

**Qatar Telecom (Q-TEL) Q.s.c.**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2002**

**AUDITORS' REPORT TO THE SHAREHOLDERS OF  
QATAR TELECOM (Q-TEL) Q.S.C.**

We have audited the accompanying balance sheet of Qatar Telecom (Q-TEL) Q.S.C. as of 31 December 2002, and the related statements of income, cash flows and changes in its equity for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in conformity with International Financial Reporting Standards.

Furthermore, in our opinion proper financial records have been kept by the company, an inventory has been conducted in accordance with established principles and the contents of the directors' report which relate to the financial statements are in agreement with the company's financial records, and the financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the company's Articles of Association. We have obtained all the information and explanations we required for the purpose of our audit and are not aware of any violations of the above mentioned laws or the Articles of Association having occurred during the year which might have had a material effect on the business of the company or on its financial position.

A. Mekhael, F.C.C.A.  
of Ernst & Young  
Auditor's Registration No. 59

Date: 8 February 2003  
Doha

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

BALANCE SHEET

31 December 2002

	<i>Note</i>	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
<b>ASSETS EMPLOYED</b>			
<b>PROPERTY, PLANT AND EQUIPMENT</b>	3	<b>1,078,254</b>	966,259
<b>INVESTMENT SECURITIES</b>	4	<b>315,899</b>	339,109
<b>CURRENT ASSETS</b>			
Inventories	5	49,973	32,578
Accounts receivable and prepayments	6	277,252	321,867
Amounts due from other international carriers	7	23,686	24,463
Bank balances and cash		<u>1,617,267</u>	<u>1,247,767</u>
		<b><u>1,968,178</u></b>	<b><u>1,626,675</u></b>
<b>CURRENT LIABILITIES</b>			
Accounts payable and accruals	8	478,098	327,223
Amounts due to other international carriers	7	92,595	85,282
Current account with The State of Qatar	9	<u>354,406</u>	<u>434,072</u>
		<b><u>925,099</u></b>	<b><u>846,577</u></b>
<b>NET CURRENT ASSETS</b>		<b><u>1,043,079</u></b>	<b><u>780,098</u></b>
<b>NON-CURRENT LIABILITIES</b>	10	<b><u>(98,681)</u></b>	<b><u>(86,629)</u></b>
		<b><u>2,338,551</u></b>	<b><u>1,998,837</u></b>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	11	1,000,000	1,000,000
Legal reserve	12	316,731	221,110
Proposed dividend	24	380,000	345,000
Retained earnings		605,580	409,692
Cumulative changes in fair values		<u>36,240</u>	<u>23,035</u>
		<b><u>2,338,551</u></b>	<b><u>1,998,837</u></b>

The financial statements of Qatar Telecom (Q-TEL) Q.S.C. for the year ended 31 December 2002 were authorised for issue in accordance with a resolution of the directors on 8 February 2003.

.....  
Abdullah Bin Mohamed Bin Saud Al-Thani  
Chairman

.....  
Mohammad Bin Isa Al-Mouhanadi  
Member of the Board

The attached notes 1 to 25 form part of these financial statements

## STATEMENT OF INCOME

Year Ended 31 December 2002

	<i>Note</i>	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
<b>REVENUE</b>			
International traffic revenue	13	<b>713,781</b>	700,839
GSM services		<b>534,615</b>	394,597
National telephone system revenue		<b>186,488</b>	177,251
Other services	14	<b>285,033</b>	263,875
		<b><u>1,719,917</u></b>	<u>1,536,562</u>
<b>EXPENSES</b>			
Staff expenses		<b>232,827</b>	226,274
Outpayments to other international carriers		<b>161,589</b>	161,764
Depreciation		<b>144,000</b>	140,714
Operating and maintenance expenses		<b>83,450</b>	72,014
General and administration expenses		<b>97,031</b>	61,759
Cost of equipment sold and other services		<b>57,901</b>	45,380
		<b><u>776,798</u></b>	<u>707,905</u>
<b>OPERATING PROFIT FOR THE YEAR</b>		<b>943,119</b>	828,657
Other income	15	<b>49,991</b>	71,645
Provision for impairment of investments	16	<b>(36,901)</b>	(37,180)
<b>NET PROFIT FOR THE YEAR</b>		<b><u>956,209</u></b>	<u>863,122</u>
Basic earnings per share (expressed in QR per share)	17	<b><u>9.56</u></b>	<u>8.63</u>

The attached notes 1 to 25 form part of these financial statements

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

STATEMENT OF CASH FLOWS

Year Ended 31 December 2002

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
<b>OPERATING ACTIVITIES</b>		
Net profit for the year	956,209	863,122
Adjustments for:		
Depreciation	144,000	140,714
Investment and interest income	(49,991)	(71,645)
Provision for impairment in value of investments	36,901	37,180
Gain on disposal of property, plant and equipment	(391)	(77)
	<u>1,086,728</u>	<u>969,294</u>
Operating profit before working capital changes		
Increase in inventories	(17,395)	(78)
Decrease in accounts receivable	44,615	15,799
Increase in payables to other international carriers (net)	8,090	3,955
Increase in accounts payable	158,227	109,853
Net movement in current account with The State of Qatar	(79,666)	161,792
	<u>1,200,599</u>	<u>1,260,615</u>
Net cash from operating activities		
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(259,173)	(190,618)
(Increase) decrease in investments	(486)	4,201
Net proceeds from sale of property, plant and equipment	3,569	399
Investment and interest income	49,991	71,645
	<u>(206,099)</u>	<u>(114,373)</u>
Net cash used in investing activities		
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(625,000)	(765,000)
	<u>(625,000)</u>	<u>(765,000)</u>
Net cash used in financing activities		
<b>INCREASE IN BANK BALANCES AND CASH</b>	<b>369,500</b>	<b>381,242</b>
Bank balances and cash at 1 January	<u>1,247,767</u>	<u>866,525</u>
<b>BANK BALANCES AND CASH AT 31 DECEMBER</b>	<b><u>1,617,267</u></b>	<b><u>1,247,767</u></b>

The attached notes 1 to 25 form part of these financial statements

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

STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2002

	<i>Note</i>	<i>Share Capital</i> <i>QR'000</i>	<i>Legal Reserve</i> <i>QR'000</i>	<i>Proposed Dividend</i> <i>QR'000</i>	<i>Retained earnings</i> <i>QR'000</i>	<i>Cumulative changes in fair values</i> <i>QR'000</i>	<i>Total</i> <i>QR'000</i>
Balance at 1 January 2001		1,000,000	134,798	510,000	236,982	-	1,881,780
Restatement in accordance with IAS 39		-	-	-	-	4,308	4,308
Dividends paid for 2000		-	-	(510,000)	-	-	(510,000)
Net profit for the year		-	-	-	863,122	-	863,122
Transfer to legal reserve		-	86,312	-	(86,312)	-	-
Interim dividend for 2001		-	-	-	(255,000)	-	(255,000)
Proposed Directors remuneration		-	-	-	(4,100)	-	(4,100)
Proposed final dividend for 2001		-	-	345,000	(345,000)	-	-
Net movement on cumulative changes in fair value of investments		-	-	-	-	18,727	18,727
Balance at 31 December 2001		1,000,000	221,110	345,000	409,692	23,035	1,998,837
Dividends paid for 2001	24	-	-	(345,000)	-	-	(345,000)
Net profit for the year		-	-	-	956,209	-	956,209
Transfer to legal reserve	12	-	95,621	-	(95,621)	-	-
Interim dividend for 2002	24	-	-	-	(280,000)	-	(280,000)
Proposed Directors remuneration	23	-	-	-	(4,700)	-	(4,700)
Proposed final dividend for 2002	24	-	-	380,000	(380,000)	-	-
Net movement on cumulative changes in fair value of investments		-	-	-	-	13,205	13,205
Balance at 31 December 2002		<b>1,000,000</b>	<b>316,731</b>	<b>380,000</b>	<b>605,580</b>	<b>36,240</b>	<b>2,338,551</b>

The attached notes 1 to 25 form part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

### 1 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 telecommunications services in Qatar for a period of 15 years and has the right to own, operate, maintain and develop the public telecommunications network in Qatar.

The company operates in Qatar and employed 1,859 employees as of 31 December 2002 (2001 : 1,752).

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation:**

The financial statements have been prepared in accordance with International Accounting Standards issued by the International Accounting Standard Board (IASB) and interpretations issued by the International Financial Reporting Committee and appropriate requirements of Qatar Commercial Companies' Law and Law No. 21 of 1998 issued on 25 November 1998 relating to the transformation of Qatar Public Telecommunications Corporation to a Qatari shareholding company and the company's Articles of Association.

#### **Accounting convention:**

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of available for sale – quoted investments and derivative financial instruments.

The accounting policies are consistent with those used in the previous year.

The financial statements have been presented in Qatari Riyals.

The significant accounting policies adopted are as follows:

#### **Property, plant and equipment**

Property, plant and equipment is initially recorded at cost.

The carrying amounts of property, plant and equipment are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amount. Where carrying value exceeds this recoverable amount, assets are written down to their recoverable amount.

#### **Depreciation**

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 by equal annual instalments 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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investment securities**

All investments are initially recognised 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. Unless unrealised gains and losses on remeasurement to fair value are part of an effective hedging relationship, they are reported 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. In relation to investments which are part of an effective hedging relationship any gain or loss arising from a change in fair value is recognised directly in the statement of income.

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, adjusted for transaction costs necessary to realise the asset.

*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.

**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.

**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.

**Impairment and uncollectibility of financial assets**

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and an impairment loss is recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the statement of income.

**Accounts payable and accruals**

Liabilities are 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.

**Provisions**

Provisions are recognised when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Employee benefits**

The company provides end of service benefits to its employees. The entitlement to these benefits is usually 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 its Qatari employees, the company has decided to make contributions to Government Pension Fund calculated as a percentage of the employees' salaries. The company's obligations are limited to the contributions which are expensed when due.

**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.

**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.

**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. These are included in the balance sheet at fair value and any gain or loss is recognised in the statement of income.

**Taxation**

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

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

**3 PROPERTY, PLANT AND EQUIPMENT**

	<i>Land and buildings QR'000</i>	<i>Exchanges and line plant QR'000</i>	<i>International communication links QR'000</i>	<i>Subscriber apparatus and other equipment QR'000</i>	<i>Capital work in progress QR'000</i>	<i>Total QR'000</i>
Cost:						
At 1 January 2002	184,734	1,288,863	183,263	463,715	84,052	2,204,627
Additions	-	-	-	-	259,173	259,173
Reclassifications and disposals	<u>3,920</u>	<u>54,001</u>	<u>2,615</u>	<u>36,876</u>	<u>(120,977)</u>	<u>(23,565)</u>
At 31 December 2002	<u>188,654</u>	<u>1,342,864</u>	<u>185,878</u>	<u>500,591</u>	<u>222,248</u>	<u>2,440,235</u>
Depreciation:						
At 1 January 2002	110,578	710,952	84,666	332,172	-	1,238,368
Provided during the year	7,594	84,012	8,520	43,874	-	144,000
Reclassifications and disposals	<u>166</u>	<u>(16,605)</u>	<u>902</u>	<u>(4,850)</u>	<u>-</u>	<u>(20,387)</u>
At 31 December 2002	<u>118,338</u>	<u>778,359</u>	<u>94,088</u>	<u>371,196</u>	<u>-</u>	<u>1,361,981</u>
Net book values:						
At 31 December 2002	<u><b>70,316</b></u>	<u><b>564,505</b></u>	<u><b>91,790</b></u>	<u><b>129,395</b></u>	<u><b>222,248</b></u>	<u><b>1,078,254</b></u>
At 31 December 2001	<u>74,156</u>	<u>577,911</u>	<u>98,597</u>	<u>131,543</u>	<u>84,052</u>	<u>966,259</u>

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

## 4 INVESTMENT SECURITIES

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
<b>Available for sale - Quoted</b>		
Qatar Electricity and Water Company S.A.Q. - 2,000,000 fully paid up shares	<b>61,800</b>	46,000
Qatar Shipping Company S.A.Q. - 600,000 fully paid up shares	<b>14,820</b>	14,400
Sudan Telecom Company - 255,000 fully paid up shares	<b>13,716</b>	14,419
New Skies Satellites N.V - 230,350 fully paid up shares	<b>3,481</b>	5,284
Orascom Telecom Company - 312,500 fully paid up shares	<b>2,834</b>	3,344
	<b><u>96,651</u></b>	<u>83,447</u>
<b>Available for sale - Unquoted</b>		
Thuraya Satellite Telecommunication Co. - 18,350,000 fully paid up shares	<b>182,075</b>	182,075
ICO Global Communications (Holdings) Ltd. - 1,101,893 fully paid up shares	<b>70,336</b>	70,336
Arab Satellite Organisation - 160 fully paid up shares	<b>58,264</b>	58,264
Intelsat Ltd. - 845,015 fully paid up shares	<b>11,089</b>	11,089
Inmarsat Ventures Ltd. - 156,360 fully paid up shares	<b>4,234</b>	4,234
Commerce One Middle East Ltd. - 869,565 fully paid up shares	<b>4,128</b>	3,642
Provision for impairment of investments	<b>(110,878)</b>	(73,978)
	<b><u>219,248</u></b>	<u>255,662</u>
	<b><u>315,899</u></b>	<u>339,109</u>

The company acquired 1,350,000 fully paid shares of ICO at a cost value of QR 55,776,000 over a period of three years commencing from 1995.

ICO is a development stage company established on 24 January 1995 to develop and operate a medium earth orbit (MEO) satellite based global communications service. On 27 August 1999 ICO and three subsidiary companies filed for protection under Chapter 11 of the U.S. Bankruptcy Code and trading in the shares was suspended. The shares were de-listed by the Nasdaq stock exchange during December 1999. The purpose of the filing was to allow the companies to seek court protection from creditors while a financial restructuring plan was put in place. The Chapter 11 protection provides the companies with the necessary breathing space to conclude additional financing and to finalise support arrangements with strategic telecommunication investors.

On 30 October 1999, the ICO Board of Directors approved a financing plan for the reorganisation of ICO whereby a number of strategic investors would provide funding of US\$ 1.2 billion. The funding allowed ICO to complete build-out of the system and achieve service launch in the second quarter of 2001. Based on the above refinancing plan and the support of strong strategic investors, the company invested QR 14,560,000 (New Investment) in November 1999.

The funds received from the investors of US\$ 1.2 billion as set out above, together with the original investment were subsequently converted to fully paid shares of ICO with a nominal value of US\$ 0.01. ICO will offer the satellite equivalent of third generation (3G) wireless services, including mobile voice, wireless, Internet and other packet-data services.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

**4 INVESTMENT SECURITIES (continued)**

Management has provided in full in the previous years for the carrying amount of the investments in ICO.

A provision of QR 36,415,000 was made during the year (Note 16) against the original investment in Thuraya Satellite Telecommunication Co. representing 20% of the carrying value at 31 December 2002. Management has decided to make this provision, as the future cash flows from this investment cannot be reasonably determined.

**5 INVENTORIES**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Pay TV equipment	<b>20,976</b>	9,327
Other equipment	<b>14,749</b>	5,822
Subscribers' equipment	<b>13,136</b>	14,808
Cables and transmission equipment	<b>10,216</b>	6,835
Trunk Mobile Radio equipment	<b>3,306</b>	4,371
Analogue mobile telephone equipment and spares	<u>-</u>	<u>2,301</u>
	<b>62,383</b>	43,464
Less : Provision for obsolete and slow moving inventories	<u>(12,410)</u>	<u>(10,886)</u>
	<u><b>49,973</b></u>	<u><b>32,578</b></u>

**6 ACCOUNTS RECEIVABLE AND PREPAYMENTS**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Trade accounts receivable	<b>325,418</b>	381,581
Other receivables and prepayments	<b>48,038</b>	49,640
Unbilled subscriber services	<u><b>42,111</b></u>	<u>41,788</u>
	<b>415,567</b>	473,009
Less : Provision for doubtful debts	<u>(138,315)</u>	<u>(151,142)</u>
	<u><b>277,252</b></u>	<u><b>321,867</b></u>

Accounts receivable comprises a large number of customers within Qatar. There is no individual or company which represents more than 10% of the total receivables at 31 December 2002.

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.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

**8 ACCOUNTS PAYABLE AND ACCRUALS**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Trade accounts payable	<b>74,918</b>	33,442
Retention payable	<b>16,495</b>	17,124
Deferred equipment rental income	<b>111,276</b>	112,169
Other payables	<b>111,162</b>	82,896
Accrued expenses	<b>121,145</b>	81,592
Pension obligation for Qatari employees	<b>43,102</b>	-
	<b><u>478,098</u></b>	<b><u>327,223</u></b>

In August 2002, the Qatar Government issued Law No. (24) of 2002, the Retirement and Pensions Law. The Law introduces a requirement for Government, Semi-Government bodies and Qatari public shareholding companies to contribute to a Government Pension Fund on behalf of their Qatari employees. The Law was published in the Official Gazette on 6 October 2002 and will become effective on 6 March 2003.

The Law sets out provisions that deal with the past service of Qatari employees and the respective obligations of the employer. The company has, based on its interpretation of the new Law, created a provision in the current year of QR 43,102,000 for its estimated obligation for pension contributions as a result of the past service of current and past Qatari employees. The provision is shown in the statement of income as part of staff expenses.

In addition, during the period the company appointed an actuary to determine the defined pension entitlements of retired Qatari staff. Based on the actuary's report, management do not consider it necessary to provide any additional amounts in respect of the company's obligations to retired staff.

Accounts payable and accruals include an amount of QR 180,346,000 (2001: QR 97,986,000) due in foreign currencies, mainly US dollars.

**9 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 added 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.

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

**10 NON-CURRENT LIABILITIES**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Terminal benefit entitlement for employees	<b>49,690</b>	38,061
Provision for retired Qatari employees	<b>34,464</b>	37,240
Non-current portion of retention payable	<b>14,473</b>	10,975
Non-current portion of equipment lease payable	<b>54</b>	353
	<b><u>98,681</u></b>	<b><u>86,629</u></b>

Movement in terminal benefit entitlement provision are as follows:

Provision as at 1 January	<b>38,061</b>	25,929
Expense recognised in the statement of income	<b>13,167</b>	15,570
Terminal benefits and advances paid	<b>(1,538)</b>	(3,438)
Provision as at 31 December	<b><u>49,690</u></b>	<b><u>38,061</u></b>

**11 SHARE CAPITAL**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Authorised capital	<b><u>1,000,000</u></b>	<b><u>1,000,000</u></b>
Paid up capital	<b><u>1,000,000</u></b>	<b><u>1,000,000</u></b>

The share capital reflects an authorised and fully paid up capital of 100,000,000 shares of nominal value of QR 10 each. The Government of the State of Qatar owns 55% of the share capital.

**12 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.

**13 INTERNATIONAL TRAFFIC REVENUE**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Outgoing international traffic revenue	<b>617,718</b>	599,050
Incoming international traffic revenue	<b><u>96,063</u></b>	<u>101,789</u>
	<b><u>713,781</u></b>	<b><u>700,839</u></b>

## NOTES TO THE FINANCIAL STATEMENTS

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**14 OTHER SERVICES REVENUE**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Internet services	<b>75,829</b>	62,562
Pay TV services	<b>47,779</b>	47,326
Equipment sales	<b>43,254</b>	34,472
Leased lines	<b>37,242</b>	33,595
Equipment rentals	<b>26,557</b>	27,810
Radio paging services	<b>19,233</b>	24,712
Miscellaneous services	<b>35,139</b>	33,398
	<b><u>285,033</u></b>	<b><u>263,875</u></b>

**15 OTHER INCOME**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Interest income	<b>39,951</b>	60,404
Income from investment securities	<b>10,040</b>	11,241
	<b><u>49,991</u></b>	<b><u>71,645</u></b>

**16 PROVISION FOR IMPAIRMENT OF INVESTMENTS**

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Provision for impairment in value of:		
- Thuraya Satellite Telecommunication Co. (Note 4)	<b>36,415</b>	-
- Commerce One Middle East Ltd. (Note 4)	<b>486</b>	3,642
- ICO Global Communications (Holdings) Ltd. (Note 4)	<b>-</b>	33,538
	<b><u>36,901</u></b>	<b><u>37,180</u></b>

**17 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 as follows:

	<i>2002</i> <i>QR'000</i>	<i>2001</i> <i>QR'000</i>
Profit for the year	<b><u>956,209</u></b>	<b><u>863,122</u></b>
Weighted average number of shares outstanding during the year	<b><u>100,000</u></b>	<b><u>100,000</u></b>
Earnings per share (expressed in QR per share)	<b><u>9.56</u></b>	<b><u>8.63</u></b>

NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

18 SEGMENT INFORMATION

Business Segments	Year ended 31 December 2002				Year ended 31 December 2001			
	Fixed Line Services QR'000	Mobile Services QR'000	Other Services QR'000	Total QR'000	Fixed Line Services QR'000	Mobile Services QR'000	Other Services QR'000	Total QR'000
Revenue	<u>963,055</u>	<u>579,243</u>	<u>177,619</u>	<u>1,719,917</u>	<u>934,900</u>	<u>440,433</u>	<u>161,229</u>	<u>1,536,562</u>
Result	<u>661,292</u>	<u>475,674</u>	<u>90,348</u>	<u>1,227,314</u>	642,620	358,350	93,655	1,094,625
Unallocated costs				<u>(284,195)</u>				<u>(265,968)</u>
				<u>943,119</u>				828,657
Other income				<u>49,991</u>				71,645
Provision for impairment of investments				<u>(36,901)</u>				<u>(37,180)</u>
Net Profit				<u>956,209</u>				<u>863,122</u>
Segment assets	<u>474,174</u>	<u>199,104</u>	<u>34,679</u>	<u>707,957</u>	<u>481,541</u>	<u>216,624</u>	<u>32,174</u>	730,339
Unallocated assets				<u>2,654,374</u>				<u>2,201,704</u>
Total assets				<u>3,362,331</u>				<u>2,932,043</u>
Segment liabilities	<u>92,595</u>	<u>-</u>	<u>-</u>	<u>92,595</u>	<u>85,282</u>	<u>-</u>	<u>-</u>	85,282
Unallocated liabilities				<u>931,185</u>				<u>847,924</u>
Total liabilities				<u>1,023,780</u>				<u>933,206</u>
Capital expenditure	<u>49,923</u>	<u>20,165</u>	<u>7,724</u>		<u>46,137</u>	<u>97,867</u>	<u>1,533</u>	
Depreciation	<u>53,431</u>	<u>37,684</u>	<u>5,220</u>		<u>54,688</u>	<u>34,951</u>	<u>5,922</u>	

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

## NOTES TO THE FINANCIAL STATEMENTS

31 December 2002

**19 FINANCIAL INSTRUMENTS**

## (a) Interest rate risk exposures

A significant portion of the company's financial assets and liabilities as of 31 December 2002 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:

	Floating interest rate 2002 QR'000	Non-interest bearing 2002 QR'000	Total 2002 QR'000	Floating interest rate 2001 QR'000	Non-interest bearing 2001 QR'000	Total 2001 QR'000
<b>Financial assets</b>						
Accounts receivable	-	277,252	277,252	-	321,867	321,867
Bank balances and cash	<u>1,608,080</u>	<u>9,187</u>	<u>1,617,267</u>	<u>1,242,683</u>	<u>5,084</u>	<u>1,247,767</u>
	1,608,080	286,439	1,894,519	1,242,683	326,951	1,569,634
Average interest rate	2.5%			4.5%		
<b>Financial liabilities</b>						
Accounts payable	<u>-</u>	<u>366,822</u>	<u>366,822</u>	<u>-</u>	<u>215,054</u>	<u>215,054</u>
Net financial assets	<u><b>1,608,080</b></u>	<u><b>(80,383)</b></u>	<u><b>1,527,697</b></u>	<u><b>1,242,683</b></u>	<u><b>111,897</b></u>	<u><b>1,354,580</b></u>

The above financial assets and liabilities are expected to be realised and paid within one year.

## (b) Credit risk exposure

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 debtors and bank balances.

## (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.

## NOTES TO THE FINANCIAL STATEMENTS

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**20 CAPITAL COMMITMENTS**

At 31 December 2002, future capital expenditure approved by the Board of Directors and contracted for are as follows:

	<i>2002</i>		<i>2001</i>	
	<i>Approved</i>	<i>Contracted</i>	<i>Approved</i>	<i>Contracted</i>
Due within 1 year	<b>549,807</b>	<b>227,373</b>	536,229	80,396
Due after 1 year	<b>906,213</b>	-	382,302	-
	<b><u>1,456,020</u></b>	<b><u>227,373</u></b>	<b><u>918,531</u></b>	<b><u>80,396</u></b>

**21 OPERATING LEASE COMMITMENTS**

	<i>2002</i>	<i>2001</i>
	<i>QR'000</i>	<i>QR'000</i>
Future minimum lease payments:		
Not later than one year	<b>16,045</b>	7,474
Later than one year and not later than five years	<b>48,472</b>	3,920
Later than five years	<b>1,165</b>	1,390
Aggregate operating lease expenditure contracted for at 31 December	<b><u>65,682</u></b>	<b><u>12,784</u></b>

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

**22 CONTINGENT LIABILITIES**

	<i>2002</i>	<i>2001</i>
	<i>QR'000</i>	<i>QR'000</i>
Claims against the company under litigation not acknowledged as debts	<b>2,089</b>	2,253
	<b><u>2,089</u></b>	<b><u>2,253</u></b>

At 31 December 2002 the company was party to forward foreign exchange contracts to purchase SDR 6,601,000 (2001: SDR 6,310,000), over future periods of up to 11 months. The forward foreign exchange contracts are designed to hedge the foreign currency exposure of SDR liabilities due to international carriers.

The company has entered into an agreement to guarantee a portion of the loan repayments of Thuraya Satellite Telecommunication Company in respect of project financing for the construction of a satellite system. The obligation of the company under this guarantee amounts to QR 208,000,000 as at 31 December 2002 (31 December 2001: QR 218,000,000).

**23 DIRECTORS REMUNERATION**

On 8 February 2003 the Board of Directors proposed a Directors remuneration of QR 4,700,000 (2001 : QR 4,100,000).

NOTES TO THE FINANCIAL STATEMENTS

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**24 DIVIDENDS**

The Board of Directors approved and distributed during the year an interim dividend of QR 2.80 (2001 : 2.55) per ordinary share, totalling QR 280,000,000 (2001 : QR 255,000,000).

The Board of Directors has proposed a final dividend distribution of QR 3.80 per ordinary share bringing the total distribution for the year to QR 6.60 per share (2001: QR 6.00 per share). The proposed final dividend will be submitted for formal approval at the Annual General Meeting. This proposed final dividend, totalling QR 380,000,000 brings the total dividends for the year to QR 660,000,000 (2001 : QR 600,000,000) 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 2001 amounting to QR 345,000,000, was approved at the Annual General Meeting held on 11 March 2002 and was paid in 2002 following the approval.

**25 COMPARATIVE FIGURES**

Certain of the prior year amounts have been reclassified to conform with the presentation in the current year.