reaching out to the world

Annual Report 2006

Qtel

Let's Connect

contents

His Highness
Sheikh Hamad Bin Khalifa Al-Thani
Emir of the State of Qatar

His Highness
Sheikh Tamim Bin Hamad Al-Thani
Heir Apparent

Our Vision

"To be among the top 20 telecommunications companies in the world by 2020"

CHAIRMAN'S MESSAGE

Dear Shareholders

2006 has been an exceptionally significant one for the Qtel Group. We have seen revenues across the Group rise by 48.2% with a 2006 revenue figure of QR4.42 billion and profits of QR1.7 billion (QR2.98 billion and QR1.2 billion respectively in 2005).

The Qtel Board set a vision of where we want to be in the future and we have the confidence that we have the people, the resources and the expertise to get there. Our vision - To be among the top 20 telecommunications companies in the world by 2020 - is succinct, ambitious and achievable.

Our confidence is lifted by not only the results of this year but also by key, strategic developments that will provide the platform from which we can grow internationally.

Our business in Qatar saw profit rise by 35.4 %, from QR1.3 billion to QR1.8 billion. This growth continues to be driven specially through our Wireless Services which grew its customer base by 28.3% to 920,000 achieving revenue of QR2.6 billion. Revenue from Wireline business also grew by 37.4% to QR1.4 billion.

Our mobile operation in Oman - Nawras - has had another great year with 572,000 customers connected to the Nawras network. This represents a 31% market share for Nawras in less than two years since the company was launched. We are confident that Nawras will continue to develop in Oman and achieve excellent financial results.

This year's profits will be partly used to help maintain and expand both Wireless and Wireline networks necessary to cope with growing demands and the unprecedented economic boon in Qatar and for investment opportunities outside of Qatar.

In line with our encouraging results, The Board of Directors is delighted to recommend to the General Assembly a total annual dividend of QR10 per share (2005, QR8.5 per share) which represents an increase of 18% over 2005.

In 2006, we saw the first steps in the liberalization of the telecommunications market here in Qatar. This new

"We have a clear vision of our future. Our strategy and investments will reap benefits from the building blocks we have put in place in order for us to take a leading role in the region and on the international platform. But our home market will remain our first priority."

Abdullah Bin Mohammed Bin Saud Al-Thani
Chairman of the Board

environment will be an exciting and challenging one but we are confident that Qtel is in great shape because of the preparations and organisational re-structuring we have put in place over the last few years in anticipation of the opening-up of the Qatari market.

Finally, 2006 will be remembered as the year that Qatar hosted the 15th Asian Games and Qtel was proud to be a Prestige Partner as well as the Official Telecoms Provider. The Asian Games visitors, participants and world media looked to Qtel to provide the world-class communications products and services that would help guarantee an event to remember. We invested a considerable sum into new (and enhancements to existing) technologies to deliver what has been hailed as a great success and a legacy of the region's finest telecommunications infrastructures that will serve us and Qatar well into the future.

Once again, we acknowledge and thank His Highness Sheikh Hamad Bin Khalifa Al-Thani, the Emir of the State of Qatar, and His Highness Sheikh Tamin Bin Hamad Al-Thani, the Heir Apparent, for their continued support and guidance. I also extend my sincerest thanks and appreciation to all Qtel employees who have done much to contribute to another successful year for the company.

Abdullah Bin Mohammed Bin Saud Al-Thani

Chairman of the Board

CEO'S MESSAGE

2006 has been an exciting year that has seen Qtel take tangible steps towards achieving our vision of becoming a top 20 Telco. Qtel's strategy to achieve this ambitious goal is clear.

We have started to focus our efforts in 3 business areas, Consumer Telecom, Corporate Solutions and the emerging Integrated Communication & Entertainment services (ICE). Qatar will remain a strong base and a center of excellence for the Group; however, we will look to expand throughout Asia.

Today, our operations in Qatar account for the majority of the group's EBITDA and I expect this to remain the case in the near future. To implement the strategy we have focused on 3 main priorities - enhancing the customer experience, building organisational and people excellence and driving diversified growth. This will remain the focus over the next couple of years.

I am pleased with the decisive steps that we have taken in each of these areas in 2006. Highlights of these include:

We introduced several key products and services that will enhance the customer experience and provide customers with an integrated offering. We were first in the region (and one of very few in the world) to introduce Digital Video Broadcast - Handheld (DVB-H) over a brand new network that allows customers to receive high-quality TV signals directly on to a special mobile headset.

We were also the first in the region to launch a new entertainment service for broadband customers at home. The service uses a technology called 'Triple Play' that brings together voice, TV channels and high speed internet over one ADSL wireless connection.

In addition to this we have enhanced our accessibility to our customers. This has included opening two further customer service centers and the introduction of a new 111 service, providing one unified number in the call center for all of our customer's needs. We have also continued making enhancements to billing.

Qtel has continued its drive to build an organisation staffed with leading talent that can deliver our ambitious strategy. This year saw Qtel creating a regional leadership forum, the addition of two new Directors, introduction of eLearning amongst many other achievements. We have also created 2 key units in the Project Management Office and the Business Process Office. These are dedicated units that focus on reporting on and enhancing the organisations project delivery and process performance.

"During 2006, our '2020 vision' came nearer as a result of key strategic initiatives and through alignment of our organisation to manage business in multi-markets. Throughout the year, we launched new products and services that add real value to our customers' lives and at the same time make Qatar an attractive place to do business."

Dr. Nasser Marafih
Chief Executive Officer

Growth from the Qatar market has again been strong this year. However, the market is maturing. Home entertainment services over ADSL and the strengthening of the Corporate Accounts Business Unit will mean that Qtel is positioned to capture growth in the broadband and managed services areas within Qatar in the future.

The Merger & Acquisition capabilities within Qtel have been significantly strengthened and the new $2bn debt facility means that we have the resources to invest in opportunities that fit our strategy. I am certain that 2007 will see Qtel making further steps in its international expansion.

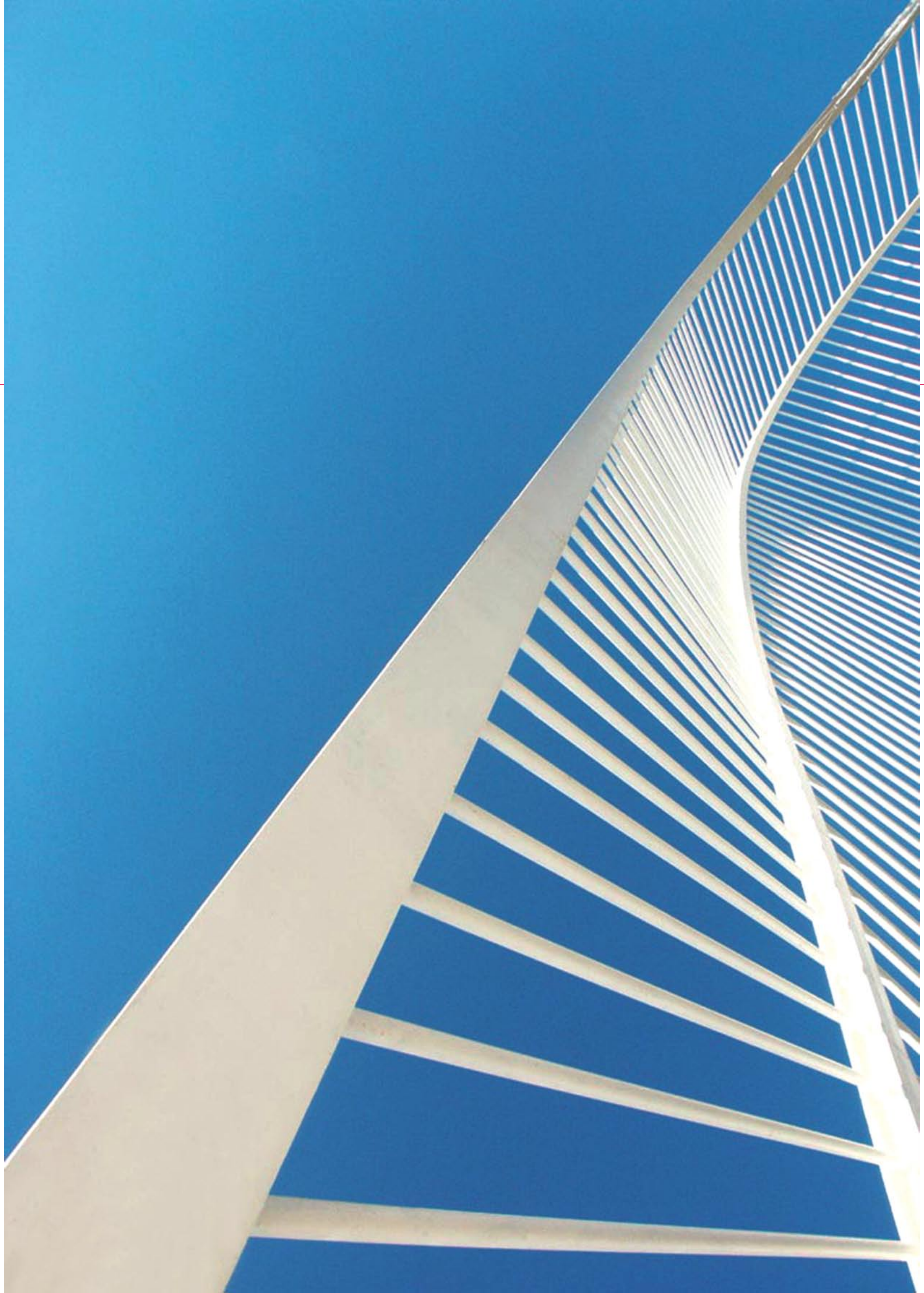
The introduction of Law 34 in November 2006, that liberalised Qatar's telecommunications market, was a major event in our country's history. Qtel will work together with ictQATAR for the benefit of all parties and to ensure successful implementation of the new Law.

We have always been aware that liberalisation of Qatar's telecommunications market would be introduced in line with international trends. To this end, we had already adopted a competitive 'mind-set' that has prepared our organisation for the future. This started back in 2002 with the Qturn strategic program and has continued since then.

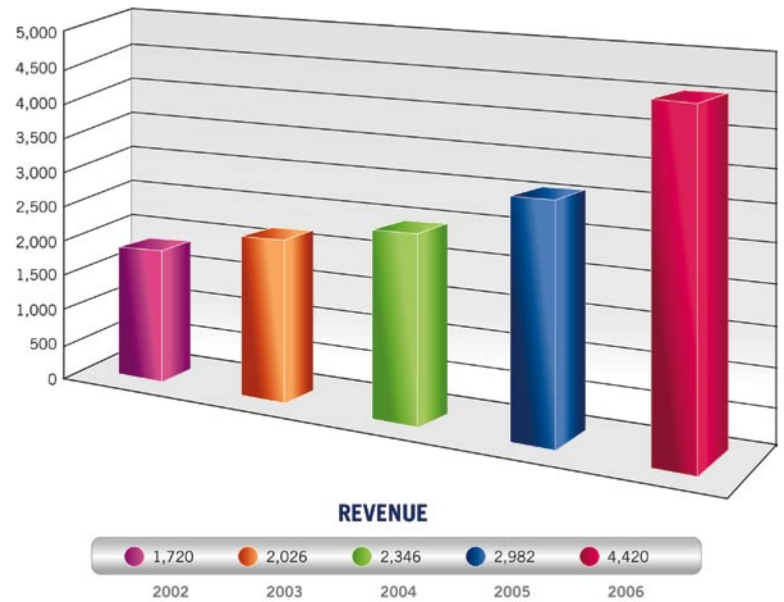
When I look at the steps Qtel has made over the last 3 years, the QR3 billion that has been invested in infrastructure and the focus that we have on the coming years, I feel confident that Qtel will continue to be the number one choice for many customers and that Qtel's future is bright.

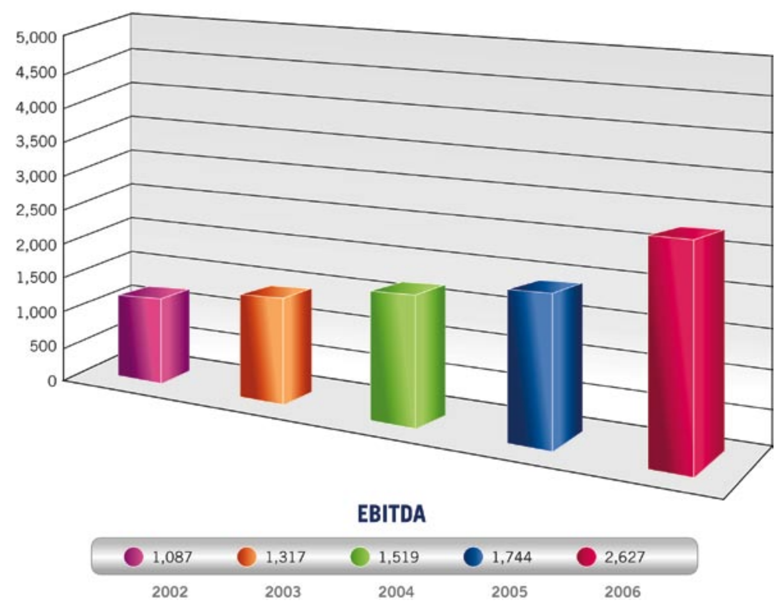
Dr. Nasser Marafih

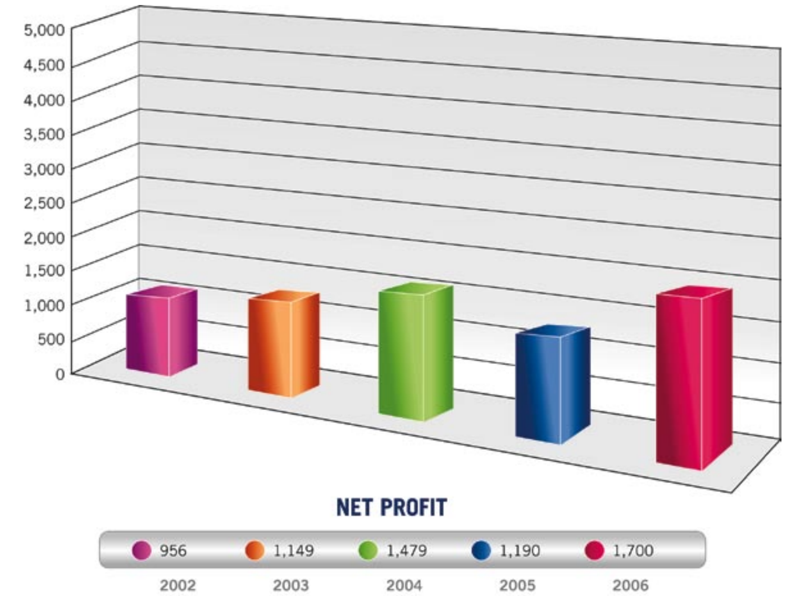
Chief Executive Officer

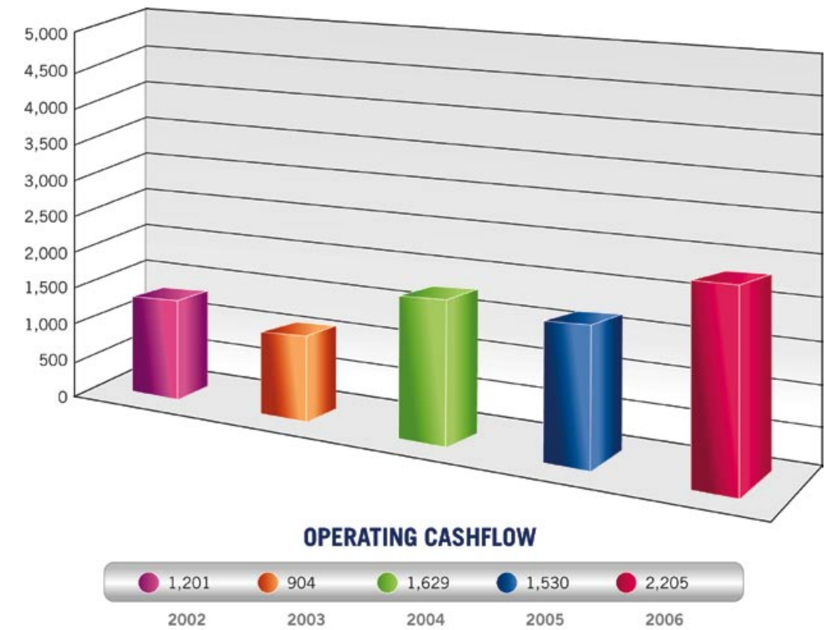


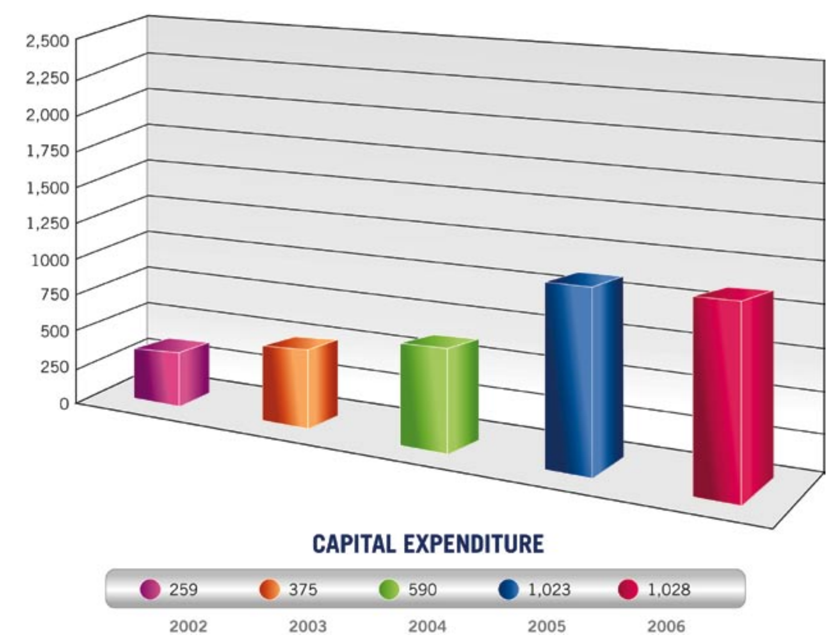
FIVE YEAR FINANCIAL REVIEW

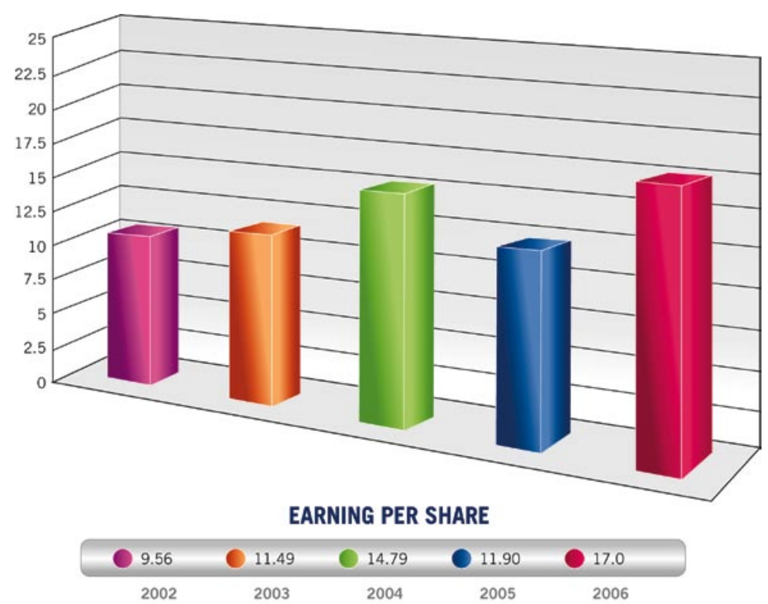




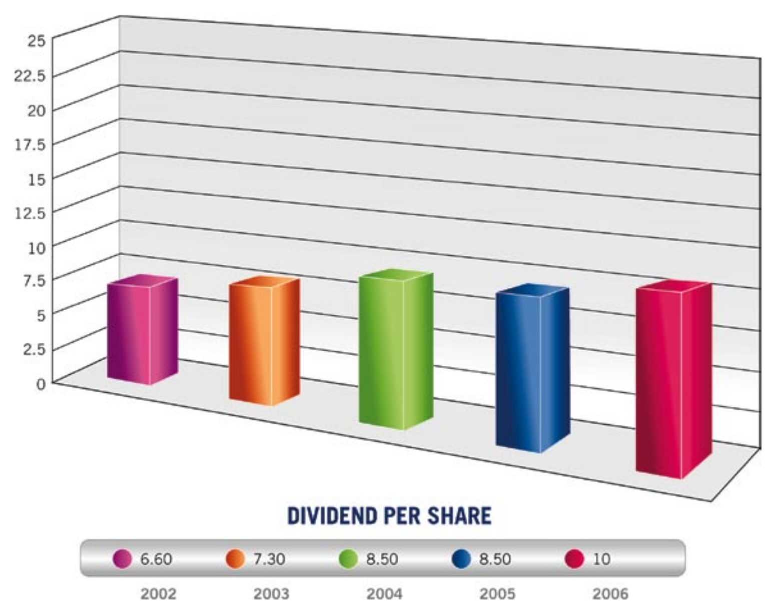








EARNING PER SHARE



DIVIDEND PER SHARE

MILESTONES

1949

First Telephone Exchange in Doha with capacity of 50 lines

1953

Inauguration of Public Telephone Service with capacity of 150 lines

1970

National Telephony Services operated by Qatar National Telephone Service (QNTS) and International Services by Cable and Wireless

1973

Telecommunications Department set up in the Ministry of Communications and Transport

1976

Commissioning of the Doha Earth Station

1982

Analogue Mobile Automated Telephoe Service (MATS)started

1985

Second Earth Station commissioned

1986

Arabsat Satellite Earth Station Commissioned

1987

Qtel established under Law No.13 of 1987

1991

First public payphone commissioned

Nationwide Paging Service introduced

1992

100% digitalization of National Exchange Network

1993

Qatar Cablevision (QCV) launched

1994

GSM Mobile Telephony Service (Qatarnet) inaugurated

Trunk Mobile Radio (TMR) service introduced

1996

Internet Qatar services introduced

High speed FLEX paging service introduced

1998

Qatar public telecommunications corporation transformed into Qatar Telecom (Qtel) Q.S.C.

Third international digital exchange commissioned

1999

Qtel listed on the London stock exchange

2000

ISO 9001 Certification Awarded

Launch of the new QCV service based on MVDS technology

Launch of the prepaid GSM service (HALA)

2001

Qtel listed on the Bahrain stock exchange

2002

Qtel listed on the Abu Dhabi stock exchange

Launch of Broadband Internet (ADSL highspeed internet access) across Qatar, Barq-Platinum

Qtel announces its transformation program, Q-turn

2003

New organisational structure launched

Opening of the first one-stop-shop customer service centre at City Center Mall, Doha

Launched of Qtel's high-speed ADSL Internet service, BarQ-Gold

2004

Q-Bill launched

Qtel wins global GIS technology award

Qtel's Nawras becomes second mobile operator for Oman

Qtel extends Internet services to Iraq through VSAT technology

2005

Launch of TETRA

Official opening of Nawras in Oman

Gulf Exellence Award for Performance Management

2006

Launch of 3G

Equity partnership with AT&T in NavLink

Launch of 'Triple Play'

Launch of DVB-H

15th Asian Games hailed a great success

“The Qtel Board of Directors is fully committed to adhering to the various plans and policies that govern our company and its operations. Achieving Qtel’s strategic objectives and the creation of shareholder value in the new liberalised market in Qatar takes on an even more important role.”

BOARD OF DIRECTORS

Seated from L to R
H.E. MOHAMMED BIN ISA AL MOUHANADI
H.E. SHEIKH ABDULLAH BIN MOHAMMED BIN SAUD AL THANI (CHAIRMAN)
H.E. SHEIKH MOHAMMED BIN SUHAIM AL THANI (DEPUTY CHAIRMAN)

Standing from L to R
H.E. DR. ABDULLA HUSSEIN AL KUBAISI
MR. HAMAD ABDULLAH AL SHAMSI
MR. ALI SHARIF AL EMADI
MR. HAREB MASOUD AL DARMAKI
H.E. MR. SAAD MOHAMMED AL RUMAIHI
MR. MOHAMMED ABDULLAH AL QUBAISI
MR. ABDULLA ZAID AL TALIB

BOARD OF DIRECTORS REPORT

Corporate governance

Qtel's policies and practices are and continue to be, developed to ensure that we are focused on the responsibilities to our shareholders such that:

- The Board of Directors can oversee the management of the business whilst ensuring all major strategic policy decisions are undertaken at its direction.
- The Board and its Sub-Committees operate under the provisions of the Company's Articles of Association and related charters setting out their responsibilities and authorities.

The board issued resolutions in respect of the awarding of several major contracts and high level appointments. It also approved the introduction of new services and various pricing and tariff proposals.

The Board of Directors

The Board of Directors approves all important new business proposals, including the acquisition of subsidiaries, major capital projects and the acquisition or disposal of assets. The Board is also responsible for the timely and accurate disclosure of information to Qtel's shareholders. Stock Exchanges in Qatar, Bahrain, Abu Dhabi and London, where Qtel's shares are listed, are notified via quarterly reports, full-year financial results and interim dividend announcements.

The Board welcomes the involvement of all shareholders at the Annual General Assembly. Every shareholder has the right to attend and to vote, whether in person or by proxy. The meetings of the General Assembly are chaired by the Chairman of the Board of Directors, his deputy or any member authorised by the Board. Also present are the Board of Directors, CEO and external auditors.

The Qtel Board of Directors affairs are managed by the Chairman of the Board of Directors, who ensures that it functions effectively and meets its obligations and responsibilities. They meet at least six times a year.

All Directors are Non-Executive, and represent a wide range of business skills, experience and knowledge. The formation of the Board is given below.

Formation:
H.E. Sheikh Abdullah Bin Mohammed Bin Saud Al Thani - Chairman
H.E. Sheikh Mohammed Bin Suhaim Al Thani - Deputy Chairman
H.E. Mohammed Bin Isa Al Mouhanadi - Member
H.E. Mr. Saad Mohammed Al Rumaihi - Member
H.E. Dr. Abdulla Hussein Al Kubaisi - Member
Mr. Abdulla Zaid Al Talib - Member
Mr. Hamad Abdullah Al Shamsi - Member
Mr. Ali Sharif Al Emadi - Member
Mr. Hareb Masoud Al Darmaki - Member
Mr. Mohammed Abdullah Al Qubaisi - Member

To ensure that it maintains the proper direction and control of the company, the Board created three sub-committees to review and decide on specific matters. The sub-committees have an important role in assisting the Board's decision-making process.

Executive Committee

Formation:
H.E. Sheikh Abdullah Bin Mohammed Bin Saud Al Thani - Chairman
H.E. Sheikh Mohammed Bin Suhaim Al Thani - Member
H.E. Mohammed Bin Isa Al Mouhanadi - Member
Mr. Hamad Abdullah Al Shamsi - Member

The Executive Committee authorises expenditure and approves contracts, as delegated by the Board. In 2006, the Executive Committee awarded several major contracts, approved the revised tariff and pricing proposals for various products and services and authorised the write-off of assets and customer debts.

The Executive Committee also reviewed the 2007 Business Plan before it was submitted to the Board of Directors.

Investment Committee

Formation:
H.E. Sheikh Mohammed Bin Suhaim Al Thani - Chairman
H.E. Saad Mohammed Al Rumaihi - Member
Mr. Ali Sharif Al Emadi - Member
Mr. Hareb Masoud Al Darmaki - Member

The Investment Committee reviews all proposals for strategic investment opportunities. In 2006, the Investment Committee reviewed Qtel's opportunities for growth in the region and initiated and recommended major investment opportunities for the company. It also made recommendations on Qtel's strategic shareholdings and funds management.

Audit Committee

Formation:
Mr. Mohammed Abdullah Al Qubaisi - Chairman
H.E. Dr. Abdulla Hussein Al Kubaisi - Member
Mr. Ali Sharif Al Emadi - Member
Mr. Abdulla Zaid Al Talib - Member

The Audit Committee oversees the company's relationships with its internal and external auditors. The Audit Committee recommended Qtel's external Auditors for 2006 and reviewed the quarterly internal audit reports. It also reviewed the staff compensation scheme and the amendments to staff regulations.

Internal Audit Process

Qtel's internal auditing process reports directly to the Board and is functionally independent from the Executive Management of the company. Internal Audit ensures that adequate and effective internal control systems are implemented through the provision of an independent evaluation of the company's systems. A quality assurance review of the internal audit function in the Company was conducted in 2006 by an independent external professional firm and the results/ recommendations arose from that review were presented to the Audit Committee.

EXECUTIVE DIRECTORS

Seated from L to R
MR. ADEL AL-MUTAWA - GROUP COMMUNICATIONS (ACTING)
MR. AJAY BAHRI - GROUP FINANCE
MR. WALEED MOHAMMED AL-SAYED - CUSTOMER SERVICES
MR. NICK DENT - GROUP STRATEGY
SH. FAHAD BIN JASIM AL-THANI - WIRELESS
DR. NASSER MARAFIH - CHIEF EXECUTIVE OFFICER
MR. JASSIM MOHAMMED AL-MANSOORI - GROUP HUMAN RESOURCES
MR. AHMED AL-DERBESTI - INTERNATIONAL SERVICES
MR. IAN CHARLES DENCH - CORPORATE ACCOUNTS
SH. SAUD NASSER AL-THANI - GENERAL SERVICES
MR. KHALIL EBRAHIM AL-EMADI - WIRELINE

WIRELESS

TETRA

TETRA (Terrestrial Trunked Radio) now has full national coverage and Qtel is the first Operator in the region to provide such a service. TETRA was used extensively before and during the 15th Asian Games and allowed users to communicate over radio frequencies and special handsets to talk privately in closed groups, allowing fast communication to multiple groups without the need to dial over fixed 3G or GSM networks. The service is ideal for teams, emergency services and organisers and will be of great service to Qatar's organisations and businesses into the future.

3G (Third Generation mobile telephony and data)

Qatar's apparently never ending appetite for state-of-the-art mobile products and services was boosted in 2006, when Qtel launched the first 3G application - Video Calling - which allows customers to send and receive live video images over our new 3G network. This was shortly followed by the launch of high-speed Internet access to 3G phones providing fast, easy and convenient access to the World Wide Web.

To encourage take up of the service and following our studies and lessons learned from other operators who have launched 3G, we made our service available to both pre and post-paid customers and kept our charges for Video Calling at only an additional 10 Dirham over the standard voice call rate.

Qtel also launched 3G roaming service to Malaysia, becoming one of the few Operators in the Middle East to provide 3G Roaming Services for Video Calling and 3G data access to customers. 3G Roaming services have also been launched partially with operations in South Korea, The Philippines, Hong Kong and Japan.

In addition, Qtel customers can send and receive International MMS (Multi-Media Services) through GPRS roaming with Kuwait, Oman, UAE, Bahrain, Saudi Arabia, Hong Kong, Singapore, Malaysia, Thailand, Japan, Sri Lanka, China, USA, UK, France and Austria. This will allow Qtel's GSM customers to use the Internet, send and receive MMS while roaming.

WIRELESS

"The Qtel Group (which includes our subsidiary Nawras in Oman) now has a mobile customer base of 1,330,100 and our Group revenue for Wireless is now QR3.6 billion. In Qatar, we are approahing the 100% market penetration figure. We will now focus on delivering value-added applications so that our customers can enjoy and benefit from our advanced mobile networks and services."

DVB-H

In 2006, Qtel became the first operator in the Middle East - and one of the few in the world - to pilot a new service using a technology called DVB-H (Digital Video Broadcast - Handheld). Using a special handset, that is enabled with the technologies that can receive television signals, the service is a huge advancement for mobile entertainment. Piloted initially for the 15th Asian Games, the service will be commercially launched in 2007.

Entertainment on the move

Specifically for the Asian Games, a new multi-media mobile portal service was launched that provided a raft of exciting added-value features and applications. This portal was a pre-cursor to a new service to be launched in 2007 that will carry more WAP content and offer a huge range of fun and exciting value-added applications.

Making money go further

Qtel's Hala customers were given the facility to transfer air-time credit to any other Hala customer through a new Credit Transfer service. A new Hala service was also introduced that replaced our prepaid services (Hala Plus and Hala Talk).

Easy move to postpaid

In response to customer's requests, we made it easy for our customers to move their prepaid Hala service to the more convenient postpaid GSM service. With Qtel's postpaid service, customers can benefit from a detailed monthly bill and have the ability to send and receive calls and messages from a much larger number of destinations whilst roaming abroad.

Network Quality (QoS)

A survey, carried out by an independent organisation, shows that the quality of Qtel's mobile service consistently comes out amongst the best in the world. Our network is configured to concentrate coverage on the most populated parts of Qatar. We are also aware that coverage in high-rise buildings, such as office towers, hotels etc. can pose a problem. For these reasons, we undertook a programme of installing indoor mobile solutions that enhance coverage.

WIRELINE

The Broadband Country

In 2006, we saw an increase in demand of 90% (over 2005) for broadband connectivity. Over 46,770 customers are enjoying high speed Internet access and our Wireless Local Loop' technologies, give us the capabilities to connect even the most remote parts of Qatar.

Triple Play – another first for Qtel

Following successful trials in 2006, we introduced the first ever implementation in the Middle East of a new 'Triple Play' service which brings together high-quality voice services, broadcast and On-Demand IPTV (TV delivered over high-speed connectivity to the Internet) and Internet access - all over one wireless ADSL line.

In future developments, customers will be offered yet more exciting features such as a 'Pay-per-View' service for the latest movies or special sports events as well as 'Movies on Demand' where customers can rent for 24 hours from a library of latest movies and again be able to pause, rewind and fast-forward their selected films. During 2007, a full promotional campaign will be put in place to drive uptake of the service which will further boost demand for broadband connectivity and at the same time create a new revenue stream through take up of the added-value applications such as Pay-per-View.

Advanced networks

Qtel now provides fully commercial, MPLS (Multiple Protocol Labeling System) based Global IPVN that reduces the cost of customer's physical infrastructure and provides savings in many areas through integrating multi-media applications over this advanced platform.

The fixed network backbone is one of the most extensive and advanced MPLS networks in the Middle East.

Qatar Data Centre and regional growth

Qtel runs and manages the Qatar Data Centre (QDC) that commenced operation in early 2006. This world-class, fully specified facility ensures Internet connectivity to the world and hosts the applications of Qtel's own systems as well as a growing number of large customers' applications and data.

WIRELINE

"Our fixed telecommunications networks and infrastructures continued to expand exponentially in-line with the ongoing growth in Qatar's population and economy. The significant investments we have made, will allow us now to roll-out sophisticated products, services and solutions throughout 2007 and beyond. With a revenue increase of 37.5% and a 90% increase in demand for ADSL, Wireline growth continues unabated."

As a key part of our growth strategy and our commitment to expand our capabilities beyond Qatar, Qtel took a 38.2% equity stake in the acquisition of NavLink with AT&T also owning 38.2%.

NavLink is one of the region's leading Managed Enterprise Solutions providers with a growing customer base in the MENA region. The QDC hosts AT&T's first global node (AGN) in the Middle East that provides dedicated digital connectivity over Enhanced Virtual Private Network (EVPN) into the AT&T global network. Qtel customers are now guaranteed high-quality and stable IP services that connect with over I50 nodes around the world. The QDC is a major consideration and major attraction for large businesses considering moving to the Middle East.

WiFi / WiMAX

To extend accessibility to the Qtel broadband network, WiFi (Wireless Fidelity) hot spots continued to be deployed throughout 2006. Now available at over 25 popular public areas such as hotels, restaurants and cafes, the service provides high-speed Internet access, through laptops. PDAs and other mobile devices, at speeds up to 2Mbs.

To support the world's media during the Asian Games, Qtel deployed the largest ever WiFi network for any sporting event. Over 500 pre-paid access cards were used by international press and television teams and at peak times over 470 users were simultaneously active.

The WiFi service was enhanced by the introduction of WiMAX that effectively increases the 'footprint' of wireless Internet access at the Asian Games media centres and at the same time provided a fixed and mobile solution for continuity of connections.

GIS award

Qtel also won a '2006 Special Achievement in GIS' award, for the second time in the past three years, at the world-renowned Environmental Systems Research Institute's (ESRI's) 26th Annual User Conference in San Diego.

GIS (Geographical Information System) is designed to analyse and use data related to a geographical location. GIS helps Qtel determine a customer's residential location, nearest pay phone or cable network, or the best location to set up a new customer service center.

Qtel was selected from over 100,000 GIS users worldwide for the award, which recognises Qtel's effective use of GIS to manage its advanced telecommunications network.

A Serious Game

Like all major international sporting events, such as the 15th Asian Games held here in Doha during 1-15 December 2006, telecommunications and Information Communications Technology (ICT) was a critically important consideration.

For the Asian Games as well as for ensuring that the many thousands of visitors could stay connected, Qtel had to provide the capabilities to help over 5,000 journalists and broadcasters send stories, pictures and live TV coverage around the globe.

To enable international distribution of TV programmes and coverage of the Asian Games, Qtel's Distribution Network provided a range of services from an International Broadcast Centre. These services included an International Landing Station (Fibre and Cable networks), a Satellite Farm Network in cooperation with Doha Asian Games Broadcast Services and Qtel's fixed Earth Station.

In 2006, Qtel successfully designed, built and commissioned Phase 1 of an Operations Support System (OSS) to cover the Transmission Network, Video Network and New Generation Digital Loop Carrier System covering PSTN, ADSL and ISDN services. OSS allowed an integrated approach to monitoring network and equipment performance and provided a unified view of all communications links from every venue at a central location.

A new Optical Transport Network ('National Lambda') was used as the main backbone to carry all voice, data and video traffic from all Asian Games venues to the Qtel network and the International Broadcast Centre. Beyond the Games, the network will be used for real-time data access by connecting large corporates, research and scientific institutions.

Qtel also built a 'state-of-the-art' Video Distribution and Transport Network which linked all the Games venue sites to a centralised International Broadcasting Centre from where video signals were transmitted to the rest of the world via satellite or cable media.

The network allowed broadcasters from all over the world to distribute pristine High Definition TV (HDTV) video back to their respective countries transported on Qtel's high-speed Dense Wavelength Division Multiplexing (DWDM) transport network. This was done in real time from all Asian Games venues.

This high-speed Transport Network will reduce the cost of bandwidth and will be used to provide multiple services and enormous bandwidth, instantaneously, in response to customer applications in the future.

NAWRAS

In 2006, Nawras has continued to attract significant numbers of customers keen to join the growing customer base that already enjoys first-class, high-quality pre-paid and post-paid mobile services. Undoubtedly, superb levels of customer service and the exceptional customer-friendly attitude of Nawras people is a major attraction for the Omani market. Another key attraction for new customers, was the ability to access the Nawras network from anywhere in Oman as country-wide coverage was achieved during the year.

At the end of 2006, only some 20 months after commencement of operations, Nawras had amassed 572,000 customers. This remarkable figure represents some 31% of the Omani market and represents an increase of 134.5% over 2005 customers.

Nawras has also re-launched their award-winning website introducing a totally new look and a host of features such as a Roaming Navigator Tool, that allows customers to select a country and find out all the information they may require in terms of Nawras International Roaming and Data Roaming services. This information includes details of the foreign roaming partners and the latest international roaming tariffs for voice, SMS and data services applicable to both Nawras Ajel (post-paid service) and Nawras Mousbak (pre-paid service) customers.

For business mobile customers, Nawras was the first operator in Oman to offer Nawras Ajel Twin that provides two duplicated SIM-cards with the same mobile number. With Nawras Ajel Twin one SIM-card can be inserted into the handset, and another one in a car phone or PDA - making it easier and more convenient for customers to stay connected using different devices but retaining the same number.

Perhaps the greatest achievement for Nawras in 2006, was the launch of their Number Portability campaign that led to the ability for Omani mobile users to retain their mobile number when transferring their service permanently on to the Nawras network.

NAWRAS

"The spectacular success of our saubsidiary in Oman - Nawras - continues. A major achievement this year was the capability to deliver service across the entire Sultanate. Our subsidiary has gone from strength to strength and is winning customers with great products and a customer service attitude that is winning the hearts and minds of Omani mobile customers."

CORPORATE ACCOUNTS

As part of our company's ongoing transformation programme, we re-organised the Qtel Corporate Accounts structure, which focuses on the top-end of our customer base that is such an important part of our business.

The Corporate Accounts team manages all of our largest business customers as well as Small and Medium Enterprises requiring sophisticated telecommunications and IT solutions.

Our Corporate Accounts team underwent several structural changes designed to make it easier for Qtel to get closer to its business customers. The team is a 'centre of excellence' and we will invest in ongoing training and people-development to sharpen and hone their skills across the wide area of both advanced technologies and business issues and trends.

We recognised the need to extend beyond being a basic telecoms service provider and move into the area of providing more complex and sophisticated ICT business solutions. We have the advanced technologies in place to do this - such as our MPLS (Multiple Protocol Layered Service) network, IP Virtual Private Networks (IPVPNs) and Enhanced Virtual Private Networks (EVPNs). With tools such as these we can fully integrate our customer's multi-media and networking needs.

Our Corporate Accounts team delivers superb levels of service, the highest quality of products, services and solutions and a marketing-led approach that demonstrates a real understanding of our customers' needs and makes Qtel an attractive option for customers from around the region.

CORPORATE ACCOUNTS

"Our Corporate Accounts team, which caters exclusively for our top-end customer base, was re-launched with the appointment of a new Executive Director and significant increases in the numbers in Account handling teams. New and greatly improved business processes now allow us to react quicker and more effectively to customer needs."

CUSTOMER SERVICE

During 2006, our relentless focus on customer service continued. With a team of around 560 people, now working in this area, we appointed a new Executive Director to bring his skills and knowledge to bear on streamlining operations, on-going recruitment of new staff and intensive retail training programmes run by internationally acclaimed experts across the entire spectrum of customer service.

Our new 'customer experience' is one that demonstrates to customers that we care about their needs and that we will go out of our way to win their respect and their loyalty. It is this knowledge that helped shape the organisational structure of our Customer Service directorate.

Working closely with Wireless, Wireline, Corporate Accounts and our IT unit, we structured our Customer Service organisation to become more efficient in dealing with customers, at the same time allowing us to get closer to our customers, and make Qtel more accessible to them. This was done for direct Qtel channels, such as Retail Branches (Customer Service Centres) but also for Third Party channels such as QPost and the many banks where customers can pay bills and top-up Hala accounts.

The Customer Service organisation retained the three key areas of; Call Centres, Retail Branches and Credit Control and Collections. In addition, a further two units were created to focus directly on Quality Procedures & Training and Third Party Sales and Distribution

Quality Procedures and Training

It is essential that Qtel be consistent in dealing with customers in order to deliver the same experience across all customer-facing channels. Using highly qualified and professional resources, we have put in place preparations for training programmes that will provide our employees with the retail training and skills they will need using the most highly qualified trainers to do so.

Third Party Sales and Distribution

Entrusting our 'products' to a third party is essential for us to provide good coverage and easy access to our products such as our various pre-paid cards. However, these Third Parties will be carefully managed by Qtel to ensure that these channels are well maintained and reflect a good and consistent image for Qtel.

Our priorities now are to finalise the new structure and start the intensive training programmes that are needed to instil the new customer-focused mind-set that is essential to help complete the transformation of Qtel. Another critical programme will be a refresh of our Retail Branches - to modernize and re-vitalize their look and feel.

CUSTOMER SERVICE

"Qtel is acutely aware that a singular focus on Customer Service is essential. During 2006, we set out to radically change the way we deal with customers - and importantly, the customer experience in dealing with Qtel!"

Making it easier to talk to us

With the recruitment of 80 new skilled employees into the Customer Service team during 2006 - and a further 100 scheduled for 2007 - our interface with customers has been focused primarily on enhancing the customer experience. New processes and procedures streamline interfaces in cases of customer enquiries or complaints. Faster and more efficient Order Management software and online access to a vast range of product and service information for our customer-facing employees, means that our people are more knowledgeable about advising customers on our ever-changing portfolio.

By consolidating many public contact numbers into the new 111 service we made it easier for customers to access a wide range of frequently called services through one easy-to-remember number that provides fast access to an advanced Interactive Voice Response system.

We also opened a further two new Retail Branches bringing the total now to 17 centres around Qatar. For many, avoiding the need to travel to a Branch is made easy through eQtel. A growing number of residential and business customers find that using the Internet to pay bills, change services, order new products or services and a wide range of other useful applications is fast, easy and exceptionally convenient.

New bill format

In early 2006, we introduced a new, dual-language bill format that is designed to provide much greater levels of information to customers on their post-paid mobile charges and services as well as charges for fixed calls and network services. At the same time, we commenced issuing monthly, as opposed to quarterly, bills that make it easier for residential customers to manage domestic budgets and for business customers to better spread costs in a more manageable way. We have also introduced a Credit Control policy for occasions where late bill payment, for whatever reason, becomes unavoidable.

GENERAL SERVICES

Information Technology

The IT department was instrumental in re-launching our public website which now has a new look and greater levels of content to provide our customers with a valuable source of easy-to-access information about Qtel and our products and services. At the same time, our intranet site has also been overhauled with new services and applications being put in place to facilitate internal communications as well hosting many other valuable and useful tools for our employees.

Our iProcurement project is now complete and now our suppliers can provide quotes for products and services using the speed and simplicity of the Internet. We were awarded an ISO2000 accreditation to ensure fair, transparent and equitable processes for the iProcurement deployment. We can now use the Internet to buy directly in a fast and effective manner. This fully automated system means we can, in turn, be more reactive to both our customer's and our own internal needs and requirements.

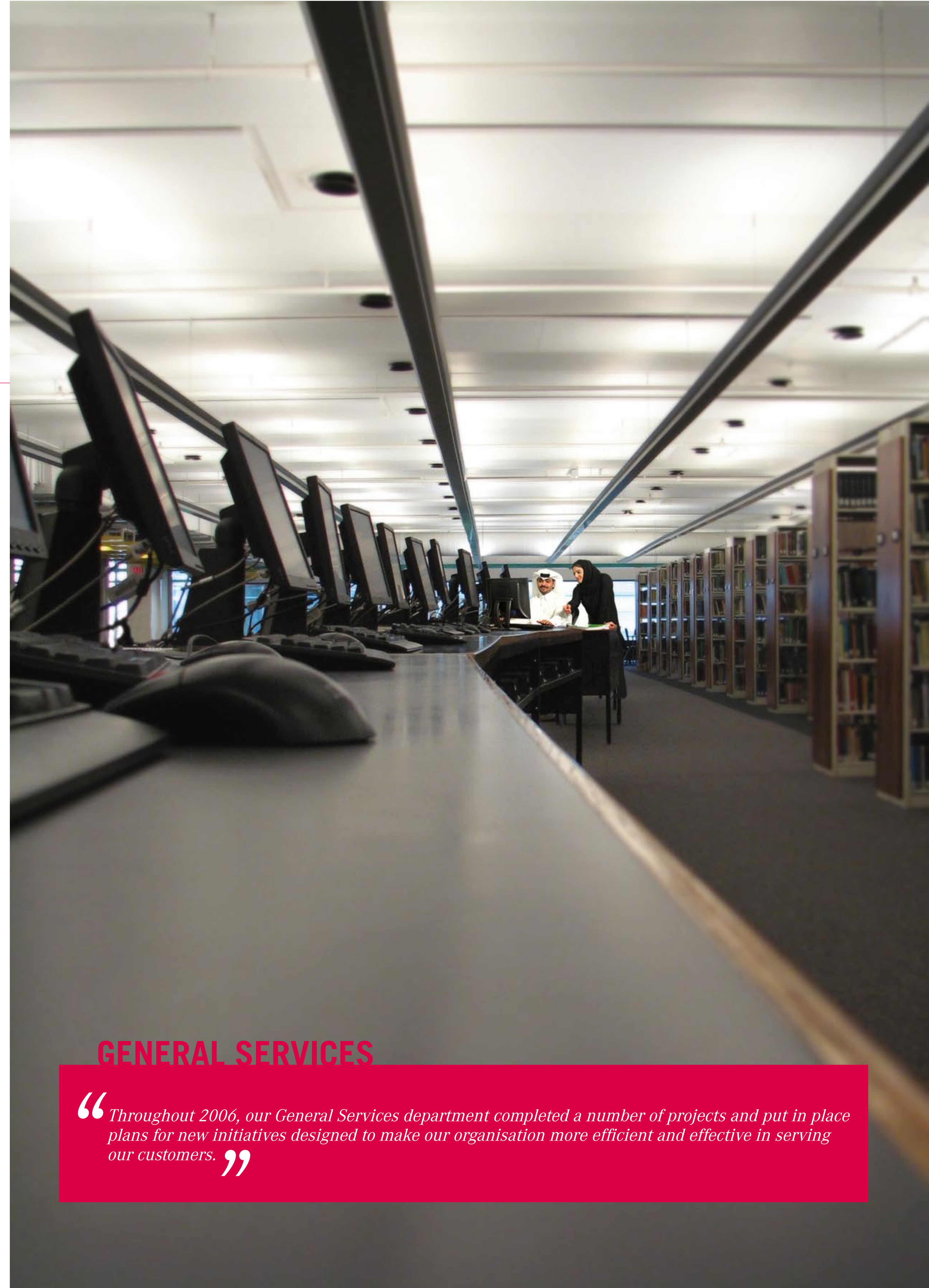
In line with international best practice, we have re-designed our Information Technology Infrastructure Library (ITIL) that includes all of our IT processes. Our work here will again increase our operational efficiencies and reduce costs.

Our Enterprise Resource Planning (ERP) tools have helped us complete a number of key projects including; 'iRecruitment' and appraisal systems, a new Pay Roll system and our internal Training processes and procedures.

ISO27001 has been accredited to Qtel to cover our Security systems that have been put in place to protect and guard our email systems from potentially crippling viruses, Spam and malicious attacks.

Phase I of our CRM (Customer Relationship Management) programme is now complete and helping us define our customer segmentation criteria and cleaning our customer data and records in order that we can better understand and serve our customers. Using CRM we can now commence a programme to put in place order management – which will make it easier for customers to order new products and services and easier for us to deliver them faster and more efficiently.

The new bill format introduced in 2006, was also made possible by significant input from the IT team. New billing periods and much greater detail of information contained in the bills, was been a great achievement of our IT department and one that goes a long way to providing good customer service.



GENERAL SERVICES

"Throughout 2006, our General Services department completed a number of projects and put in place plans for new initiatives designed to make our organisation more efficient and effective in serving our customers."

CORPORATE CENTRES

Group Strategy

In Qatar, we see continued growth in both fixed and mobile markets and now we will drive usage of our networks and infrastructures through offering added-value applications such as the Triple Play Service for our Wireline broadband market and online entertainment services for Wireless customers using either 3G or GPRS services.

Our strategy for regional and international growth will build on our success with Nawras in Oman and our stake in NavLink will provide us with a key foothold in MENA to deliver Managed Enterprise Solutions to corporate and large businesses.

2007 will see more initiatives driven by our Merger and Acquisition strategy of carefully considered investments to help us reach our goal to be in the top twenty telecommunications companies in the world by 2020.

Group Human Resources

To achieve our new corporate vision meant that we needed to re-align our Human Resources in order to manage our business across different markets in differing countries. Almost every Business Unit therefore underwent changes to make sure we could use our skills and knowledge base to achieve optimum effectiveness. In two instances, we recruited two new Directors and at the same time continued on our journey to become the employer of choice to attract and retain the best people from Qatar and elsewhere.

A key highlight of the year was undoubtedly the Connecting Leaders conference. The concept for the conference stemmed from our own emerging leadership position in the Middle East as well as our desire to grow and nurture more Arab leaders within the region. The event was attended by over 450 delegates – around 80 of them from the Middle East and as far away as the USA and Singapore. With delegations that included businessmen and women, academics, guests from senior governmental ministries and VIPs, the conference was universally hailed as a great success. Our five, international guest speakers agreed that the discussion and debates were a great boost to developing more Arab leaders and for the region to take an increasingly more prominent position on the international leadership stage.

A number of events were held throughout the year were aimed at providing Qtel employees with even more benefits through working at Qtel.

We held a hugely successful Recruitment Fair at our HQ building in West Bay. This event was aimed at giving

CORPORATE CENTRES

“Our organisation has gone through significant changes during 2006 to ensure that we are in the right shape to deliver our growth strategy. Serving the people and businesses of Qatar will always be our highest priority but increasingly we also need to make sure that our organisation, our processes and procedures and importantly our people can manage business in the international arena.”

Qatari's the chance to come and explore the possibilities of working at Qtel. The event was attended by 7000 of Qatar's brightest young men and women and is an important part of our commitment to employ as many local graduates as we can.

Another initiative aimed at helping our employees further their careers, was an e-learning event again held in West Bay. Here, we demonstrated how, through a number of specially produced software programmes, employees could undertake accredited online training programmes. The training and course-work could be done over lunch breaks or at home and new skills and qualifications attained would act as a credit within their annual appraisals.

Group Finance

The most significant achievement for Group Finance in 2006, was the securing of a USD 2 billion revolving credit facility with the involvement of QNB and other renowned international banks. This standby three-year facility will be mainly used to finance acquisition of telecommunication related entities and projects and is a significant step in Qtel's growth strategy which will help in enhancing long-term shareholder value through international investments.

Group Communications

In 2006, we launched a new promotional campaign that did not focus on Qtel's products or services but rather it demonstrated in an impactful and vivid way, our company's core beliefs and how, through our role as a telecommunications company, we are here to help people communicate. The campaign used the compelling line 'Let's connect' as a call for more dialogue and discussion to resolve issues and find ways to create a better world through talking.

The messages came sharply into focus with the conflict in Lebanon. We were quick to respond through a number of initiatives and by donating directly, through Qatar Charity, to help.

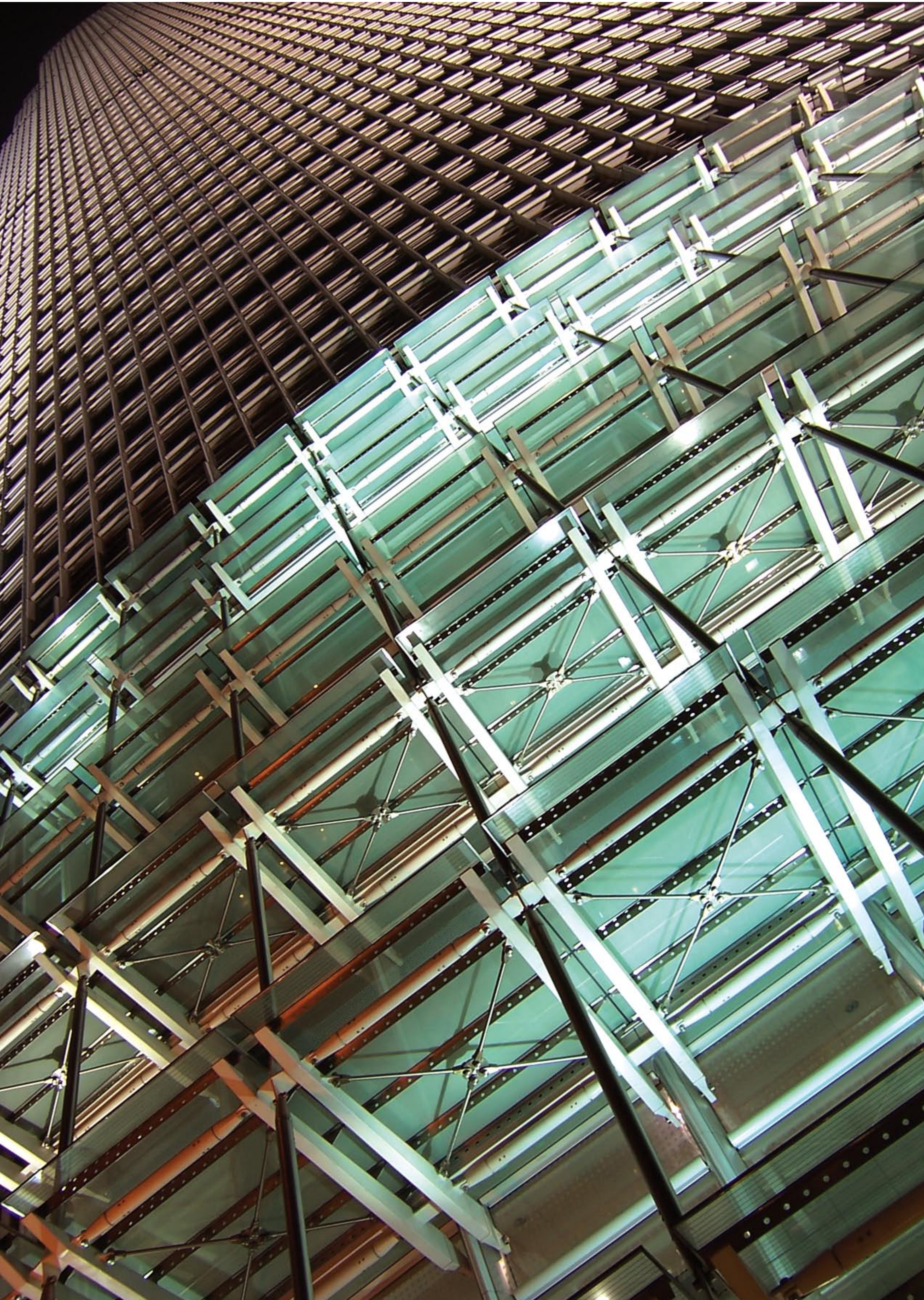
With a determination to open and transparent reporting, we introduced new Investor Relations pages on our public website.

We have always attached the highest priority to disclosing to our shareholders and investors in Qatar and overseas, the information they need to form accurate judgements and appraisals of Qtel's status at any given time. We are committed to fair, timely and ongoing disclosure of information as a means of achieving the highest levels of management transparency.

The website is an invaluable tool to the investment community, which includes Qatar's government as well as large and small individual shareholders.

Naturally, with our role as Prestige Partner and Official Telecoms Provider to the 15th Asian Games, we invested much time and effort in promoting our proud association with what was undoubtedly the most important sporting event in Qatar's history. Our involvement with the Asian Games went further than the technologies needed to ensure a successful event; we also ran a 'rewards' programme for the young men and women of Qatar who excelled at their sports and won gold, silver or bronze for our country.

In addition to the many promotions, offers and press releases throughout the year, the Group Communications team continued to deliver internal and external magazines that keep our employees, our customers and our investment community up-to-date with Qtel news and events.



QATAR TELECOM (QTEL) Q.S.C.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

contents

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF QATAR TELECOM (QTEL) Q.S.C.

We have audited the accompanying consolidated financial statements of Qatar Telecom (Qtel) Q.S.C. (the "Company") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The consolidated financial statements of the Group as of 31 December 2005 were audited by another auditor, whose report dated 1 February 2006, expressed an unqualified opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2006 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF QATAR TELECOM (QTEL) Q.S.C. (continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of account have been kept by the Company, an inventory count has been conducted in accordance with established principles and the financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association. We further confirm that the financial information included in the Annual Report of the Board of Directors is in agreement with the books and records of the Company. 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 law or the Articles of Association having occurred during the year which might have 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: 3 February 2007
Doha

	Notes	**2006 QR'000**	2005 QR'000
Revenue		**4,420,437**	2,982,400
Other income	4	**144,246**	77,078
General and administrative expenses	5	**(1,560,210)**	(1,111,633)
Other operating expenses	6	**(732,871)**	(444,908)
Finance costs		**(17,857)**	(4,497)
Share of results of an associate	11	**(1,520)**	-
Royalties	7	**(597,509)**	(404,968)
PROFIT FOR THE YEAR		**1,654,716**	1,093,472
Attributable to:			
Equity holders of the parent		**1,700,440**	1,190,447
Minority interests		**(45,724)**	(96,975)
		1,654,716	1,093,472
BASIC AND DILUTED EARNINGS PER SHARE (attributable to equity holders of the parent) (expressed in QR per share)	8	**17.00**	11.90

The attached notes 1 to 36 form part of these consolidated financial statements

	Notes	2006 QR'000	2005 QR'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**3,043,280**	2,491,227
Licence costs	10	**353,658**	380,518
Investment in an associate	11	**100,253**	-
Available-for-sale investments	12	**1,753,026**	1,198,683
Other financial assets	13	**142,840**	94,917
Deferred tax asset	14	**3,405**	-
		5,396,462	4,165,345
Current assets			
Inventories	15	**27,244**	23,869
Accounts receivable and prepayments	16	**961,563**	541,733
Cash and cash equivalents	17	**1,416,683**	1,645,359
		2,405,490	2,210,961
TOTAL ASSETS		**7,801,952**	6,376,306
EQUITY AND LIABILITIES			
Attributable to equity holders of the parent			
Share capital	18	**1,000,000**	1,000,000
Legal reserve	19	**888,761**	713,199
Fair value reserve	20	**327,185**	380,683
Translation reserve		**90**	150
Retained earnings		**2,775,951**	2,167,560
		4,991,987	4,261,592
Minority interests		**60,783**	25,555
Total equity		**5,052,770**	4,287,147

	Notes	2006 QR'000	2005 QR'000
Non-current liabilities			
Interest bearing loans and borrowings	21	**648,177**	573,413
Employee benefit liabilities	22	**117,911**	100,085
Other liabilities	23	**25,781**	28,673
Deferred tax liability	14	**-**	293
		791,869	702,464
Current liabilities			
Accounts payable and accruals	24	**1,255,113**	784,959
Current account with State of Qatar		**569,827**	397,069
Deferred income		**132,373**	204,667
		1,957,313	1,386,695
Total liabilities		**2,749,182**	2,089,159
TOTAL EQUITY AND LIABILITIES		**7,801,952**	6,376,306

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

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

The attached notes 1 to 36 form part of these consolidated financial statements

	Attributable to.. .			...equity holders of the parent				
	Share capital QR'000	Legal Reserve QR'000	Fair value reserve QR'000	Translation reserve QR'000	Retained Earnings QR'000	Total QR'000	Minority interests QR'000	Total equity QR'000
At 1 January 2006	1,000,000	713,199	380,683	150	2,167,560	4,261,592	25,555	4,287,147
Final dividend paid for 2005 (Note 25)	-	-	-	-	(485,000)	(485,000)	-	(485,000)
Directors' remuneration for 2005	-	-	-	-	(6,300)	(6,300)	-	(6,300)
	1,000,000	713,199	380,683	150	1,676,260	3,770,292	25,555	3,795,847
Net fair value reserve movement in available-for-sale investments	-	-	(49,443)	-	-	(49,443)	-	(49,443)
Net loss on cash flow hedge	-	-	(4,055)	-	-	(4,055)	(3,251)	(7,306)
Net movement in translation reserve	-	-	-	(60)	-	(60)	-	(60)
Total expenses for the year recognised directly in equity	-	-	(53,498)	(60)	-	(53,558)	(3,251)	(56,809)
Profit for the year	-	-	-	-	1,700,440	1,700,440	(45,724)	1,654,716
Total income and expenses for the year	-	-	(53,498)	(60)	1,700,440	1,646,882	(48,975)	1,597,907
Contributions	-	-	-	-	-	-	84,016	84,016
Net adjustment to minority interests	-	-	-	-	(187)	(187)	187	-
Transfer to legal reserve	-	175,562	-	-	(175,562)	-	-	-
Interim dividend paid for 2006 (Note 25)	-	-	-	-	(425,000)	(425,000)	-	(425,000)
At 31 December 2006	**1,000,000**	**888,761**	**327,185**	**90**	**2,775,951**	**4,991,987**	**60,783**	**5,052,770**

	Attributable to.. .			...equity holders of the parent				
	Share Capital QR'000	Legal reserve QR'000	Fair value reserve QR'000	Translation reserve QR'000	Retained earnings QR'000	Total QR'000	Minority interests QR'000	Total equity QR'000
At 1 January 2005	1,000,000	582,320	157,419	150	1,962,692	3,702,581	122,530	3,825,111
Final dividend paid for 2004 (Note 25)	-	-	-	-	(485,000)	(485,000)	-	(485,000)
Directors' remuneration for 2004	-	-	-	-	(4,700)	(4,700)	-	(4,700)
	1,000,000	582,320	157,419	150	1,472,992	3,212,881	122,530	3,335,411
Net fair value reserve movement in available-for-sale investments	-	-	223,264	-	-	223,264	-	223,264
Total income for the year recognised directly in equity	-	-	223,264	-	-	223,264	-	223,264
Profit for the year	-	-	-	-	1,190,447	1,190,447	(96,975)	1,093,472
Total income and expenses for the year	-	-	223,264	-	1,190,447	1,413,711	(96,975)	1,316,736
Transfer to legal reserve	-	130,879	-	-	(130,879)	-	-	-
Interim dividend paid for 2005 (Note 25)	-	-	-	-	(365,000)	(365,000)	-	(365,000)
At 31 December 2005	1,000,000	713,199	380,683	150	2,167,560	4,261,592	25,555	4,287,147

The attached notes 1 to 36 form part of these consolidated financial statements

	Notes	2006 QR'000	2005 QR'000
OPERATING ACTIVITIES			
Operating profit before working capital changes	26	**2,089,620**	1,363,702
Inventories		**(3,375)**	(579)
Receivables		**(419,830)**	(86,470)
Payables		**560,420**	264,877
Cash from operations		**2,226,835**	1,541,530
Finance costs paid		**(17,857)**	(4,497)
Employees' end of service benefits paid	22	**(4,267)**	(6,850)
Net cash from operating activities		**2,204,711**	1,530,183
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	9	**(1,028,203)**	(1,022,809)
Additions to license costs	10	**(13)**	(18,028)
Investment in an associate		**(101,827)**	-
Purchase of available-for-sale investments		**(633,304)**	(284,885)
Proceeds from disposal of plant and equipment		**1,270**	604
Proceeds from sale of available-for-sale investments		**16,636**	283,886
Net movement in other financial assets		**(47,923)**	(2,468)
Dividend and interest income		**111,197**	64,594
Net cash used in investing activities		**(1,682,167)**	(979,106)
FINANCING ACTIVITIES			
Dividends paid		**(910,000)**	(850,000)
Proceeds from borrowings		**74,764**	573,413
Minority interest holders' contributions		**84,016**	-
Net cash used in financing activities		**(751,220)**	(276,587)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(228,676)**	274,490
Cash and cash equivalents at 1 January		**1,645,359**	1,370,869
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**1,416,683**	1,645,359

The attached notes 1 to 36 form part of these consolidated financial statements

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

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

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

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

The privileges granted to Qatar Telecom (Qtel) Q.S.C. under Law No. (21) of 1998 shall be cancelled from the effective date of Law No. 34 of 2006 issued on 6 November 2006. In accordance with this Law, the powers and competencies previously vested on Qatar Telecom (Qtel) Q.S.C. in connection with the organisation of telecommunications shall pass to the Supreme Council and also the payment of the annual fee prescribed under Article 4 of Law No. 6 of 2002 shall be discontinued from the date another operator licensed under the Law commences telecommunications activities.

The consolidated financial statements of Qatar Telecom (Qtel) Q.S.C. were authorised for issue in accordance with a resolution of the Board of Directors on 3 February 2007.

2. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Qatar Telecom (Qtel) Q.S.C. and its subsidiaries (together referred to as the "Group").

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 financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

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%

2. BASIS OF CONSOLIDATION (continued)

Omani Qatari Telecommunications Company S.A.O.C. was incorporated as an Omani closed joint stock company. The subsidiary company is engaged in providing mobile telecommunication services in the Sultanate of Oman.

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

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

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

Minority interests
Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity.

3. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. BASIS OF PREPARATION
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and applicable requirements of Qatar Commercial Companies' Law No. 5 of 2002.

The consolidated financial statements are presented in Qatari Riyals, which is the Company's functional and presentation currency and all values are rounded to the nearest thousand (QR'000) except where otherwise indicated.

The consolidated financial statements are prepared under the historical cost convention except for available-for-sale investments and derivative financial instruments that have been measured at fair value.

3.2. IASB STANDARDS AND INTERPRETATIONS ISSUED NOT YET EFFECTIVE

Amendments to IAS 1 – Capital Disclosures
Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as Capital Disclosures in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosure of information enabling evaluation of the Group's objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments: Disclosures
IFRS 7 Financial Instruments: Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the Group's financial position and performance and information about exposure to risks arising from financial instruments.

IFRS 8 Operating Segments
IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Group discloses information about its operating segments.

IFRIC Interpretations
During 2006 IFRIC issued the following interpretations:

- IFRIC Interpretation 8 Scope of IFRS 2
- IFRIC Interpretation 9 Reassessment of Embedded Derivatives
- IFRIC Interpretation 11 IFRS 2 – Group and Treasury Share Transactions

Management do not expect these interpretations to have a significant impact on the Group's consolidated financial statements when implemented in 2007.

3.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue
Revenue is recognised on the following basis:

Revenue from rendering of services:
Revenue from rendering of services represents the value of telecommunication services provided to customers. Revenue is recognized over the period to which it relates.

Sales of prepaid cards:
Sale of prepaid cards is recognised as revenue based on the estimated utilisation of the prepaid cards sold. Sales relating to unutilised prepaid cards are accounted as deferred income. Revenue is recognised net of any upfront discount given.

Sales of equipment:
Revenue from sales of equipment is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest income:
Interest income is recognised as the interest accrues.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rental income:
Rental income from supply of equipment is accounted for on a time proportion basis.

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

Income taxes
Income tax on the profit or loss for the year comprises the current and deferred tax of a subsidiary company, Omani Telecommunications Company S.A.O.C. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Property, plant and equipment
Property, plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Land is not depreciated.

The cost of 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 are as follows;

Buildings	5 - 20 years
Exchanges and line plant	5 - 15 years
International communication links	8 - 15 years
Subscriber apparatus and other equipment	1 - 8 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the income statement as the expense is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and method of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

License costs
Licence costs represent amount paid to the Telecommunication Regulatory Authority ("TRA") of the Sultanate of Oman for obtaining the licence to operate as a second mobile telecommunication service provider in the Sultanate of Oman. Licence costs are stated at cost less accumulated amortisation and any accumulated impairment losses. License costs are amortised on a straight line basis over a period of 15 years from the date of commencement of operations in the Sultanate of Oman.

Jointly controlled operations
A jointly controlled operation involves the use of assets and other resources of the Group and other ventures rather than the establishment of a corporation, partnership or other entity.

The Group accounts for the assets it controls and the liabilities it incurs, the expenses it incurs and the share of income that it earns from the sale of goods or services by the joint venture.

Investment in an associate
The Group's investment in its associate is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the Group's share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss of the Group's investment in its associate. The Group determines at each balance sheet date whether there is any objective evidence that the investment in associates is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in the income statement.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the income statement. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value;
(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

Available-for-sale investments
All available-for-sale investments are initially recognized at cost, being the fair value of the consideration given plus directly attributable transaction costs.

After initial recognition, available for sale investments are remeasured at fair value, with any resultant gain or loss directly recognised as a separate component of equity until the investment is sold, collected, or the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement for the year. Interest earned on the investments is reported as interest income using the effective interest rate. Dividends earned on investments are recognised in the income statement as "Dividend income" when the right to receive dividend has been established.

The fair value of investments that are actively traded in organised financial markets, is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to current market value of another instrument which is substantially the same, discounted cash flow analysis or other valuation models.

Due to the uncertain 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Available-for-sale investments are recognised and derecognised, on a trade date basis, when the Group becomes, or ceases to be, a party to the contractual provisions of the instrument.

If an available-for-sale investment is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available- for- sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Cost of raising finance relating to future drawdown of loans
Directly attributable finance costs relating to credit facilities set up for future drawdowns are presented in the balance sheet as deferred financing costs under other financial assets. On drawdown, these deferred costs will be included in the initial recognition of interest bearings loans and borrowings and amortised using effective interest method.

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 less any further costs expected to be incurred on completion and disposal.

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

Cash and cash equivalents
Cash and cash equivalents in the balance sheet comprise cash at banks and at hand and short term deposits, with an original maturity of three months or less. Cash and cash equivalents also includes fixed deposits with maturities over three months, which is readily convertible to a known amount of cash and is subject to an insignificant risk of changes in value, which is held for the purpose of meeting short term cash commitments.

Interest bearing loans and borrowings
Interest bearing loans and borrowings are recognized initially at fair value of the consideration received, less directly attributable transaction costs. Subsequent to initial recognition, interest bearing loans and borrowings are measured at amortized cost using the effective interest method. Instalments due within one year at amortised cost are shown as a current liability.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gains or losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the amortisation process. Interest costs are recognized as an expense when incurred.

Employees' end of service benefits

End of service gratuity plans
The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, calculated under the provisions of the Qatar Labour Law and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the period of employment.

Pension plan
Under Law No. 24 of 2002 on Retirement and Pension, the Group is required to make contributions to a Government fund scheme for Qatari employees calculated as a percentage of the Qatari employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Leases
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

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

Foreign currencies
Transactions in foreign currencies are recorded at the functional currency rate ruling at the date of the transaction.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss with the exception of differences in foreign currency translated for foreign operations. They are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

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

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is calculated by reference to the market valuation of the swap contracts.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting change in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods of which they were designated.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognised in profit or loss.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in equity.

The Group uses interest rate swap contracts to hedge its risk associated primarily with interest rate fluctuations relating to the interest charged on its interest bearing loans and borrowings. These are included in the balance sheet at fair value and any resultant gain or loss on interest rate swaps contracts that qualify for hedge accounting is recognised in the statement of changes in equity and subsequently recognised in the income statement when the hedged transaction affects profit or loss. The fair value of interest rate swap contracts is calculated by reference to the market valuation of the swap contracts.

The Group uses forward currency contracts to hedge its risks associated with foreign exchange rate fluctuations. These are included in the balance sheet at fair value and any subsequent resultant gain or loss on forward currency contracts is recognised in the income statement. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

4. OTHER INCOME

	2006	2005
	QR'000	QR'000
Interest income	**85,098**	46,432
Dividend income	**26,099**	18,162
Profit on sale of available-for-sale investments	**11,646**	12,115
Profit on disposal of plant and equipment	**1,184**	369
Others	**20,219**	-
	144,246	77,078

5. GENERAL AND ADMINISTRATIVE EXPENSES

	2006	2005
	QR'000	QR'000
Employee salaries and associated costs	**488,585**	379,210
Depreciation and amortization	**502,937**	317,737
Rentals and utilities	**114,289**	90,484
Repairs and maintenance	**122,648**	115,084
Marketing costs and donations	**163,832**	104,014
Legal and professional fees	**95,258**	43,326
Provision for accounts receivable	**10,795**	27,669
Impairment loss on available-for-sale investments	**24,522**	-
Other expenses	**37,344**	34,109
	1,560,210	1,111,633

Employee salaries and associated costs comprise of:

	2006	2005
	QR'000	QR'000
Salaries and allowances	**436,218**	330,933
Employees' end of service benefits (Note 22)	**22,093**	29,481
Training and related costs	**30,274**	18,796
	488,585	379,210

6. OTHER OPERATING EXPENSES

	2006	2005
	QR'000	QR'000
Outpayments and interconnect charges	**419,816**	268,494
Cost of equipment sold and other services	**177,990**	62,315
Commission on cards	**84,303**	62,614
Leased circuit rentals	**50,762**	51,485
	732,871	444,908

7. ROYALTIES

	2006 QR'000	2005 QR'000
Royalty to the Government of State of Qatar	**566,813**	396,816
Royalty to the Government of Sultanate of Oman	**30,696**	8,152
	597,509	404,968

In accordance with Law No. 6 of 2002, effective 1 January 2005, Qtel is liable to pay royalty to the Government of the State of Qatar for the exclusive right to provide telecommunication services in the State of Qatar. However, in accordance with Law No. 34 of 2006 issued on 6 November 2006, the payment of royalty to the Government of the State of Qatar shall be discontinued from the date another operator licensed under the Law commences telecommunication activities.

Additionally, in accordance with the terms of a licence granted to Omani Qatari Telecommunications Company S.A.O.C. to operate wireless telecommunication services in the Sultanate of Oman, royalty is payable to the Government of the Sultanate of Oman, effective March 2005.

8. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year.

There were no potentially dilutive shares outstanding at any time during the year and, therefore, the dilutive earnings per share is equal to the basic earnings per share.

	2006	2005
Profit for the year attributable to equity holders of the parent (QR'000)	**1,700,440**	1,190,447
Weighted average number of shares outstanding during the year in thousands	**100,000**	100,000
Basic and diluted earnings per share (QR)	**17.00**	11.90

9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings QR'000	Exchanges and line plant QR'000	International communication links QR'000	Subscriber apparatus and other equipment QR'000	Capital work in progress QR'000	Total QR'000
Cost:						
At 1 January 2006	593,644	2,139,551	177,561	862,711	555,295	4,328,762
Additions	-	-	-	-	1,028,203	1,028,203
Transfers	22,263	691,299	23,199	113,722	(850,483)	-
Disposals	-	(49,260)	-	(6,809)	-	(56,069)
At 31 December 2006	615,907	2,781,590	200,760	969,624	733,015	5,300,896
Depreciation:						
At 1 January 2006	151,330	1,067,283	95,877	523,045	-	1,837,535
Provided during the year	33,680	314,546	15,533	112,305	-	476,064
Relating to disposals	-	(49,231)	-	(6,752)	-	(55,983)
At 31 December 2006	185,010	1,332,598	111,410	628,598	-	2,257,616
Net book value:						
At 31 December 2006	**430,897**	**1,448,992**	**89,350**	**341,026**	**733,015**	**3,043,280**
At 31 December 2005	442,314	1,072,268	81,684	339,666	555,295	2,491,227

Notes:

(i) The carrying value of exchanges and line plant include equipment obtained under finance lease from Omantel that amounted to QR 6,685,000 as at 31 December 2006 (2005: QR 7,044,000). Leased assets are pledged as security for the related finance liabilities (Note 23).

(ii) Included in depreciation is an amount of QR 1,241,000 (2005: QR 50,387,000) relating to an impairment loss during the year for replaced and impaired assets.

(iii) Included in depreciation is an amount of QR 81,044,000 relating to depreciation expenses calculated at accelerated rates for certain items in property, plant and equipment.

10. LICENSE COSTS

The Group was granted a license from the Telecommunication Regulatory Authority ("TRA") of Sultanate of Oman on 19 February 2005 to operate as the second mobile telecommunication service provider in the Sultanate of Oman for a period of fifteen years. License costs are amortized over this period from 19 February 2005.

	2006 QR'000	2005 QR'000
Cost:		
At 1 January	**400,756**	382,728
Additions	**13**	18,028
At 31 December	**400,769**	400,756
Amortization:		
At 1 January	**20,238**	-
Amortization during the year	**26,873**	20,238
At 31 December	**47,111**	20,238
Net book value at 31 December	**353,658**	380,518

11. INVESTMENT IN AN ASSOCIATE

The Group has the following investment in an associate:

	Country of incorporation	Ownership 2006	Ownership 2005
Navlink, Inc., a Delaware Corporation	United State of America	38.16%	-

Navlink, Inc., a Delaware Corporation is a Managed Service Provider delivering technology solutions in the enterprise data market.

The following table is the summarised financial information of the Group's investment in the associate.

	2006 QR'000
Share of associate's balance sheet:	
Current assets	**9,583**
Non-current assets	**4,653**
Current liabilities	**(5,356)**
Non-current liabilities	**(1,300)**
Net assets	**7,580**
Goodwill on acquisition	**92,673**
Carrying amount of the investment	**100,253**
Share of associate's revenues and results:	
Revenues	**8,232**
Results	**(1,520)**

12. AVAILABLE-FOR-SALE INVESTMENTS

	2006 QR'000	2005 QR'000
Quoted investments	**571,469**	664,668
Unquoted investments	**183,631**	167,509
Investments in hedge funds	**595,664**	326,526
Investments in mutual funds	**402,262**	39,980
	1,753,026	1,198,683

13 . OTHER FINANCIAL ASSETS

	2006 QR'000	2005 QR'000
Fair value of call option (i)	**73,926**	46,715
Long term loan (ii)	**51,699**	48,202
Deferred financing costs (iii)	**17,215**	-
	142,840	94,917

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

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

(iii) Deferred financing costs represent commitment and arrangement fees relating to a US$ 2,000,000,000 revolving loan facility set up with a consortium of banks. These costs will be transferred to interest bearing loans and borrowings upon drawdown and will be amortised over the duration of the loan using the effective interest method.

14. DEFERRED TAX

Deferred tax has been recognised by Omani Qatari Telecommunications Company S.A.O.C. The deferred tax asset (liability) is made up as follows:

	2006 QR'000	2005 QR'000
Balance at the beginning of the year	**(293)**	-
Deferred tax income (expense)	**3,698**	(293)
Balance at the end of the year	**3,405**	(293)

14. DEFERRED TAX (continued)

Notes:
(i) There is no current income tax expense recognized as no taxable profit has been reported by Omani Qatari Telecommunications Company S.A.O.C. during the year. However, the deferred tax asset has been recognised on the basis that the tax losses incurred on the start up of operation will be available for offset against future taxable profits.

(ii) The deferred tax income (expense) is included under the caption "other expenses" in Note 5.

15. INVENTORIES

	2006 QR'000	2005 QR'000
Subscribers' equipment	**13,034**	12,175
Pay TV equipment	**7,203**	7,202
Other equipment	**15,831**	16,543
Cables and transmission equipment	**10,033**	10,033
	46,101	45,953
Less: Provision for obsolete and slow moving inventories	**(18,857)**	(22,084)
	27,244	23,869

Inventories consumed and recognised as an expense during the year amounted to QR 35,205,000 (2005 : 27,985,000). These expenses have been recognised in other operating expenses. The amount of write-down of inventories during the year amounted to QR 3,212,000 (2005: QR 2,025,000).

16. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2006 QR'000	2005 QR'000
Trade accounts receivable	**651,768**	426,046
Unbilled subscriber services	**263,765**	131,456
Other receivables and prepayments	**133,584**	117,723
Amounts due from international carriers	**85,915**	35,431
	1,135,032	710,656
Less: Provision for doubtful debts	**(173,469)**	(168,923)
	961,563	541,733

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include fixed deposits maturing after three months amounting to QR 100,000,000 (2005 : QR 37,000,000). The Group is of the opinion that these fixed deposits are readily convertible to cash and are held to meet short-term commitments.

18. SHARE CAPITAL

	2006 QR'000	2005 QR'000
Authorised:		
100,000,000 shares of QR 10 each	1,000,000	1,000,000
Issued and fully paid up:		
100,000,000 shares of QR 10 each	1,000,000	1,000,000

The Government of the State of Qatar owns 55% of the share capital.

19 . LEGAL RESERVE

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

20. FAIR VALUE RESERVE

	2006			2005		
	Cash flow hedges QR'000	Available-for-sale investments QR'000	Total QR'000	Cash flow hedges QR'000	Available-for-sale QR'000	Total QR'000
Balance at 1 January	-	380,683	380,683	-	157,419	157,419
Realised gains on sale of available-for-sale investments	-	(13,630)	(13,630)	-	(9,682)	(9,682)
Net unrealised (loss) gain on available-for-sale investments	-	(60,335)	(60,335)	-	232,946	232,946
Transfer to income statement on impairment of available-for-sale investments	-	24,522	24,522	-	-	-
Net movement in cash flow hedges (Note 27)	(4,055)	-	(4,055)	-	-	-
	(4,055)	331,240	327,185	-	380,683	380,683

21. INTEREST BEARING LOANS AND BORROWINGS

The Group has entered into a facility agreement with a consortium of banks for a term loan of US Dollars 220 million to finance the activities of Omani Qatari Telecommunications Company S.A.O.C. The term loan has been guaranteed by the Company and is secured on the property, plant and equipment of Omani Qatari Telecommunications Company S.A.O.C. The amount outstanding under the facility agreement at 31 December 2006 was QR 655,640,000 (31 December 2005: QR 582,759,000).

The interest bearing loans and borrowings presented in the balance sheet consist of the following:

	2006 QR'000	2005 QR'000
Long term loan from banks	655,640	582,759
Less: Deferred financing costs	(7,463)	(9,346)
	648,177	573,413

21. INTEREST BEARING LOANS AND BORROWINGS (continued)

The loan facilities bear interest at the US Dollar LIBOR plus applicable margins. The Group has entered into interest rate swaps to hedge its risks associated with interest rate fluctuations, the details of which are set out in Note 27.

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

	2006 QR'000	2005 QR'000
Payable within one year	-	-
Payable between one to two years	98,346	-
Payable between two to five years	295,038	131,238
Payable after five years	262,256	451,521
	655,640	582,759

22. EMPLOYEE BENEFIT LIABILITIES

	2006 QR'000	2005 QR'000
Employees' end of service gratuity	92,351	73,846
Employees' pension plan	25,560	26,239
	117,911	100,085

The movements in the provision for employees' end of service gratuity and pension plan are as follows:

	2006 QR'000	2005 QR'000
Provision as at 1 January	100,085	77,454
Provided during the year	22,093	29,481
End of service benefits paid	(4,267)	(6,850)
Provision as at 31 December	117,911	100,085

23. OTHER LIABILITIES

	2006 QR'000	2005 QR'000
Non-current portion of retention payable	19,467	21,080
Finance lease liability (Note 28)	6,314	7,593
	25,781	28,673

24. ACCOUNTS PAYABLE AND ACCRUALS

	2006 QR'000	2005 QR'000
Trade accounts payable	525,911	361,221
Other payables	258,618	134,316
Accrued expenses	378,147	222,961
Amounts due to international carriers	92,437	66,461
	1,255,113	784,959

25. DIVIDENDS PAID AND PROPOSED

The Board of Directors approved and distributed during the year interim dividends of QR 4.25 (2005: QR 3.65) per ordinary share, totalling QR 425,000,000 (2005: QR 365,000,000).

The Board of Directors has proposed a final dividend distribution of QR 5.75 per ordinary share bringing the total distribution for the year to QR 10 per share (2005: QR 8.50 per share). The proposed final dividend will be submitted for formal approval at the Annual General Meeting. This proposed final dividend, totalling QR 575,000,000 brings the total dividends for the year to QR 1,000,000,000 (2005: QR 850,000,000). The final dividend proposed in 2005 amounting to QR 485,000,000 was approved at the Annual General Meeting held on 26 February 2006 and was paid in 2006 following the approval.

26. OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES

	Notes	2006 QR'000	2005 QR'000
Profit for the year		**1,654,716**	1,093,472
Adjustments for:			
Depreciation and amortization	5	**502,937**	317,737
Impairment loss on available-for-sale investments	5	**24,522**	-
Dividend and interest income	4	**(111,197)**	(64,594)
Profit on sale of available-for-sale investments	4	**(11,646)**	(12,115)
Profit on disposal of plant and equipment	4	**(1,184)**	(369)
Finance costs		**17,857**	4,497
Provision for employees' end of service benefits	22	**22,093**	29,481
Board of Directors' remuneration		**(6,300)**	(4,700)
Deferred tax (income) expense	14	**(3,698)**	293
Share of results of an associate	11	**1,520**	-
		2,089,620	1,363,702

27. DERIVATIVE FINANCIAL INSTRUMENTS

Cash flow hedges

The subsidiary company, Omani Qatari Telecommunications Company S.A.O.C. has entered into two interest rate swap arrangements with Qatar National Bank and BNP Paribas respectively with a view to cap its exposure to fluctuating interest rates on its term loan (Note 21). Under the swap agreements, the company will pay an agreed fixed interest rate and receive a floating interest rate based on US $ LIBOR. The loan and the interest rate swaps have the same critical terms.

As at 31 December 2006, an unrealised loss of QR 7,306,000 (Group's portion: QR 4,055,000) relating to measuring the financial instruments at fair value is included in equity in respect of these contracts (2005 : Nil).

The table below shows the negative fair value of the derivative financial instrument, which is equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

27. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

At 31 December 2006			Notional amount by term to maturity		
	Negative fair value QR'000	Notional amount QR'000	1 - 12 months QR'000	More than 1 upto 5 years QR'000	Over 5 years QR'000
Interest rate swaps	**7,306**	**655,640**	**-**	**393,384**	**262,256**

Forward exchange contracts

Forward exchange contracts outstanding at 31 December 2006 for a future period of up to three months amounted to an equivalent of SDR 1,400,000 (2005: SDR 298,000). The forward exchange contracts are designed to hedge the foreign currency exposure of liabilities.

28. COMMITMENTS

Capital expenditure commitments

	2006 QR'000	2005 QR'000
Property, plant and equipment		
Estimated capital expenditure contracted for at balance sheet date but not provided for:	**484,043**	688,096

Operating lease commitments

	2006 QR'000	2005 QR'000
Future minimum lease payments:		
Not later than one year	**28,538**	12,668
Later than one year and not later than five years	**78,648**	34,752
Later than five years	**138,841**	82,392
Total operating lease expenditure contracted for at 31 December	**246,027**	129,812

28. COMMITMENTS (continued)

The above represent the future lease rental commitments for various land and buildings leased by the Group under operating lease agreements. During the year ended 31 December 2006, QR 23,340,000 (2005: QR 22,060,000) was recognised as an expense in the income statement in respect of these operating leases.

Finance lease commitments

At 31 December 2006, finance lease liabilities are payable as follows:

	Minimum lease payments QR'000	Interest charge QR'000	Present value of minimum lease payments QR'000
Within one year	**2,187**	**360**	**1,827**
After one year but not more than five years	**6,561**	**246**	**6,314**
	8,748	**606**	**8,141**

29. CONTINGENT LIABILITIES

	2006 QR'000	2005 QR'000
Letters of guarantees	**85,797**	100
Letters of credit	**53,526**	56,547
Claims against the Group not acknowledged as debts	**6,150**	5,180

30. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Impairment of available-for-sale equity investments
The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. The Group treats "significant" generally as 20% or more and 'prolonged' greater than six (6) months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

30. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Impairment of inventories
Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Inventories which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

Impairment of accounts receivable
An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

Changes in estimated useful life of property, plant and equipment
During 2006, the Group changed its estimated useful lives of certain components of property, plant and equipment. The old and new useful lives of these components of property, plant and equipment are as follows:

	Old	New
Exchange and line plant	5 – 20 years	5 – 15 years
International communication links	10 – 25 years	8-15 years
Subscribers apparatus and other equipment	1- 10 years	1- 8 years

Management believes that the revised estimated useful lives reflect more appropriately the useful lives of these components of property, plant and equipment, in line with industry standards.

The effect of changes in the estimated useful lives relating to the current period has been recognised in the current period by an adjustment to the depreciation expense for the year. If the Company had continued with the useful lives as estimated during the previous year, the depreciation charged to the income statement would have been lower by QR 47,991,000 with a corresponding increase in the carrying value of property, plant and equipment. It is not practical to quantify the effects on future periods.

31. SEGMENT INFORMATION

Business segments
The segment information is presented based on the Group's reporting structure and comprises of Wireless Services and Wireline Services and is disclosed after elimination of inter company transactions and balances.

31. SEGMENT INFORMATION (continued)

Year ended	31 December 2006			31 December 2005		
	Wireless Services QR'000	**Wireline Services QR'000**	**Total QR'000**	Wireless Services QR'000	Wireline Services QR'000	Total QR'000
Revenue	**3,032,453**	**1,387,984**	**4,420,437**	1,972,796	1,009,604	2,982,400
Contribution	**1,999,939**	**690,789**	**2,690,728**	1,218,021	567,926	1,785,947
Unallocated costs			**(581,229)**			(364,585)
Other income			**144,246**			77,078
Share of result from an associate			**(1,520)**			-
Royalties			**(597,509)**			(404,968)
Profit for the year			**1,654,716**			1,093,472
Assets and liabilities						
Segment assets	**2,038,159**	**818,048**	**2,856,207**	1,605,258	675,539	2,280,797
Unallocated assets			**4,945,745**			4,095,509
Total assets			**7,801,952**			6,376,306
Segment liabilities	**961,269**	**92,437**	**1,053,706**	841,936	66,461	908,397
Unallocated liabilities			**1,695,476**			1,180,762
Total liabilities			**2,749,182**			2,089,159
Capital expenditure	**562,822**	**296,791**		619,337	160,761	
Depreciation	**209,570**	**232,357**		121,937	99,762	
Impairment on assets	**1,241**	**-**		37,964	12,423	

31. SEGMENT INFORMATION (continued)

Geographic segments

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

	31 December 2006			31 December 2005		
	Qatar QR'000	**Other GCC countries QR'000**	**Total QR'000**	Qatar QR'000	Other GCC countries QR'000	Total QR'000
Revenue	**3,950,788**	**469,649**	**4,420,437**	2,844,572	137,828	2,982,400
Expenses	**(1,360,154)**	**(433,688)**	**(1,793,842)**	(948,107)	(290,404)	(1,238,511)
EBITDA	**2,590,634**	**35,961**	**2,626,595**	1,896,465	(152,576)	1,743,889
Other income	**135,989**	**8,257**	**144,246**	73,855	3,223	77,078
Depreciation and amortisation	**(403,537)**	**(99,400)**	**(502,937)**	(276,558)	(41,179)	(317,737)
Finance costs	**(658)**	**(17,199)**	**(17,857)**	-	(4,497)	(4,497)
Deferred tax income (expense)	**-**	**3,698**	**3,698**	-	(293)	(293)
Unallocated costs	**-**	**-**	**(1,520)**	-	-	-
Royalties	**(566,813)**	**(30,696)**	**(597,509)**	(396,816)	(8,152)	(404,968)
Profit for the year	**1,755,615**	**(99,379)**	**1,654,716**	1,296,946	(203,474)	1,093,472
Assets and liabilities						
Non current assets	**4,361,236**	**1,035,226**	**5,396,462**	3,245,856	919,489	4,165,345
Current assets	**2,202,769**	**202,721**	**2,405,490**	2,122,972	87,989	2,210,961
Total assets	**6,564,005**	**1,237,947**	**7,801,952**	5,368,828	1,007,478	6,376,306
Current liabilities	**1,652,158**	**305,155**	**1,957,313**	1,133,013	253,682	1,386,695
Non current liabilities	**136,681**	**655,188**	**791,869**	120,921	581,543	702,464
Total liabilities	**1,788,839**	**960,343**	**2,749,182**	1,253,934	835,225	2,089,159
Capital expenditure	**842,558**	**185,645**	**1,028,203**	746,344	276,465	1,022,809

32. FINANCIAL INSTRUMENTS

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

Interest rate risk
A significant portion of the Group's financial assets and liabilities as at 31 December 2006 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:

	31 December 2006			31 December 2005		
	Interest bearing QR'000	**Non-interest bearing QR'000**	**Total QR'000**	Interest bearing QR'000	Non-interest bearing QR'000	Total QR'000
Financial assets						
Investments	**105,578**	**1,647,448**	**1,753,026**	108,808	1,089,875	1,198,683
Other financial assets	**51,699**	**91,141**	**142,840**	48,202	46,715	94,917
Accounts receivable	**-**	**961,563**	**961,563**	-	541,733	541,733
Cash and cash equivalents	**1,400,543**	**16,140**	**1,416,683**	1,641,024	4,335	1,645,359
	1,557,820	**2,716,292**	**4,274,112**	1,798,034	1,682,658	3,480,692
Financial liabilities						
Current liabilities	**-**	**1,957,313**	**1,957,313**	-	1,386,695	1,386,695
Long term loan from bank	**648,177**	**-**	**648,177**	573,413	-	573,413
Non-current liabilities	**-**	**25,781**	**25,781**	-	28,966	28,966
	648,177	**1,983,094**	**2,631,271**	573,413	1,415,661	1,989,074
Net financial assets	**909,643**	**733,198**	**1,642,841**	1,224,621	266,997	1,491,618

The above financial assets and liabilities with the exception of other financial assets, non-current liabilities and long term loans are expected to be realized and paid within one year. The effective interest rate on financial assets was 5.1% (2005: 3.6%) and the effective interest rate on financial liabilities was 6.1% (2005: 4.8%).

32. FINANCIAL INSTRUMENTS (continued)

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

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

Trade accounts payable and accrued expenses include an amount of QR 768,852,000 (2005 : 553,608,000) due in foreign currencies, mainly in Euros and US Dollars.

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

Fair values of financial instruments
Financial instruments comprise of financial assets, financial liabilities and derivative financial instruments.

Financial assets consist of cash and cash equivalents, available-for-sale investments and receivables. Financial liabilities consist of term loans, accounts payable and accrued expenses. Derivative financial instruments consist of interest rate swaps and forward exchange contracts.

With the exception of available-for-sale investments and derivative financial instruments, the fair values of financial instruments are not materially different from their carrying values.

33. RELATED PARTY DISCLOSURES

Related party transactions
Related parties represent associated companies including Government and semi Government agencies, associate, major shareholders, directors and key management personnel of the Group, and companies of which they are principal owners. In the ordinary course of business the Group enters into transactions with related parties. Pricing policies and terms of transactions are approved by the Group's management.

Related party balances
Amounts due from related parties for services provided under ordinary course of business amounting to QR 196,464 (2005: QR 96,000) included under the caption "trade accounts receivable" in Note 16.

Transactions with Directors and other key management personnel
Key management personnel comprise the Board of Directors and key members of management having authority and responsibility of planning, directing and controlling the activities of the Group.

The remuneration paid to the Board of Directors during the year has been separately disclosed in the statement of changes in equity. On 3 February 2007, Directors remuneration of QR 8,300,000 was proposed (2005 : QR 6,300,000). In addition, an amount of QR 720,000 was paid to members of the Committees of the Board of Directors. The salaries and benefits related to key management personnel amounted to QR 13,610,000 (2005 : QR 8,156,000) and end of service benefits amounted to QR 1,441,000 (2005 : QR 1,982,000).

Associate
The Group has a 38.16% interest in Navlink, Inc., a Delaware Corporation.

34. SUBSEQUENT EVENTS

On 12 January 2007, the Group has entered into an agreement with ST Telemedia, Singapore to acquire 25% of the voting shares of Asia Mobile Holding Pte Ltd ("AMH") for QR 2,312,353,000 (US$ 635,000,000), which is an unlisted company based in Singapore. AMH currently holds ST Telemedia's stake in StarHub Ltd., Singapore and PT Indosat Tbk, Indonesia.

35. COMPARATIVE FIGURES

During the year, the special business services unit has been merged with the wireline services in accordance with the corporate restructuring program. The comparative amounts of the revenue and segment assets of special business services included in segment information (Note 31) amounting to QR 62,925,000 and QR 14,319,000 respectively have been reclassified accordingly and are included in the wireline services. However, these reclassifications did not have any effect on the profit for the year and total equity.

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

	2006 QR'000	2005 QR'000
ASSETS		
Non-current assets		
Property, plant and equipment	**2,506,088**	2,067,153
Investment in subsidiaries	**404,753**	272,202
Investment in an associate	**101,827**	-
Available-for-sale investments	**1,736,106**	1,178,703
Other financial assets	**17,215**	-
	4,765,989	3,518,058
Current assets		
Inventories	**24,377**	20,291
Accounts receivable and prepayments	**863,672**	521,262
Cash and cash equivalents	**1,335,227**	1,601,817
	2,223,276	2,143,370
TOTAL ASSETS	**6,989,265**	5,661,428
EQUITY AND LIABILITIES		
Capital and reserve		
Share capital	**1,000,000**	1,000,000
Legal reserve	**888,761**	713,199
Fair value reserve	**334,370**	380,753
Retained earnings	**2,977,295**	2,313,542
Total equity	**5,200,426**	4,407,494
Non-current liabilities		
Employee benefit liabilities	**117,214**	99,841
Other liabilities	**19,467**	21,080
	136,681	120,921

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

	2006 QR'000	2005 QR'000
Current liabilities		
Accounts payable and accruals	**973,370**	541,462
Current account with State of Qatar	**569,827**	397,069
Deferred income	**108,961**	194,482
	1,652,158	1,133,013
Total liabilities	**1,788,839**	1,253,934
TOTAL EQUITY AND LIABILITIES	**6,989,265**	5,661,428

Revenue	**3,950,788**	2,844,572
Other income	**135,989**	85,699
General and administrative expenses	**(1,254,652)**	(857,018)
Other operating expenses	**(509,039)**	(367,647)
Finance costs	**(658)**	-
Royalties	**(566,813)**	(396,816)
PROFIT FOR THE YEAR	**1,755,615**	1,308,790
BASIC AND DILUTED EARNINGS PER SHARE (expressed in QR per share)	**17.56**	13.09

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Qtel

Let's Connect

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