

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

**FINANCIAL STATEMENTS**

**For the year ended 31 December 2003**

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

**FINANCIAL STATEMENTS  
for the year ended 31 December 2003**

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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 financial statements of Qatar Telecom (Q-TEL) Q.S.C. (the "Company") as at, and for the year ended 31 December 2003 as set out on pages 2 to 18. The accompanying financial statements of Qatar Telecom (Q-TEL) Q.S.C., as at and for the year ended 31 December 2002 were audited by other auditors, whose audit report thereon expressed an unqualified opinion on those statements.

### **Respective responsibilities of management and auditors**

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

### **Scope of review**

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 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 financial statements referred to above, present fairly, in all material respects, the financial position of the Company as at 31 December 2003, 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 promulgated by the International Accounting Standards Board.

### **Other regulatory matters**

In addition, in our opinion, the Company has maintained proper accounting records and the financial statements are in agreement therewith. The contents of the directors' report which relates to the financial information are in agreement with the Company's accounting records. 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.

27 January 2004  
Doha, State of Qatar

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

**BALANCE SHEET**  
 as at 31 December 2003

In thousands of Qatari Riyals

	Note	2003	2002
<b>NET ASSETS EMPLOYED</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	3	1,272,927	1,078,254
Investment securities	4	<u>473,607</u>	<u>315,899</u>
<b>TOTAL NON-CURRENT ASSETS</b>		<u>1,746,534</u>	<u>1,394,153</u>
<b>CURRENT ASSETS</b>			
Inventories	5	33,345	49,973
Accounts receivable and prepayments	6	329,281	277,252
Amounts due from other international carriers	7	20,339	23,686
Cash and cash equivalents	8	<u>1,362,676</u>	<u>1,617,267</u>
<b>TOTAL CURRENT ASSETS</b>		<u>1,745,641</u>	<u>1,968,178</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	9	444,751	478,098
Amounts due to other international carriers	7	87,476	92,595
Current account with the State of Qatar	10	<u>2,549</u>	<u>354,406</u>
<b>TOTAL CURRENT LIABILITIES</b>		<u>534,776</u>	<u>925,099</u>
<b>NET CURRENT ASSETS</b>		<u>1,210,865</u>	<u>1,043,079</u>
<b>NON-CURRENT LIABILITIES</b>	11	<u>(103,857)</u>	<u>(98,681)</u>
		<u>2,853,542</u>	<u>2,338,551</u>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	12	1,000,000	1,000,000
Legal reserve	12	431,613	316,731
Proposed dividend	21	400,000	380,000
Retained earnings		909,520	605,580
Fair value reserve	12	<u>112,409</u>	<u>36,240</u>
		<u>2,853,542</u>	<u>2,338,551</u>

The financial statements consisting of pages 2 to 18 were approved on 27 January 2004 and signed on behalf of the Board of Directors of the Company by:

Abdullah Bin Mohamed Bin Saud Al-Thani  
 Chairman

Mohammad Bin Isa Al-Mouhanadi  
 Member of the Board

The attached notes 1 to 22 form an integral part of these financial statements.

**STATEMENT OF INCOME**  
**for the year ended 31 December 2003**

**In thousands of Qatari Riyals**

	Note	2003	2002
<b>REVENUE</b>			
Wireline		799,238	763,067
Wireless		1,140,812	846,068
Special Business		<u>86,099</u>	<u>110,782</u>
		<u>2,026,149</u>	<u>1,719,917</u>
<b>EXPENSES</b>			
Staff salaries and related expenses	13	245,564	232,827
Outpayments to other international carriers		178,802	161,589
Depreciation		179,009	144,000
General and administrative expenses		145,271	97,031
Operating and maintenance expenses		105,852	83,450
Costs of equipment sold and other services		<u>34,022</u>	<u>57,901</u>
		<u>888,520</u>	<u>776,798</u>
<b>OPERATING PROFIT FOR THE YEAR</b>		<b>1,137,629</b>	<b>943,119</b>
Other income	14	47,608	49,991
Provision for impairment of investments	4	<u>(36,415)</u>	<u>(36,901)</u>
<b>NET PROFIT FOR THE YEAR</b>		<u><b>1,148,822</b></u>	<u><b>956,209</b></u>
<b>EARNINGS PER SHARE – BASIC</b>	15	<u><b>11.49</b></u>	<u><b>9.56</b></u>
(expressed in QR per share)			

The attached notes 1 to 22 form an integral part of these financial statements.

**STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS**  
**for the year ended 31 December 2003**

**In thousands of Qatari Riyals**

	Share capital	Legal reserve	Proposed dividend	Retained earnings	Fair value reserve	Total
As at 1 January 2002	1,000,000	221,110	345,000	409,692	23,035	1,998,837
Final dividend paid for 2001	-	-	(345,000)	-	-	(345,000)
Net profit for the year	-	-	-	956,209	-	956,209
Transfer to legal reserve	-	95,621	-	(95,621)	-	-
Interim dividend for 2002	-	-	-	(280,000)	-	(280,000)
Fair value adjustment at end of the year	-	-	-	-	13,205	13,205
Proposed Directors remuneration	-	-	-	(4,700)	-	(4,700)
Proposed final dividend for 2002	-	-	380,000	(380,000)	-	-
As at 31 December 2002	1,000,000	316,731	380,000	605,580	36,240	2,338,551
Final dividend paid for 2002	-	-	(380,000)	-	-	(380,000)
Net profit for the year	-	-	-	1,148,822	-	1,148,822
Transfer to legal reserve	-	114,882	-	(114,882)	-	-
Interim dividend for 2003	-	-	-	(330,000)	-	(330,000)
Fair value adjustment at end of the year	-	-	-	-	76,169	76,169
Proposed final dividend for 2003	-	-	400,000	(400,000)	-	-
As at 31 December 2003	<b>1,000,000</b>	<b>431,613</b>	<b>400,000</b>	<b>909,520</b>	<b>112,409</b>	<b>2,853,542</b>

The attached notes 1 to 22 form an integral part of these financial statements.

**STATEMENT OF CASH FLOWS**  
**for the year ended 31 December 2003**
**In thousands of Qatari Riyals**

	2003	2002
<b>OPERATING ACTIVITIES</b>		
Net Profit for the year	1,148,822	956,209
Adjustments for:		
Depreciation	179,009	144,000
Investment and interest income	(43,301)	(49,991)
Gain on sale of investments	(4,307)	-
Provision for impairment of investments	36,415	36,901
Loss / (gain) on disposal of property, plant and equipment	202	(391)
Operating profit before working capital changes	<u>1,316,840</u>	1,086,728
Decrease / (increase) in inventories	16,628	(17,395)
(Increase) / decrease in accounts receivable	(52,029)	44,615
(Decrease) / increase in payables to other international carriers (net)	(1,772)	8,090
(Decrease) / increase in accounts payable	(28,171)	158,227
Movement in current account with the State of Qatar	<u>(351,857)</u>	<u>(79,666)</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u><b>899,639</b></u>	<u>1,200,599</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(374,997)	(259,173)
Net increase in investments	(122,188)	(486)
Proceeds from sale of property, plant and equipment	1,113	3,569
Proceeds from sale of investments	8,541	-
Investment and interest income	<u>43,301</u>	<u>49,991</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u><b>(444,230)</b></u>	<u>(206,099)</u>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	<u>(710,000)</u>	<u>(625,000)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<u><b>(710,000)</b></u>	<u>(625,000)</u>
<b>(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(254,591)</b>	369,500
Cash and cash equivalents at 1 January	<u>1,617,267</u>	<u>1,247,767</u>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<u><b>1,362,676</b></u>	<u>1,617,267</u>

The attached notes 1 to 22 form an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2003**

**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. 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.

**2 SIGNIFICANT ACCOUNTING POLICIES**

**a. Basis of preparation**

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

**b. Accounting convention**

The 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 Company and are consistent with those used in the previous year.

**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. Investment securities**

All investments are initially recognized at cost, being the fair value of the consideration given including acquisition 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 otherwise disposed of, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the 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.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2003****In thousands of Qatari Riyals****2 SIGNIFICANT ACCOUNTING POLICIES (continued)***Available for sale - Unquoted*

Due to the nature of cash flows arising from the Company'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.

**e. 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.

**f. Accounts receivable**

Billings on trade credit are included in "Accounts Receivable" at the balance due, net of a provision for amounts estimated to be uncollectible. The Company's terms of credit varies for each type of service and customer.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

**g. Cash and cash equivalents**

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

**h. Impairment**

The carrying amounts of the Company's assets, other than inventories (refer to note 2e of accounting policies) 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 statement of income.

**i. Accounts payable and accruals**

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

**j. Employee benefits**

The Company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The Company also provides for future benefits to retired Qatari employees based on the employment terms of these employees on the date of retirement calculated on the basis of anticipated future benefit entitlements.

With respect to the existing Qatari employees, the Company has decided to make contributions to Government Pension Fund calculated as a percentage of the employees' salaries in accordance with the requirements of law No. 24 of 2002 pertaining to Retirement and Pensions. The Company's obligations are limited to the contributions which are expensed when due.

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2003****In thousands of Qatari Riyals**

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**2 SIGNIFICANT ACCOUNTING POLICIES (continued)****k. Revenue recognition**

Revenue from national and foreign traffic is recognised as and when the Company's telecommunication system is used.

Equipment rental charges and ongoing subscription charges for services are taken to income over the period to which the charges relate. Charges billed in respect of periods subsequent to the year end are deferred and carried forward in the balance sheet under accounts payable and accruals.

Installation and connection revenue is recognised as and when equipment is installed and connected.

Interest income is accounted for on an accrual basis.

Dividend income is recognised when the right to receive the dividend is established.

**l. 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 statement of income.

**m. Derivative financial instruments**

The Company uses forward foreign exchange contracts to hedge its risk associated primarily with foreign currency fluctuations relating to payments to other international carriers.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2003**

**In thousands of Qatari Riyals**

**3 PROPERTY, PLANT AND EQUIPMENT**

	<b>Land and buildings</b>	<b>Exchanges and line plant</b>	<b>International communication links</b>	<b>Subscriber apparatus and other equipment</b>	<b>Capital work in progress</b>	<b>Total</b>
Cost:						
At 1 January 2003	188,654	1,342,864	185,878	500,591	222,248	2,440,235
Additions	-	-	-	-	374,997	374,997
Reclassifications and disposals	11,351	32,166	(11,366)	19,482	(108,618)	(56,985)
At 31 December 2003	<u>200,005</u>	<u>1,375,030</u>	<u>174,512</u>	<u>520,073</u>	<u>488,627</u>	<u>2,758,247</u>
Accumulated Depreciation:						
At 1 January 2003	118,338	778,359	94,088	371,196	-	1,361,981
Charge for the year	7,469	118,608	5,959	46,973	-	179,009
Reclassifications and disposals	(449)	(20,718)	(16,318)	(18,185)	-	(55,670)
At 31 December 2003	<u>125,358</u>	<u>876,249</u>	<u>83,729</u>	<u>399,984</u>	<u>-</u>	<u>1,485,320</u>
Net book value:						
At 31 December 2003	<u><b>74,647</b></u>	<u><b>498,781</b></u>	<u><b>90,783</b></u>	<u><b>120,089</b></u>	<u><b>488,627</b></u>	<u><b>1,272,927</b></u>
At 31 December 2002	<u>70,316</u>	<u>564,505</u>	<u>91,790</u>	<u>129,395</u>	<u>222,248</u>	<u>1,078,254</u>

Capital work in progress includes advance payments of QR 110,000 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. The legal formalities for transfer are in progress as at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2003**

**In thousands of Qatari Riyals**

**4 INVESTMENT SECURITIES**

	2003	2002
<b>Available for sale - Quoted</b>		
State of Qatar Euro Bonds	125,854	-
Qatar Electricity and Water Company	94,000	61,800
Qatar Shipping Company S.A.Q.	37,500	14,820
Sudan Telecom Company	16,684	13,716
Orascom Telecom Company	14,966	2,834
New Skies Satellites N.V	6,005	3,482
	<u>295,009</u>	<u>96,652</u>

<b>Available for sale - Unquoted</b>	2003			2002		
	Cost	Provision for impairment	Net book value	Cost	Provision for impairment	Net book value
Arab Satellite Organization	58,264	-	58,264	58,264	-	58,264
Intelsat Ltd.	11,089	-	11,089	11,089	-	11,089
Thuraya Satellite Telecommunication Company	182,075	(72,830)	109,245	182,075	(36,415)	145,660
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)	-
Inmarsat Ventures Ltd.	-	-	-	4,234	-	4,234
	<u>325,892</u>	<u>(147,294)</u>	<u>178,598</u>	<u>330,126</u>	<u>(110,879)</u>	<u>219,247</u>
<b>Total investment securities</b>			<u>473,607</u>			<u>315,899</u>

The provision for impairment of investments includes a current year provision of QR 36,415 towards impairment in the value of investment in Thuraya Satellite Telecommunication Company. The total provision represents 40% of the cost of the investment. Management has decided to make this provision, as the future cash flows from this investment cannot be reasonably determined.

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2003**

**In thousands of Qatari Riyals**

**5 INVENTORIES**

	<b>2003</b>	2002
Pay TV equipment	<b>19,125</b>	20,976
Other equipment	<b>14,482</b>	14,749
Subscribers' equipment	<b>13,071</b>	13,136
Cables and transmission equipment	<b>11,551</b>	10,216
Trunk Mobile Radio equipment	<b>2,695</b>	3,306
	<b>60,924</b>	62,383
Less: Provision for obsolete and slow moving inventories	<b>(27,579)</b>	(12,410)
	<b>33,345</b>	49,973

**6 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<b>2003</b>	2002
Trade accounts receivable	<b>388,481</b>	325,418
Other receivables and prepayments	<b>52,527</b>	48,038
Unbilled subscriber services	<b>39,582</b>	42,111
	<b>480,590</b>	415,567
Less: Provision for doubtful receivables	<b>(151,309)</b>	(138,315)
	<b>329,281</b>	277,252

Accounts receivable comprises a large number of customers within Qatar. No individual or company represents more than 10% of the total receivables at 31 December 2003.

As accounts receivable are stated net of any required provision and are short term in nature, the fair value of these amounts approximates their carrying value.

**7 AMOUNTS DUE TO / FROM OTHER INTERNATIONAL CARRIERS**

Amounts due to and from other international carriers are payable in Special Drawing Rights (SDR) and US dollars.

**8 CASH AND CASH EQUIVALENTS**

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2003**

**In thousands of Qatari Riyals**

**9 ACCOUNTS PAYABLE AND ACCRUALS**

	2003	2002
Trade accounts payable	58,736	74,918
Retention payable	14,960	16,495
Deferred equipment rental income	129,029	111,276
Other payables	117,862	111,162
Accrued expenses	60,644	121,145
Provision for pension obligation for existing Qatari employees	63,520	43,102
	<u>444,751</u>	<u>478,098</u>

**Defined contribution plan for pension**

In accordance with the provisions of Law No 24 of 2002 pertaining to Retirement and Pensions, the Company has created a provision for future pension obligations in respect of the past service of existing Qatari employees. This represents a defined contribution plan by which the Company is required to remit these funds to the Retirement Pension Authority on demand and hence is classified under Accounts payable and accruals as a current liability.

After discussions with the Retirement Pensions Authority, the Company created an additional provision amounting to QR 14,640 for the estimated obligation for pension contributions. The provision for the current year is included under staff salaries and related expenses in the statement of income.

Accounts payable and accruals include an amount of QR 110,483 (2002: QR 180,346) due in foreign currencies, mainly US dollars.

**10 CURRENT ACCOUNT WITH THE STATE OF QATAR**

In accordance with Law No. 21 of 1998, the amounts outstanding at 31 December 1998 as due to the State of Qatar and the balance in the general reserve were combined and shown under the current account with the State of Qatar. Subsequent to 31 December 1998, the payment of dividends and certain other transactions with the State of Qatar are recorded in this current account.

**11 NON-CURRENT LIABILITIES**

	2003	2002
Provision for end of service benefit entitlement for employees	62,608	49,690
Provision for pension obligation for retired Qatari employees	31,704	34,464
Non-current portion of retention payable	9,530	14,473
Non-current portion of equipment lease payable	15	54
	<u>103,857</u>	<u>98,681</u>

Movement in provision for end of service benefit entitlement and pension for retired Qatari Employees are as follows:

Provision as at 1 January	84,154	75,301
Expense recognised in the statement of income	14,153	13,167
End of service benefits/advances and pensions paid	(3,995)	(4,314)
Provision as at 31 December	<u>94,312</u>	<u>84,154</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2003**

**In thousands of Qatari Riyals**

*11 NON-CURRENT LIABILITIES (continued)*

**Defined benefit plan for pension**

Provision for pension obligation for retired Qatari employees represents pension liability of the Company towards retired employees who are being paid pension based on the existing pension policies of the Company.

**12 CAPITAL AND RESERVES**

**a Share Capital**

	<b>2003</b>	2002
Authorised capital	<u><b>1,000,000</b></u>	<u>1,000,000</u>
Paid up capital	<u><b>1,000,000</b></u>	<u>1,000,000</u>

At 31 December 2003, the authorised and paid up share capital of the Company 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 for the year has been transferred to the legal reserve. The Company may resolve to discontinue the transfer when the reserve totals 50% of the issued paid up capital. 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 arose from the revaluation of the investments held as available for sale. (Refer to note 2d of accounting policies).

**13 STAFF SALARIES AND RELATED EXPENSES**

	<b>2003</b>	2002
Employee salaries and associated costs	<b>215,844</b>	182,788
Pension contributions for Qatari employees	<b>20,418</b>	43,102
Training and related costs	<u><b>9,302</b></u>	<u>6,937</u>
	<u><b>245,564</b></u>	<u>232,827</u>
Number of employees as at 31 December	<u><b>1,872</b></u>	<u>1,859</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 31 December 2003**

**In thousands of Qatari Riyals**

**14 OTHER INCOME**

	<b>2003</b>	2002
Interest income	<b>33,463</b>	39,951
Income from investment securities	<b>9,838</b>	10,040
Gain on sale of investments	<b>4,307</b>	-
	<b><u>47,608</u></b>	<u>49,991</u>

Interest income represents interest earned on deposits with banks and from the State of Qatar Euro Bonds held as investments available for sale (refer to Note 17a for the interest rate risk exposures).

Income from investment securities represents dividend income from investments held as available for sale.

**15 EARNINGS PER SHARE**

Basic earnings per share is calculated by dividing the net profit for the year by the weighted average number of ordinary shares outstanding during the year.

	<b>2003</b>	2002
Profit for the year	<b><u>1,148,822</u></b>	<u>956,209</u>
Weighted average number of shares outstanding during the year	<b><u>100,000</u></b>	<u>100,000</u>
Earnings per share (expressed in QR per share)	<b><u>11.49</u></b>	<u>9.56</u>

NOTES TO THE FINANCIAL STATEMENTS  
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16 SEGMENT INFORMATION

**Business segments**

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

	Year ended 31 December 2003				Year ended 31 December 2002			
	Wireline Services	Wireless Services	Special Business	Total	Wireline Services	Wireless Services	Special Business	Total
Revenue	<u>799,238</u>	<u>1,140,812</u>	<u>86,099</u>	<u>2,026,149</u>	<u>763,067</u>	<u>846,068</u>	<u>110,782</u>	<u>1,719,917</u>
Segment Result	<u>475,646</u>	<u>888,401</u>	<u>25,766</u>	<u>1,389,813</u>	<u>455,751</u>	<u>672,108</u>	<u>35,760</u>	<u>1,163,619</u>
Unallocated costs				<u>(252,184)</u>				<u>(220,500)</u>
Profit from operations				<u>1,137,629</u>				<u>943,119</u>
Other income				<u>47,608</u>				<u>49,991</u>
Impairment provisions				<u>(36,415)</u>				<u>(36,901)</u>
Net profit for the year				<u>1,148,822</u>				<u>956,209</u>
Segment assets	<u>515,580</u>	<u>425,358</u>	<u>38,500</u>	<u>979,438</u>	<u>531,396</u>	<u>345,066</u>	<u>41,998</u>	<u>918,460</u>
Unallocated assets				<u>2,512,737</u>				<u>2,443,871</u>
Total assets				<u>3,492,175</u>				<u>3,362,331</u>
Segment liabilities	<u>87,476</u>	<u>-</u>	<u>-</u>	<u>87,476</u>	<u>92,595</u>	<u>-</u>	<u>-</u>	<u>92,595</u>
Unallocated liabilities				<u>551,157</u>				<u>931,185</u>
Total liabilities				<u>638,633</u>				<u>1,023,780</u>
Capital expenditure	<u>55,556</u>	<u>136,163</u>	<u>4,268</u>		<u>64,614</u>	<u>150,138</u>	<u>7,083</u>	
Depreciation	<u>81,276</u>	<u>61,330</u>	<u>13,296</u>		<u>72,333</u>	<u>41,081</u>	<u>7,440</u>	

**Geographical segments**

The Company provides telecommunication services principally within the State of Qatar.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**17 FINANCIAL INSTRUMENTS**

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

**a Interest rate risk**

A significant portion of the Company's financial assets and liabilities as at 31 December 2003 are exposed to interest rate fluctuations. The Company's exposure to interest rate risk and the effective interest rates on its financial assets and liabilities are summarised below:

	<b>Interest bearing</b>	<b>2003 Non-interest bearing</b>	<b>Total</b>	<b>Interest bearing</b>	<b>2002 Non-interest bearing</b>	<b>Total</b>
<b>Financial assets</b>						
Investments	125,854	347,753	<b>473,607</b>	-	315,899	315,899
Accounts receivable	-	329,281	<b>329,281</b>	-	277,252	277,252
Amounts due from international carriers	-	20,339	<b>20,339</b>	-	23,686	23,686
Bank balances and cash	1,354,152	8,524	<b>1,362,676</b>	1,608,080	9,187	1,617,267
	<u>1,480,006</u>	<u>705,897</u>	<u><b>2,185,903</b></u>	1,608,080	626,024	2,234,104
Average interest rate	2.1%			2.5%		
<b>Financial liabilities</b>						
Accounts payable	-	444,751	<b>444,751</b>	-	478,098	478,098
Amounts due to other international carriers	-	87,476	<b>87,476</b>	-	92,595	92,595
Current account with the State of Qatar	-	2,549	<b>2,549</b>	-	354,406	354,406
	<u>-</u>	<u>534,776</u>	<u><b>534,776</b></u>	<u>-</u>	<u>925,099</u>	<u>925,099</u>
Net financial assets	<u><b>1,480,006</b></u>	<u><b>171,121</b></u>	<u><b>1,651,127</b></u>	<u>1,608,080</u>	<u>(299,075)</u>	<u>1,309,005</u>

**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 Company's exposure to credit risk is as indicated by the carrying amount of its assets which consist principally of account receivables, 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 Company has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. 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 FINANCIAL STATEMENTS**  
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17 *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. Management is of the opinion that the Company's exposure to currency risk is minimal and uses forward foreign exchange contracts to hedge this exposure. The forward exchange contracts are designed to hedge the foreign currency exposure of SDR 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 2b 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.

**18 COMMITMENTS**

**a Capital Commitments**

At 31 December 2003, future capital expenditure approved by the Board of Directors and contracted for are as follows:

	2003		2002	
	Approved	Contracted	Approved	Contracted
Due within 1 year	650,104	299,055	549,807	227,373
Due after 1 year	912,985	-	906,213	-
	<u>1,563,089</u>	<u>299,055</u>	<u>1,456,020</u>	<u>227,373</u>

**b Operating lease commitments**

Non-cancellable operating lease rentals are payable as follows.

	2003	2002
Future minimum lease payments:		
Not later than one year	16,126	16,045
Later than one year and not later than five years	34,111	48,472
Later than five years	1,334	1,165
Aggregate operating lease expenditure contracted for at 31 December	<u>51,571</u>	<u>65,682</u>

The above represents the future lease rental commitments for various land and buildings leased by the Company under operating lease agreements.

During the year ended 31 December 2003, QR 17,719 (2002:QR 16,266) was recognised as an expense in the income statement in respect of operating leases.

**c Forward exchange contracts**

The forward exchange contracts outstanding at 31 December 2003 amounted to SDR 3,269,500 (31 December 2002: SDR 6,601,000).

**NOTES TO THE FINANCIAL STATEMENTS  
for the year ended 31 December 2003****In thousands of Qatari Riyals****19 CONTINGENT LIABILITIES****a Claims**

Claims against the Company not acknowledged as debts as at 31 December 2003 amounted to QR 2,148 (31 December 2002: QR 2,089). In the opinion of the management and based on legal advice received, asserted and non-asserted claims are not expected to give rise to any significant liabilities or claims that could result in a material impact on the financial statements.

**b Loan repayment guarantees**

The Company 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 Company under this guarantee amounts to QR 208,000 as at 31 December 2003 (31 December 2002: QR 208,000).

**20 DIRECTORS REMUNERATION**

On 27 January 2004, Directors remuneration of QR 4,700 (2002: QR 4,700) was proposed by the Board of Directors. The proposed Directors remuneration for 2003 is included in retained earnings at 31 December 2003.

**21 DIVIDENDS**

The Board of Directors approved and distributed during the year an interim dividend of QR 3.30 (2002: QR 2.80) per ordinary share, totalling QR 330,000 (2002: QR 280,000).

The Board of Directors has proposed a final dividend distribution of QR 4.00 per ordinary share bringing the total distribution for the year to QR 7.30 per share (2002: QR 6.60 per share). The proposed final dividend will be submitted for formal approval at the Annual General Meeting. This proposed final dividend, totalling QR 400,000 brings the total dividends for the year to QR 730,000 (2002: QR 660,000) 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 2002 amounting to QR 380,000, was approved at the Annual General Meeting held on 9 March 2003 and was paid in 2003 following the approval.

**22 COMPARATIVE FIGURES**

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year. However, such reclassification did not have any effect on the net profit for the year ended 31 December 2002 and the total Shareholders' equity as at 31 December 2002.