16,684
Industries Qatar			19,851			-
Qatar National Bank			1,836			-
Qatar Shipping Company			-			37,500
New Skies Satellites			-			6,005
			298,830			295,009
Available for sale –Unquoted	Cost	Provision for impairment	Net book value	Cost	Provision for impairment	Net book value
Arab Satellite Organisation	58,264	-	58,264	58,264	-	58,264
Intelsat Ltd	11,089	-	11,089	11,089	-	11,089
Thuraya Satellite Telecommunication Company	182,075	(72,830)	109,245	182,075	(72,830)	109,245
ICO Global Communications (Holdings) Ltd	70,336	(70,336)	-	70,336	(70,336)	-
Commerce One Middle East Ltd.	4,128	(4,128)	-	4,128	(4,128)	-
	325,892	(147,294)	178,598	325,892	(147,294)	178,598
Investment in hedge funds	Cost	Fair value adjustment	Net book value	Cost	Fair value adjustment	Net book value
Investment in hedge funds	470,978	13,899	484,877	-	-	-
Total investments			962,305			473,607

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

8 INVENTORIES

	2004	2003
Subscribers' equipment	13,028	13,071
Pay TV equipment	12,957	19,125
Other equipment	11,367	17,177
Cables and transmission equipment	7,738	11,551
	45,090	60,924
Less: Provision for obsolete and slow moving inventories	(21,799)	(27,579)
	23,291	33,345

9 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2004	2003
Trade accounts receivable	410,480	388,481
Unbilled subscriber services	116,473	39,582
Other receivables and prepayments	53,615	52,527
Amounts due from international carriers	33,698	20,339
	614,266	500,929
Less: Provision for doubtful debts	(159,008)	(151,309)
	455,258	349,620

No individual or company represents more than 10% of the total receivables at 31 December 2004.

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 are held for meeting short-term commitments. Cash and cash equivalents also include an amount of QR 378,700 maintained in an escrow bank account for the payment of the license fee.

11 CURRENT LIABILITIES

	2004	2003
Accounts payable and accruals		
Trade accounts payable	277,430	73,696
Deferred equipment rental income	172,233	129,029
Other payables	140,916	183,931
Accrued expenses	78,457	60,644
Amounts due to international carriers	92,485	87,476
License costs payable	379,079	-
	1,140,600	534,776

Accounts payable and accruals include an amount of QR 689,246 (2003: QR 110,483) due in foreign currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

12 NON-CURRENT LIABILITIES

	2004	2003
End of service benefits for employees	48,499	62,608
Provision for retired Qatari employees	28,955	31,704
Non-current portion of retention payable	<u>9,887</u>	<u>9,545</u>
	<u>87,341</u>	<u>103,857</u>
Movement in end of service benefits and provision for retired Qatari employees are as follows:		
Provision as at 1 January	94,312	84,154
Expense recognised in the year	23,034	14,153
Terminal benefits and advances paid	<u>(39,892)</u>	<u>(3,995)</u>
Provision as at 31 December	<u>77,454</u>	<u>94,312</u>

13 CAPITAL AND RESERVES

a Share Capital

	2004	2003
Authorised 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 2004, the authorised 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. Although such reserves reached 50% of paid up capital during the year, the Board of Directors of the Company resolved to continue the transfer of 10% during the year. 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.

14 REVALUATION SURPLUS

During the year, the Group reclassified land from property, plant and equipment to investment property and revalued it at its fair value. The resulting gain of QR 94,147 was taken to revaluation surplus in the consolidated statement of changes in shareholders' funds. The land was subsequently disposed off resulting in the transfer of revaluation surplus to retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

15 REVENUE

	2004	2003
Wireless	1,392,202	1,140,812
Wireline	877,958	799,238
Special business	75,944	86,099
	<u>2,346,104</u>	<u>2,026,149</u>

16 GENERAL AND ADMINISTRATIVE EXPENSES

	2004	2003
Employee salaries and associated costs	284,431	245,564
Depreciation	186,488	179,009
Rentals and utilities	56,831	50,822
Repairs and maintenance	43,473	37,762
Marketing costs and donations	47,116	26,488
Legal and professional fees	38,240	18,777
Provision for receivables	6,185	16,334
Other expenses	30,725	41,067
	<u>693,489</u>	<u>615,823</u>
Number of employees as at 31 December		
Qatar Telecom Q.S.C.	1,795	1,872
Omani Qatari Telecommunications Company S.A.O.C.	211	-
	<u>2,006</u>	<u>1,872</u>

Employee salaries and associated costs include:

	2004	2003
Salaries and allowances	242,432	201,894
End of service benefits	23,034	14,153
Training and related costs	12,966	9,099
Pension contribution	5,999	20,418
	<u>284,431</u>	<u>245,564</u>

17 OTHER OPERATING EXPENSES

	2004	2003
Outpayments to international carriers	185,202	178,802
Cost of equipment sold and other services	45,477	34,022
Commissions on cards	39,960	30,387
Leased circuit rentals	49,324	29,486
	<u>319,963</u>	<u>272,697</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

18 OTHER INCOME

	2004	2003
Interest income	30,933	33,463
Income from investments	13,260	9,838
Gain on sale of investments	80,314	4,307
	<u>124,507</u>	<u>47,608</u>

Interest income represents interest earned on deposits with banks and from the State of Qatar Euro Bonds. Income from investments represents dividend income from investments held. The gain on sale of investment represents gain on sale of shares in Qatar Shipping Company and New Skies Satellites.

19 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:

	2004	2003
Profit for the year attributable to the Company's shareholders	<u>1,479,432</u>	<u>1,148,822</u>
Weighted average number of shares outstanding during the year	<u>100,000</u>	<u>100,000</u>
Earnings per share (expressed in QR per share)	<u>14.79</u>	<u>11.49</u>

20 OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES

	2004	2003
Net profit for the year	1,457,159	1,148,822
Adjustments for:		
Depreciation	186,488	179,009
Other income	(124,507)	(47,608)
Provision for impairment of investments	-	36,415
(Gain) / loss on disposal of property, plant and equipment	(843)	202
	<u>1,518,297</u>	<u>1,316,840</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

21 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.

	Year ended 31 December 2004				Year ended 31 December 2003			
	Wireless Services	Wireline Services	Special Business	Total	Wireless Services	Wireline Services	Special Business	Total
Revenue	<u>1,392,202</u>	<u>877,958</u>	<u>75,944</u>	<u>2,346,104</u>	<u>1,140,812</u>	<u>799,238</u>	<u>86,099</u>	<u>2,026,149</u>
Contribution	<u>1,049,906</u>	<u>529,796</u>	<u>20,413</u>	<u>1,600,115</u>	888,401	475,646	25,766	1,389,813
Unallocated costs				<u>(267,463)</u>				<u>(252,184)</u>
Operating profit				<u>1,332,652</u>				1,137,629
Other income				<u>124,507</u>				47,608
Provision for impairment				<u>-</u>				<u>(36,415)</u>
Net profit				<u>1,457,159</u>				<u>1,148,822</u>
Segment assets	<u>1,424,912</u>	<u>572,467</u>	<u>24,254</u>	<u>2,021,633</u>	<u>425,358</u>	<u>515,580</u>	<u>38,500</u>	979,438
Unallocated assets				<u>3,031,419</u>				<u>2,512,737</u>
Total assets				<u>5,053,052</u>				<u>3,492,175</u>
Segment liabilities	<u>658,034</u>	<u>92,070</u>	<u>-</u>	<u>750,104</u>	<u>-</u>	<u>87,476</u>	<u>-</u>	87,476
Unallocated liabilities				<u>477,837</u>				<u>551,157</u>
Total liabilities				<u>1,227,941</u>				<u>638,633</u>
Capital expenditure	<u>683,392</u>	<u>138,592</u>	<u>827</u>		<u>136,163</u>	<u>55,556</u>	<u>4,268</u>	
Depreciation	<u>71,661</u>	<u>76,390</u>	<u>13,310</u>		<u>61,330</u>	<u>81,276</u>	<u>13,296</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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21 SEGMENT INFORMATION (continued)

Geographic segments

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

	Year ended 31 December 2004			Year ended 31 December 2003		
	Qatar	Other GCC countries	Total	Qatar	Other GCC countries	Total
Revenue	2,346,104	-	2,346,104	2,026,149	-	2,026,149
Expenses	(966,940)	(46,512)	(1,013,452)	(888,520)	-	(888,520)
Operating profit	1,379,164	(46,512)	1,332,652	1,137,629	-	1,137,629
Other income	123,656	851	124,507	47,608	-	47,608
Provision for impairment	-	-	-	(36,415)	-	(36,415)
Net profit	<u>1,502,820</u>	<u>(45,661)</u>	<u>1,457,159</u>	<u>1,148,822</u>	<u>-</u>	<u>1,148,822</u>
Non-current assets	2,559,907	643,727	3,203,634	1,746,534	-	1,746,534
Current assets	<u>1,467,659</u>	<u>381,759</u>	<u>1,849,418</u>	<u>1,745,641</u>	<u>-</u>	<u>1,745,641</u>
Total assets	4,027,566	1,025,486	5,053,052	3,492,175	-	3,492,175
Current liabilities	611,051	529,549	1,140,600	534,776	-	534,776
Non-current liabilities	<u>87,341</u>	<u>-</u>	<u>87,341</u>	<u>103,857</u>	<u>-</u>	<u>103,857</u>
Total liabilities	<u>698,392</u>	<u>529,549</u>	<u>1,227,941</u>	<u>638,633</u>	<u>-</u>	<u>638,633</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

22 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 2004 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:

	2004			2003		
	Interest bearing	Non-interest bearing	Total	Interest bearing	Non-interest bearing	Total
Financial assets						
Investments	94,715	867,590	962,305	125,854	347,753	473,607
Other assets	45,734	46,715	92,449	-	-	-
Accounts receivable	-	455,258	455,258	-	349,620	349,620
Cash and cash equivalents	<u>1,362,757</u>	<u>8,112</u>	<u>1,370,869</u>	<u>1,354,152</u>	<u>8,524</u>	<u>1,362,676</u>
	1,503,206	1,377,675	2,880,881	1,480,006	705,897	2,185,903
Average interest rate	2.5%			2.1%		
Financial liabilities						
Current liabilities	-	1,140,600	1,140,600	-	534,776	534,776
Non-current liabilities	<u>-</u>	<u>87,341</u>	<u>87,341</u>	<u>-</u>	<u>103,857</u>	<u>103,857</u>
	<u>-</u>	<u>1,227,941</u>	<u>1,227,941</u>	<u>-</u>	<u>638,633</u>	<u>638,633</u>
Net financial assets	<u>1,503,206</u>	<u>149,734</u>	<u>1,652,940</u>	<u>1,480,006</u>	<u>67,264</u>	<u>1,547,270</u>

The above financial assets and liabilities with the exception of other assets and non-current liabilities are expected to be realised and paid within one year.

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, long term loan, other assets, investments available for sale and bank balances. Account receivables are shown net of provision for doubtful receivables and bank balances are with reputed banks. Investments available for sale are carried at fair value and where fair values cannot be reliably estimated, are carried at cost less provision for impairment, if any.

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. Investments are made only after proper investment appraisal process.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

22 *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 to hedge this exposure. The forward exchange contracts are designed to hedge the foreign currency exposure of liabilities due to international carriers.

d 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. In the opinion of the management, the carrying values of the financial assets and liabilities are not significantly different from their fair values.

23 **COMMITMENTS**

a Capital Commitments

At 31 December 2004, future capital expenditure approved and contracted for is as follows:

	2004		2003	
	Approved	Contracted	Approved	Contracted
Due within 1 year	1,214,582	649,707	650,104	299,055
Due after 1 year	1,174,406	-	912,985	-
	<u>2,388,988</u>	<u>649,707</u>	<u>1,563,089</u>	<u>299,055</u>

b Operating lease commitments

Non-cancellable operating lease rentals are payable as follows.

	2004	2003
Future minimum lease payments:		
Not later than one year	19,713	16,126
Later than one year and not later than five years	55,736	34,111
Later than five years	<u>69,229</u>	<u>1,334</u>
Aggregate operating lease expenditure contracted for at 31 December	<u>144,678</u>	<u>51,571</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 2004, QR 18,638 (2003:QR 17,719) was recognised as an expense in the consolidated statement of income in respect of operating leases.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004****In thousands of Qatari Riyals****23** *COMMITMENTS (continued)***c** **Forward exchange contracts**

Forward exchange contracts outstanding at 31 December 2004 amounted to an equivalent of SDR 3,295,000 (31 December 2003: SDR 3,269,500) and Euro 1,137,000 (31 December 2003: Euro Nil). The forward exchange contracts are designed to hedge the foreign currency exposure of liabilities.

24 **CONTINGENT LIABILITIES****a** **Claims**

There were no significant claims against the Group not acknowledged as debts as at 31 December 2004 (31 December 2003: QR 2,148).

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 December 2004 (31 December 2003: QR 208,000).

c **Letters of Credit and Guarantees**

The Group's banks have issued guarantees of QR 4,828 (31 December 2003: Nil) and letters of credit of QR 104,881 as at 31 December 2004 (31 December 2003: Nil).

25 **DIRECTORS REMUNERATION**

On 2 February 2005, Directors remuneration of QR 4,700 (2003: QR 4,700) was proposed by the Board of Directors. The proposed Directors remuneration for 2004 is included in retained earnings at 31 December 2004.

26 **DIVIDENDS**

The Board of Directors approved and distributed during the year an interim dividend of QR 3.65 (2003: QR 3.30) per ordinary share, totalling QR 365,000 (2003: QR 330,000).

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 (2003: QR 7.30 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 (2003: QR 730,000) and has been shown as a separate component within the statement of changes in equity at the balance sheet date. The final dividend proposed in 2003 amounting to QR 400,000, was approved at the Annual General Meeting held on 7 March 2004 and was paid in 2004 following the approval.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

27 SUMMARISED BALANCE SHEET AND INCOME STATEMENT OF THE PARENT COMPANY,
QATAR TELECOM (Q-TEL) Q.S.C.

The following is a summary of the balance sheet as at 31 December 2004 and the income statement for the year then ended of the parent company, which are included in the consolidated financial statements of the Group:

	2004	2003
NON-CURRENT ASSETS		
Property, plant and equipment	1,597,602	1,272,927
Investments	962,305	473,607
Investment in subsidiaries	272,202	-
	<hr/>	<hr/>
TOTAL NON-CURRENT ASSETS	2,832,109	1,746,534
CURRENT ASSETS		
Inventories	23,291	33,345
Accounts receivable and prepayments	453,143	349,620
Inter-company receivable	128,694	-
Cash and cash equivalents	991,225	1,362,676
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	1,596,353	1,745,641
CURRENT LIABILITIES	(611,051)	(534,776)
NON-CURRENT LIABILITIES	(87,341)	(103,857)
	<hr/>	<hr/>
	3,730,070	2,853,542
	<hr/>	<hr/>
SHAREHOLDERS' FUNDS		
Share capital	1,000,000	1,000,000
Legal reserve	582,320	431,613
Proposed dividend	485,000	400,000
Retained earnings	1,505,331	909,520
Fair value reserve	157,419	112,409
	<hr/>	<hr/>
	3,730,070	2,853,542
	<hr/>	<hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 31 December 2004

In thousands of Qatari Riyals

27 *SUMMARISED BALANCE SHEET AND INCOME STATEMENT OF THE PARENT COMPANY,*
QATAR TELECOM (Q-TEL) Q.S.C. (continued)

	2004	2003
REVENUE	<u>2,346,104</u>	<u>2,026,149</u>
EXPENSES		
General and administrative expenses	646,977	615,823
Other operating expenses	<u>319,963</u>	<u>272,697</u>
	<u>966,940</u>	<u>888,520</u>
OPERATING PROFIT FOR THE YEAR	1,379,164	1,137,629
Other income	127,907	47,608
Provision for impairment of investments	<u>-</u>	<u>(36,415)</u>
NET PROFIT FOR THE YEAR	<u>1,507,071</u>	<u>1,148,822</u>
EARNINGS PER SHARE – BASIC	<u>15.07</u>	<u>11.49</u>
(expressed in QR per share)		

28 **COMPARATIVE FIGURES**

The corresponding figures presented for 2003 have been reclassified where necessary to preserve consistency with the 2004 figures. However, such reclassification did not have any effect on the net profit for the year ended 31 December 2003 and the total Shareholders' equity as at 31 December 2003.

The corresponding figures presented for 2003 represent the results of Qatar Telecom (Q-TEL) Q.S.C. only, as the Company obtained controlling interest in subsidiary companies during 2004.