

**OMAN TELECOMMUNICATIONS
COMPANY (SAOG) AND ITS SUBSIDIARY**

**Reports and interim consolidated
financial statements for the period
ended 30 September 2005**

**Registered Office and Principal place of Business:
Ministries Street, Al Khuwair,
Post Box 789, Ruwi 112,
Sultanate of Oman**

**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
AND ITS SUBSIDIARY**

**REPORTS AND INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2005**

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Review Report to the Directors of Oman Telecommunications Company (SAOG)

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We have reviewed the accompanying interim consolidated balance sheet of Oman Telecommunications Company (SAOG) and its subsidiary ("the Group") at 30 September 2005 and the related interim consolidated statements of income, changes in equity and cash flows for the nine months period then ended as set out on pages 2 to 24. These interim consolidated financial statements are the responsibility of the Group's Board of Directors. Our responsibility is to issue a report on these interim consolidated financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagement applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the interim consolidated financial statements are free of material misstatement. A review is limited primarily to enquiries of Group personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements are not presented fairly, in all material respects in accordance with the International Financial Reporting Standards, the disclosure requirements as issued by the Capital Markets Authority and those prescribed under the Commercial Companies Law of 1974 and its amendments.

Deloitte & Touche (M.E.)
Muscat, Sultanate of Oman
12 November 2005



**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
AND ITS SUBSIDIARY**

**INTERIM CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2005**

	Note	1 January 2005 to 30 September 2005 (Unaudited) RO'000	1 January 2004 to 30 September 2004 (Unaudited) RO'000
Revenue			
Service revenue	3	179,072	176,847
External administration revenue	4	10,301	4,596
Interconnection income	5	4,543	-
		<u>193,916</u>	<u>181,443</u>
External administration expense	6	(11,990)	(8,463)
Interconnection expense	7	(1,801)	-
Cost of content services	8	(1,908)	(159)
Staff costs	9	(21,014)	(20,562)
Operation and maintenance expenses	10	(13,590)	(11,629)
Administrative expenses	11	(5,429)	(4,354)
Marketing and advertising expenses		(4,041)	(1,584)
Depreciation	16	(38,923)	(32,811)
Commission	12	(8,247)	(8,412)
Provision for impairment of receivables		(4,247)	(1,772)
Amortisation of licence fee	17	(2,095)	(1,781)
Annual licence fees	17	(1,467)	(1,377)
Royalty	35	(21,552)	(23,032)
		<u>(136,304)</u>	<u>(115,936)</u>
Operating profit			
		57,612	65,507
Finance income - net	13	885	797
Other income		323	263
Share of profit from investment in associated companies - net	18	123	10
Profit before taxation			
		58,943	66,577
Taxation	14	(7,095)	(8,219)
Profit for the period			
		<u>51,848</u>	<u>58,358</u>
Attributable to:			
Equity holders of parent		51,566	58,251
Minority Interest		282	107
		<u>51,848</u>	<u>58,358</u>
Earnings per share			
	15	0.069	0.077

The accounting policies on pages 6 to 9 and notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
AND ITS SUBSIDIARY**

INTERIM CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2005

	Note	30 September 2005 (Unaudited) RO'000	31 December 2004 (Audited) RO'000
ASSETS			
Non-current assets			
Property , plant and equipment	16	314,074	290,185
Licences	17	40,306	42,401
Investment in associated companies	18	2,280	1,731
Investments at fair value through profit and loss	19	4,337	4,074
		<u>360,997</u>	<u>338,391</u>
Current assets			
Inventories	20	5,288	5,759
Receivables and prepayments	21	33,606	18,098
Cash and cash equivalents	22	45,143	78,782
		<u>84,037</u>	<u>102,639</u>
Total assets		<u><u>445,034</u></u>	<u><u>441,030</u></u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	23	75,000	75,000
Legal reserve	24	29,301	26,508
Voluntary reserve	25	41,801	39,008
Capital contribution	17	44,181	44,181
Retained earnings		46,752	772
Proposed dividend	26	-	78,835
Equity attributable to equity holders of parent		<u>237,035</u>	<u>264,304</u>
Minority interest		684	402
Total equity		<u>237,719</u>	<u>264,706</u>
Non-current liabilities			
Borrowings	27	664	1,153
Deferred Government grant	27	-	175
Deferred tax liability	28	1,829	1,553
Term loan from the Ministry of Finance	29	30,000	30,000
Amount payable to the Ministry of Finance	30	9,075	-
End of service benefits	31	1,740	1,753
		<u>43,308</u>	<u>34,634</u>
Current liabilities			
Borrowings	27	675	664
Creditors and accruals	32	56,993	55,061
Term loan from the Ministry of Finance – Current portion	29	15,375	15,000
Dividend payable to the Ministry of Finance	33	54,149	28,752
Bank borrowings	34	7,047	-
Royalty payable	35	21,552	31,633
Taxation		8,216	10,580
		<u>164,007</u>	<u>141,690</u>
Total liabilities		<u>207,315</u>	<u>176,324</u>
Total equity and liabilities		<u><u>445,034</u></u>	<u><u>441,030</u></u>
Net asset value per share		<u><u>RO 0.316</u></u>	<u><u>RO 0.352</u></u>

The consolidated financial statements on pages 2 to 24 were approved by the Board of Directors on 12 November 2005 and were signed on their behalf by:

CHAIRMAN

DIRECTOR

EXECUTIVE PRESIDENT

The accounting policies on pages 6 to 9 and notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
AND ITS SUBSIDIARY**

**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 SEPTEMBER 2005**

	Note	Share capital RO'000	Legal reserve RO'000	Voluntary reserve RO'000	Capital contribution RO'000	Retained earnings RO'000	Proposed dividend RO'000	Attributable to equity holders of parent RO'000	Minority Interest RO'000	Total RO'000
Balance at 1 January 2004		75,000	25,000	35,475	-	12,757	-	148,232	-	148,232
Minority interest in subsidiary		-	-	-	-	-	-	-	250	250
Profit for the period		-	-	-	-	58,251	-	58,251	107	58,358
Transfer to legal reserve		-	1,055	-	-	(1,055)	-	-	-	-
Transfer to voluntary reserve		-	-	3,080	-	(3,080)	-	-	-	-
Fair value adjustment of licences		-	-	-	44,181	-	-	44,181	-	44,181
Balance at 30 September 2004		75,000	26,055	38,555	44,181	66,873	-	250,664	357	251,021
Balance at 1 January 2005		75,000	26,508	39,008	44,181	772	78,835	264,304	402	264,706
Profit for the period		-	-	-	-	51,566	-	51,566	282	51,848
Transfer to legal reserve	24	-	2,793	-	-	(2,793)	-	-	-	-
Transfer to voluntary reserve	25	-	-	2,793	-	(2,793)	-	-	-	-
Dividend payable to Ministry of Finance		-	-	-	-	-	(78,835)	(78,835)	-	(78,835)
Balance at 30 September 2005		75,000	29,301	41,801	44,181	46,752	-	237,035	684	237,719

The accounting policies on pages 6 to 9 and notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
AND ITS SUBSIDIARY**

**INTERIM CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 SEPTEMBER 2005**

	1 January 2005 to 30 September 2005 (Unaudited)	1 January 2004 to 30 September 2004 (Unaudited)
	RO'000	RO'000
Profit before taxation and Minority Interest	58,943	66,577
Adjustments for:		
Depreciation	38,923	32,811
Provision for impairment of receivables	4,247	1,772
Amortisation of goodwill	72	72
Amortisation of licences	2,095	1,781
Fair value gains on investments	(263)	(253)
Interest income	(1,272)	(744)
Dividend income	(58)	-
Share of profit from associated companies – net	(123)	(10)
Interest on dues to Ministry of Finance	874	-
Interest on bank borrowings	51	-
End of service benefits expenses	120	125
Operating profit before payment of end of service benefits and changes in working capital	103,609	102,131
Payment of end of service benefits	(133)	(64)
Working capital changes:		
Inventories	471	98
Receivables and prepayments	(17,102)	(6,141)
Royalty payable	(2,422)	23,032
Creditors and accruals	1,932	10,453
Cash generated from operations	86,355	129,509
Tax paid	(10,420)	(12,316)
Net cash generated from operating activities	75,935	117,193
Investing activities		
Purchase of property, plant and equipment	(62,812)	(68,350)
Purchase of investment in associated companies	(612)	(452)
Dividend & interest received	1,444	744
Purchase of licences	-	(700)
Net cash used in investing activities	(61,980)	(68,758)
Financing activities		
Dividends paid to Ministry of Finance	(53,926)	(35,000)
Repayment of loan to Ministry of Finance	-	(15,000)
Repayment of term loan	(664)	(664)
Bank borrowings	7,047	-
Interest on bank borrowings	(51)	-
Cash used in financing activities	(47,594)	(50,664)
Net change in cash and cash equivalents	(33,639)	(2,229)
Cash and cash equivalents at beginning of the period	78,782	62,400
Cash and cash equivalents at the end of the period	45,143	60,171

The accounting policies on pages 6 to 9 and notes on pages 10 to 24 form an integral part of these interim consolidated financial statements.

OMAN TELECOMMUNICATIONS COMPANY (SAOG) AND ITS SUBSIDIARY

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements are prepared on a historical cost basis, except as disclosed in the accounting policies below and in accordance with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The principal accounting policies are summarised below.

Adoption of new and revised International Financial Reporting Standards

In the current period, the Group has adopted all the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2005. The adoption of the new and revised standards has resulted in changes to the Group's accounting policies in the following areas:

- In accordance with the transitional provisions of IAS 39 (as revised) the available for sale investments as at 31 December 2004 have been redesignated as Investments at fair value through profit and loss. The change has had no impact on the amounts reported for the current or prior periods.

Basis of consolidation

The consolidated financial statements include the financial statements of Oman Telecommunications Company (SAOG) ("the company") and its subsidiary (collectively "the group"). Intra-group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

Subsidiary company

Companies in which the group holds an investment of more than 50% of those companies' equity and has the power to govern the financial and operating policies of those companies so as to obtain benefits from their activities are regarded as subsidiary companies. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of their acquisition or up to the date of their disposal.

Associated companies

Companies in which the group exercises significant management influence and holds investments of 20% or more but not more than 50%, of those companies' equity, are regarded as associated companies. The consolidated financial statements include the group's share of the total recognised gains and losses of the associated companies on an equity accounting basis, from the date that significant influence commences until the date significant influence ceases.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the group has incurred obligations or has guaranteed obligations in respect of the associated company. In respect of associated companies, any goodwill arising on acquisitions net of amortisation, is included in the carrying amount of the investment in the associated company. Goodwill is amortised from the date of initial recognition on a straight line basis over the estimated useful life of five years.

Service revenue

Revenue comprises usage charges of fixed telephone, Global System for Mobile Communication ("GSM"), internet, telex and telegram revenue, equipment rentals and amounts derived from the sale of telecommunication equipment and other associated services falling within the group's ordinary activities. Revenue from fixed lines, GSM and internet services is recognised when the services are provided.

Revenue from rentals and installation is based on a time basis and on actual installation of telecommunication equipment.

Sales of payphone and prepaid cards are recognised as revenue based on the estimated utilisation of the payphone and prepaid cards sold. Sales relating to unutilised payphone and prepaid cards are accounted for as deferred income.

OMAN TELECOMMUNICATIONS COMPANY (SAOG) AND ITS SUBSIDIARY

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

Finance income - net

Net finance income comprises interest receivable on funds invested, dividend income, foreign exchange gains and losses, unrealised gains and losses arising from fair value adjustments of investments at fair value through profit and loss less interest payable on borrowings.

Interest income is recognised in the consolidated income statement as it arises.

Dividend income is accounted for when the right to receipt is established.

Commission

Commission comprises commission payable to factoring agents and agents who sell prepaid cards. Commission payable to factoring agents is accounted for at the time of the assignment of receivables. Commission payable to selling agents is accounted for at the time of the sale of cards to the agents.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses, if any. The cost of property plant and equipment is their purchase price together with any incidental expenses. The cost of property, plant and equipment is written off in equal instalments over the expected useful lives of the assets. The estimated useful lives are:

Buildings	5 - 20 years
Cables and transmission equipment	5 - 25 years
Telephone exchanges, power equipment and related software	3 - 20 years
Telephone, telex and related equipment	1 - 5 years
Satellite communication equipment	5 - 14 years
Furniture and office equipment	3 - 7 years
Motor vehicles and equipment	3 - 4 years

Freehold land is not depreciated as it is deemed to have an indefinite life.

Capital work-in-progress is not depreciated until it is taken to property, plant and equipment when the asset is put to use.

Assets in use awaiting capitalisation are depreciated over their estimated useful lives based on the asset categories to which they relate.

Gains and losses on disposals of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

Repairs and maintenance expenses are charged to the income statement when the expenditure is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

OMAN TELECOMMUNICATIONS COMPANY (SAOG) AND ITS SUBSIDIARY

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

Licences

Licences acquired from the Telecommunications Regulatory Authority are recognised at fair value less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. The fixed and mobile licences are amortised on a straight line basis over the licence periods of 25 and 15 years, respectively.

Investments at fair value through profit and loss account

Investments at fair value through profit or loss includes investments which the group upon initial recognition designates as investment at fair value through profit and loss account.

These are included in non-current assets unless they are expected to be realised within 12 months of the balance sheet date. Management determines the appropriate classification of its investments at the time of purchase. Investments are initially recognized at cost which represents the fair value of consideration paid. Realised and unrealized gains and losses arising from changes in fair value are recognized in the income statement in the period in which they arise.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the first-in, first-out principle and includes expenditure incurred in purchasing inventories and bringing them to their existing location and condition. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realisation. Provision is made where necessary for obsolete, slow-moving and defective items.

Trade receivables

Trade receivables are stated at their cost less any impairment losses. An estimate is made for impaired debts based on a review of all outstanding amounts at the balance sheet date. Bad debts are written off during the period in which they are identified.

Cash and cash equivalents

For the purpose of the cash flow statement, all bank balances, including short term deposits with a maturity of three months or less from the date of placement and cash in hand, are considered to be cash and cash equivalents.

End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the group's employees at the balance sheet date, having regard to the requirements of the Oman Labour Law, 2003. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the balance sheet date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the consolidated income statement as incurred.

Creditors and accruals

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the group.

OMAN TELECOMMUNICATIONS COMPANY (SAOG) AND ITS SUBSIDIARY

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

Deferred Government grant

Interest subsidy relating to Government loans is recognised in the consolidated balance sheet initially as a deferred Government grant when there is reasonable assurance that it will be received and that the group will comply with the conditions attached to it. Such deferred Government grants are amortised over the life of the loan to which these relate on a systematic basis in the same period in which the interest expense is incurred. Amortisation of deferred Government grants is recognised under net finance income.

Deferred tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on property, plant and equipment, and the provisions for impaired debts and slow moving stocks.

Foreign currency

Foreign currency transactions are translated into Rial Omani at the exchange rate prevailing on the transaction date. Monetary foreign currency assets and liabilities are translated into Rial Omani at the exchange rate prevailing at the balance sheet date. Differences on exchange are dealt with in the consolidated income statement as they arise.

Financial instruments

Financial instruments carried on the balance sheet comprise investments, cash and cash equivalents, receivables, payables, amounts payable to Ministry of Finance and borrowings.

(1) Financial risk factors

(i) Interest rate risk

The group has short term deposits, amount dues to Ministry of Finance and short term loan, which are interest bearing and exposed to changes in market interest rates.

(ii) Credit risk

At the balance sheet date amounts receivable from one factoring agent approximate to 36% (2004 – 35%) of the group's total trade debtors. Bank guarantees provided by the factoring agents represent 30 % (2004 – 31%) of the amounts due from them at the balance sheet date. Credit risk on other trade debtors is limited to their carrying values as management regularly reviews these balances to assess recoverability and makes provision for balances whose recoverability is in doubt.

(iii) Liquidity risk

In accordance with prudent liquidity risk management, the management aims to maintain sufficient cash and an adequate amount of committed credit facilities.

(iv) Foreign currency risk

The group's transactions are primarily in Rial Omani or US Dollars. There are no significant financial instruments denominated in foreign currency other than US Dollars and consequently foreign currency risk is not significant.

(2) Fair value estimation

The fair value of investments is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets. The fair value of the licenses is disclosed in note 17 of the consolidated financial statements.

The face value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate to their fair values.

The fair values of non-current financial assets and liabilities are considered to approximate to their carrying amounts.

OMAN TELECOMMUNICATIONS COMPANY (SAOG) AND ITS SUBSIDIARY

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2005

1 Legal status and principal activities

Oman Telecommunication Company (SAOG) (“the company”) was established under Royal Decree 46/99 dated 18 July 1999 by the transformation of the General Telecommunications Organisation (“the Organisation”). The company completed registration as a closed joint stock company in the Sultanate of Oman on 22 April 2000. In accordance with Royal Decree 46/99, effective 1 August 1999, the company was vested with all the assets and liabilities of the Organisation.

Effective 29 February 2004, the company established a subsidiary company, Oman Mobile Telecommunications Company (LLC) (“Oman Mobile”), the principal activity of which is the provision of mobile telecommunication services. The Government of the Sultanate of Oman (the “Government”) has established a Telecommunications Regulatory Authority (“TRA”), which has issued two licences to the company for mobile and other telecommunications services. The licences have been initially accounted for by the group at an aggregate fair value of RO 44.881 million.

Following the issuance of Royal Decree 35/2005, the Ministry of Finance was authorised to dispose of 30% of the Government’s interest in the parent Company to new investors. Consequently, the Government issued 30% of its existing shares to the public. Subsequent to approval of the public issue by Muscat Securities Market (MSM), the shares were listed in the MSM on 28 July 2005 and the company became a public joint stock company (SAOG).

The principal activities of the company and Oman Mobile (together referred to as the “group”) are the establishment, operation, maintenance and development of fixed and mobile telecommunication services in the Sultanate of Oman.

The principal activities of the subsidiary and associated companies, which are incorporated in the Sultanate of Oman are set out below.

	Shareholding percentage		Principal activities
	2005	2004	
	%	%	
Subsidiary company:			
Oman Mobile Telecommunications Company (LLC)	99	99	Engaged in the establishment, operation, maintenance and development of mobile telecommunication services.
Associated companies:			
Oman Fibre Optic Company SAOG	25.96	25.96	Engaged in the manufacture and design of optical fibre and cables.
Infoline LLC	45	45	Engaged in the provision of IT enabled services.
Omania e-commerce LLC	40	-	Engaged in the provision of e-commerce services.

2 Comparative figures

Certain previous period’s figures have been reclassified and restated to conform with current period presentation. Comparative figures for consolidated income statement are taken from the management accounts of the group and have been proportionately adjusted for minority interest, accruals, prepayments and provisions relating to that period.

**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
AND ITS SUBSIDIARY**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2005 (continued)**

3 Service revenue

	1 January 2005 to 30 September 2005 RO'000	1 January 2004 to 30 September 2004 RO'000
Fixed telephones:		
International calls	17,753	25,722
National calls	24,785	27,261
Rentals and installations	7,198	6,868
	<hr/>	<hr/>
	49,736	59,851
Mobile telecommunication services:		
GSM	48,311	54,670
Prepaid GSM	68,003	51,716
	<hr/>	<hr/>
	116,314	106,386
Others:		
Internet	8,208	5,754
Rentals for leased circuits and other equipment	4,723	4,660
Telegrams	23	52
Telex	31	40
Others	37	104
	<hr/>	<hr/>
	179,072	176,847
	<hr/> <hr/>	<hr/> <hr/>

The group primarily provides telecommunication services in the Sultanate of Oman and maintains agreements with other operators for providing international roaming services to its customers. Income derived from various services in the Sultanate of Oman is disclosed above and represents approximately 92.3% of total revenue for the period ended 30 September 2005 (2004 – 97.5%).

4 External administration revenue

	1 January 2005 to 30 September 2005 RO'000	1 January 2004 to 30 September 2004 RO'000
Telephones and GSM	10,298	4,593
Telegrams	(1)	(1)
Telex	4	4
	<hr/>	<hr/>
	10,301	4,596
	<hr/> <hr/>	<hr/> <hr/>

5 Interconnection income

Interconnection income represents the revenue derived from a licensed local mobile operator for the use of transmission equipment, facilities and the charges for the termination of the operator's traffic.

6 External administration expense

	1 January 2005 to 30 September 2005 RO'000	1 January 2004 to 30 September 2004 RO'000
Telephones and GSM	11,986	8,452
Telegrams	1	1
Telex	3	10
	<hr/>	<hr/>

**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
AND ITS SUBSIDIARY**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2005 (continued)**

11,990 **8,463**

7 Interconnection expense

Interconnection expense represents the charges paid by the Group to the licensed local mobile operator for the termination of the traffic on the network of the operator.

8 Cost of content services

Cost of content services represents the charges paid by the group to various content service providers for provision of audio text services, SMS content, SMS to TV etc.

9 Staff costs

	1 January 2005 to 30 September 2005	1 January 2004 to 30 September 2004
	RO'000	RO'000
Salaries and allowances	18,285	18,337
Social security costs	1,163	1,031
End of service benefits	120	125
Other employee benefits	3,751	1,069
	<hr/> 20,999 <hr/>	<hr/> 20,562 <hr/>

10 Operation and maintenance expenses

Satellite channels rent	3,734	5,601
Asset maintenance	3,589	2,073
Cost of sales of payphone and other cards	3,304	1,642
Office rent	1,152	727
Electricity and water	804	781
Petrol, oil and lubricants	249	272
Insurance	259	236
Others	499	297
	<hr/> 13,590 <hr/>	<hr/> 11,629 <hr/>

11 Administrative expenses

Office supplies and services	396	349
Training costs	1,554	2,030
Administrative services	789	440
Business travel	744	657
Professional consultancy fees	544	311
Amortisation of goodwill on investment in associated companies	72	72
Restructuring cost	1,330	495
	<hr/> 5,429 <hr/>	<hr/> 4,354 <hr/>

**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
AND ITS SUBSIDIARY**

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 SEPTEMBER 2005 (continued)**

12 Commission

On 25 February 2004, the company entered into an agreement with Oman Investments and Finance Company SAOG ("OIFC") whereby with effect from 1 January 2003 the company has assigned all amounts due from private customers to OIFC. Furthermore, the company had also assigned amounts due from Government customers to Debt Recovery Services Company LLC ("DRS") and OIFC with effect from 1 September 1999 and 1 December 1999, respectively. Agreements for assignment of Government debts to DRS and OIFC expired on 31 August 2004 and 30 November 2004, respectively. Subsequent to expiry of these agreements, the group is now responsible for recovering amounts due from Government customers.

The agreement with OIFC for the collection of assigned amounts due from private customers has been extended for a period of one year and expires on 31 December 2005.

The group pays commission under the above agreements based on the customer category and the amounts assigned.

For ongoing agreements OIFC assumes the responsibility for settlement of all amounts assigned. The group pays commission based on the customer category and the amounts assigned.

In addition, OIFC endeavours to collect, on behalf of the company, amounts due in respect of customer bills raised prior to assignment, for which commission is paid at rates varying in accordance with the age of the amounts collected.

Commission is also paid to agents selling prepaid cards and other services of the company.

13 Finance income - net

	1 January 2005 to 30 September 2005	1 January 2004 to 30 September 2004
	RO'000	RO'000
Interest income	1,272	744
Dividend income	58	-
Exchange gain/ (loss)	217	(200)
Fair value gain on investments at fair value through profit and loss (note 19)	263	253
Interest on dues to Ministry of Finance	(874)	-
Interest on bank borrowings	(51)	-
	<u>885</u>	<u>797</u>

14 Taxation

(a) The tax charge for the year comprises:

Current taxation	7,137	7,746
Deferred taxation	(42)	473
	<u>7,095</u>	<u>8,219</u>

**OMAN TELECOMMUNICATIONS COMPANY (SAOG)
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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
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14 Taxation (continued)

(b) The reconciliation of tax on the accounting profit at the applicable rate of 12% after the basic exemption limit of RO 30,000 with the taxation charge in income statement is as follows:

	1 January 2005 to 30 September 2005	1 January 2004 to 30 September 2004
	RO'000	RO'000
Tax on accounting profit	8,266	8,306
Add/(less) tax effect of:		
Expenses not deductible	252	426
Income not assessable for tax purposes	(1,253) #	(40)
Deferred tax	(170)	(473)
Tax charge as per consolidated income statement	7,095	8,219

- Includes tax effect of RO 1,200,000 on dividends received by the Company from its subsidiary.

(c) For all years up to 31 December 2004 taxation returns have been filed. Assessments have been completed till the year 2001 and a refund has been determined. The group has filed an appeal in respect of certain disallowances.

15 Earnings per share

The earnings per share has been derived by dividing the profit for the period attributable to the equity holders of the parent company by the weighted average number of shares outstanding. As there are no potential dilutive shares, the diluted earnings per share is identical to the basic earnings per share.

16 Property, plant and equipment

(a) The movement in property, plant and equipment during the period is set out on page 24.

(b) The Board of Directors consider that leasehold lands from the Government will continue to be made available for the group's use over the useful economic life of the assets that are situated on such leasehold lands.

(c) At 1 August 1999, property, plant and equipment having an original cost of approximately RO 430 million and accumulated depreciation of approximately RO 247 million were transferred to the Group at their net book value (note 1).

17 Licences

The movement in licences is as follows:

	30 September 2005	31 December 2004
	RO'000	RO'000
Balance at beginning of period/year	42,401	-
Cost of licences	-	700
Fair value adjustment	-	44,181
Charge for the period/year	(2,095)	(2,480)
Carrying amount at end of period/year	40,306	42,401

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17 Licences (continued)

On 11 February 2004 the TRA issued licences to the group for mobile and fixed line telecommunication services at a cost of RO 500,000 and RO 200,000 and for a period of 15 years and 25 years respectively.

The group engaged an independent firm of consultants to determine the fair value of the licences as at 11 February 2004 who have determined the fair value of the fixed and mobile licences on an open market basis at approximately RO 44.881 million.

The valuations was based on an open market value of the licences under their current terms and as they would apply to a new company obtaining the licences. The reason for adopting the assumption of a 'new company' was in order to differentiate the value of the licences from the other intangible assets that the group owns. Accordingly the value attached to the licences is not a 'special value' to the group of the licences and does not reflect the full value of the intangible assets enjoyed by the group.

The excess of the valuation of the group's licences over the amounts paid to the TRA, representing a fair value gain of RO 44.181 million, has been recognised as capital contribution within equity.

In addition, the group is required to pay an annual licence fee to the TRA.

18 Investment in associated companies

(a) The group's share of post acquisition profits and the carrying value of the investment in associated companies is as follows:

	30 September 2005	31 December 2004
	RO'000	RO'000
Carrying amount at beginning of period/year	1,731	1,408
Transfer from advance account	-	151
Investment during the period/year	612	301
Share of profit – net	123	14
Dividend received	(114)	(47)
Amortisation of goodwill	(72)	(96)
Carrying amount at end of period/year	2,280	1,731

(b) The movement in the goodwill account included in the carrying amount of investments in associated companies, is as follows:

	30 September 2005	31 December 2004
	RO'000	RO'000
Cost	480	480
Amortisation		
Balance at beginning of period/year	384	288
Charge for the period/year	72	96
Balance at end of period/year	456	384
Carrying amount at end of period/year	24	96

The fair value of investment in Oman Fibre Optic Company SAOG which is listed on Muscat Securities Market is RO 2,585,310 (2004 – 2,358,030).

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19 Investments at fair value through profit and loss

	Carrying amount as at 31 December 2004 RO'000	Fair value adjustment RO'000	Carrying amount as at 30 September 2005 RO'000
Un-quoted – Foreign securities			
Thuraya Telecommunication Company	1,437	193	1,630
Arab Satellite Communications Organisation	2,637	70	2,707
	<u>4,074</u>	<u>263</u>	<u>4,337</u>

Both the investments are in the service sector.

20 Inventories

	30 September 2005 RO'000	31 December 2004 RO'000
Stores and spares	7,806	8,702
Prepaid cards & Handsets	1,824	1,399
Less : Provision for Inventory obsolescence	(4,342)	(4,342)
	<u>5,288</u>	<u>5,759</u>

The movement in the provision for inventory obsolescence is as follows:

	30 September 2005 RO'000	31 December 2004 RO'000
Balance at beginning of period / year	4,342	4,342
Charge for the period / year	-	-
Balance at end of period / year	<u>4,342</u>	<u>4,342</u>

21 Receivables and prepayments

Trade debtors and other receivables

Amounts due from customers	29,175	25,293
Amounts due from OIFC	21,454	17,270
Amounts due from DRS	-	793
Amounts due from other administrators	6,781	3,754
Other receivables	3,686	4,234
	<u>61,096</u>	<u>51,344</u>
Provision in respect of claims finalised by Ministerial Committee [see note (a) below]	(4,950)	(4,950)
Provision for impairment	(30,614)	(29,355)
Trade debtors and other receivables - (net)	<u>25,532</u>	<u>17,039</u>
Prepayments	816	868
Staff loans [see note (c) below]	7,047	-
Advances	211	191
	<u>33,606</u>	<u>18,098</u>

OMAN TELECOMMUNICATIONS COMPANY (SAOG) AND ITS SUBSIDIARY

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 SEPTEMBER 2005 (continued)

21 Receivables and prepayments (continued)

(a) During 2000, a Ministerial Committee was formed to review OIFC's claims against the company. The Ministerial Committee at its meeting held on 31 March 2001 examined OIFC's claims for the period up to 30 November 1999 amounting to RO 17.74 million and resolved that RO 6.16 million should be borne by the Group with the balance amount being borne by OIFC. The Ministerial Committee also resolved that any amounts subsequently collected in respect of the claims should be shared equally between OIFC and the company.

(b) In the event of subsequent recovery of the receivables, in respect of which provisions have been established at 31 December 2004, the write back of such doubtful debt provision will be credited and paid to the Government. During the period an amount of RO 2.653 million has been written back from the provisions established as at 31 December 2004 [refer note 30].

(c) During the period the parent company has extended interest free loans to its staff to finance the purchase of its shares. The sale proceeds of the shares will be adjusted against the loan. The entire loan amount is repayable on 24 January 2006. The loan is secured by way of pledge on the shares.

(d) The movement in provision for impairment is as follows:

	30 September 2005	31 December 2004
	RO'000	RO'000
Balance at beginning of period / year	29,355	22,626
Charge for the period / year	4,247	8,070
Amounts written off during the period / year	(335)	-
Amounts written back during the period / year	(2,653)	(1,341)
Balance at end of period / year	30,614	29,355

22 Cash and cash equivalents

Short term bank deposits	20,333	65,271
Cash at bank and in hand	24,810	13,511
	45,143	78,782

Short term deposits are placed with commercial banks at interest rates ranging from 0.6% to 2.6% (2004 - 0.75 to 2.6%) per annum and mature between one and three months from date of deposit.

23 Share capital

The share capital comprises 750,000,000 (2004 - 75,000,000 shares of RO 1 each) ordinary shares of RO 0.100 each fully paid. In accordance with the Ministerial Decision at their counsel meeting No. 3/2005 dated 18 January 2005, the par value of the share was reduced from RO 1.000 to RO 0.100. Shareholders of the parent company who own not less than 10% of the parent company's shares at 30 September 2005 are as follows:

Name of the Shareholder	No. of shares	% of shareholding
Government of Oman	52,500,000	70

24 Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, appropriations of 10% of the profit of the company and subsidiary are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the respective entity's paid-up share capital. This reserve is not available for distribution.

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25 Voluntary reserve

In accordance with a Board of Directors' resolution No.16T/5/2000, the company and its subsidiary transfer 10% of their net profits to a distributable voluntary reserve until it becomes equal to one-half of the respective entity's paid up share capital.

26 Proposed dividend

The proposed dividend was approved by the shareholders at the Annual General Meeting. During the current period, the dividend payable for year 2004 has been transferred to Dividend payable to Government (Note 33).

27 Borrowings

	30 September 2005	31 December 2004
	RO'000	RO'000
Total Government loan	1,339	1992
Less: Deferred Government grant	-	(175)
	<u>1,339</u>	<u>1,817</u>
Less: Current portion	(675)	(664)
	<u>664</u>	<u>1,153</u>

(a) Maturity of non-current borrowings is as follows:

1 to 2 years	664	604
2 to 5 years	-	549
	<u>664</u>	<u>1,153</u>

(b) The Government loan represents draw downs from the Government, under an agreement between the group and the Ministry of Finance, for financing development projects approved in the Third Five Year plan of the Sultanate of Oman. The loan includes accrued interest of RO 11,066 (31 December 2004 - Nil). The effective interest rate on the loan is 5% per annum and is charged with effect from 1 August 2005. Interest is payable semi-annually on 31 January and 31 July.

(c) The Government grant has been reversed during the period since the government charged interest with effect from 1 August 2005.

28 Deferred tax

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12% (2004 - 12%). The net deferred tax liability and deferred tax charge / (release) in the consolidated income statement are attributable to the following items:

	31 December 2004 RO'000	Charged / (release) to income statement RO'000	Write back of provision (note 30) RO'000	30 September 2005 RO'000
Asset				
Tax effect of provisions	(2,785)	(469)	318	(2,936)
Liability				
Tax effect of depreciation	4,338	427	-	4,765
	<u>1,553</u>	<u>(42)</u>	<u>318</u>	<u>1,829</u>

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29 Term loan from the Ministry of Finance

	30 September 2005	31 December 2004
	RO'000	RO'000
Balance at beginning of period / year	45,000	60,000
Accrued interest	375	-
Payments made during the period / year	-	(15,000)
	<hr/>	<hr/>
Balance at end of period / year	45,375	45,000
Less: Current portion	(15,375)	(15,000)
	<hr/>	<hr/>
Non current portion	30,000	30,000
	<hr/> <hr/>	<hr/> <hr/>

The effective interest rate is 5 % per annum and is applicable from 1 August 2005. Interest is payable on 31 January and 31 July.

30 Amounts payable to the Ministry of Finance

	30 September 2005	31 December 2004
	RO'000	RO'000
Write back of impaired debt provision [See note (a) below]	2,335	-
Write back of Royalty liability [See note (b) below]	6,740	-
	<hr/>	<hr/>
	9,075	-
	<hr/> <hr/>	<hr/> <hr/>

(a) In respect of provision for receivables established as at 31 December 2004, the write back of provision of RO 2.335 million (net of tax - RO 0.318 million) during the period has been credited to the Government [refer note 21(b)].

(b) During the period, royalty of RO 6.740 million (net of tax – RO 0.919 million) has been written back and has been credited to the Government (refer note 35).

31 End of service benefits

The movement in end of service benefits is as follows:

	30 September 2005	31 December 2004
	RO'000	RO'000
At beginning of period / year	1,753	1,669
Charge for the period / year	120	169
Payments during the period / year	(133)	(85)
	<hr/>	<hr/>
At end of period / year	1,740	1,753
	<hr/> <hr/>	<hr/> <hr/>

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32 Creditors and accruals

	30 September 2005	31 December 2004
	RO'000	RO'000
Trade payables	4,669	5,550
Amounts due to other telecommunication administrators	6,025	4,765
Retentions payable	16,964	14,406
Accruals	14,241	18,374
Deferred income	10,474	6,796
Other payables	4,620	5,170
	56,993	55,061

Retentions payable include approximately RO 4,505,800 (2004 - RO 6,809,000) due after one year.

33 Dividend payable to the Ministry of Finance

The movement in the dividend payable is set out as follows:

	30 September 2005	31 December 2004
	RO'000	RO'000
At beginning of period / year	28,752	85,457
Payments during the period / year	(53,926)	(45,000)
Accrued interest	488	-
Dividend payable	78,835	-
Assets taken over at carrying value	-	(11,455)
Amount paid for Government investment in subsidiary	-	(250)
At end of period / year	54,149	28,752

The group had installed certain tangible property, plant and equipment at the request of the Government. Consequently at 31 December 2004, these assets have been transferred to the Government at net book value.

At 30 September 2005, the Group had net current liabilities of RO 79.970 million (2004 – RO 39.051 million).

The Board of Directors have approached the Ministry of Finance to reschedule the dividends payable to the Government and the Ministry of Finance has agreed in principle to reschedule the amount due, however the details of such rescheduling have yet to be formalized. The effective interest rate is 5% per annum and is applicable from 1 August 2005. Interest is payable on 31 January and 31 July.

34 Bank borrowings

	30 September 2005	31 December 2004
	RO'000	RO'000
Bank borrowings	7,047	-

Bank borrowings represent an overdraft facility extended by Oman Arab Bank SAOC. The overdraft facility was utilised to extend interest free loans to its staff to finance the purchase of its shares (refer note 21(c)). The sale proceeds of the shares will be adjusted against the overdraft. The overdraft is payable on 31 January 2006. The effective interest rate is 4.75 % per annum.

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35 Royalty payable

	30 September 2005	31 December 2004
	RO'000	RO'000
Fixed line royalty charges (including internet)	9,655	15,033
Mobile royalty charges	11,897	16,600
	<u>21,552</u>	<u>31,633</u>

As per its fixed licence, royalty of 10 % is payable to the Telecom Regulatory Authority (TRA) on gross fixed revenues and Internet and Data revenues. Similarly royalty of 12 % is payable to the TRA on gross mobile revenues. The royalty for 2004 has been calculated on gross licensee revenues for the period from 11 February 2004 to 31 December 2004.

The Group considers that royalty should be calculated on net revenue. The method of computing royalty on net revenues is consistent with the international regulatory practices. The TRA has positively decided the computation of royalty on net revenue in relation to interconnection expense with licensed operator within the Sultanate of Oman. The Group believes that the TRA will likely decide positively the computation of royalty payable by the Group on its net revenue after deduction of external administration expense.

If the TRA decides to permit the group to compute royalty on net revenue for 2005, royalty expense will reduce by RO 1.829 million for the period ended 30 September 2005.

Any concessions granted by the TRA in respect of the royalty for the period 11 February 2004 to 31 December 2004 will be transferred to the Ministry of Finance.

The TRA while determining the royalty for year 2004 has allowed the deduction of interconnection expense, which has resulted in a write back of RO 7.659 million. The write back has been credited to the Ministry of Finance. [Refer note 30(b)]

36 Commitments

Capital commitments

Capital commitments, for which no provision has been made in these financial statements, in respect of the purchase of property, plant and equipment and investments, are as follows:

	30 September 2005	31 December 2004
	RO'000	RO'000
Contracted for	74,714	75,370
Authorised but not contracted for	92,824	107,987
	<u>167,538</u>	<u>183,357</u>

At 30 September 2005, the aggregate capital commitment made by the group on behalf of the Government amounts to RO 6.27 million. The group is entitled to recover these amounts from the Government when they fall due for payment.

Operational commitments

	30 September 2005	31 December 2004
	RO'000	RO'000
Letters of credit	5,491	1,601

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FOR THE PERIOD ENDED 30 SEPTEMBER 2005 (continued)**

37 Contingent liabilities

	30 September 2005	31 December 2004
	RO'000	RO'000
Bank Guarantees	193	-
	<u> </u>	<u> </u>

The above guarantees were issued in the normal course of business.

38 Related parties

(a) The group enters into transactions in the ordinary course of business with concerns in which certain Directors and members of senior management have significant influence. These transactions are entered into on terms which management consider correspond to terms available on normal arm's length transactions with these parties. The nature of significant related party transactions and the amounts involved during the period were as follows:

	1 January 2005 to 30 September 2005	1 January 2004 to 30 September 2004
	RO'000	RO'000
Purchase of property, plant and equipment from associate	1,179	1,403
	<u> </u>	<u> </u>
Executive Directors' remuneration and sitting fees	102	192
	<u> </u>	<u> </u>
Non-executive Directors' remuneration and sitting fees	35	36
	<u> </u>	<u> </u>
Directory enquiry services from associate	10	-
	<u> </u>	<u> </u>

(b) At the balance sheet date, trade creditors included the following balances payable to a related party:

	30 September 2005	31 December 2004
	RO'000	RO'000
Trade creditors (associate)	246	245
	<u> </u>	<u> </u>

39 Claims against the group

(a) A few regulatory non-compliance items, because of operational and budgetary constraints may pose a risk of penalty being imposed by Telecom Regulatory Authority (TRA). However, neither the amount of penalty nor whether the TRA will actually impose any penalty can be determined.

(b) As disclosed in note 12, on 25 February 2004, the group entered into a new agreement with OIFC which is effective from 1 January 2003. The agreement which expired on 31 December 2004 was extended for further period of one year. The contract provides for recourse to OIFC on debts uncollected and deemed irrecoverable. Such claims are examined on a case by case basis and the group assumes responsibility for claims eligible for recourse under the agreement with OIFC.

(c) Legal proceedings against the Group were launched by a claimant for an amount of RO 1.8 million. The preliminary court has however dismissed the claim. The claimant lodged an appeal with the appeals court. The hearing of the case is scheduled to be held on 26 December 2005. Management expects that the appeal would be dismissed.

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40 Segment reporting

The group primarily operates in the following business segments:

- (1) Fixed telephone services
- (2) Mobile telephone services
- (3) Internet and data services

Revenue relating to the above segments is disclosed in Note 3.

OMAN TELECOMMUNICATIONS COMPANY (SAOC) AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2005 (continued)

Movement in property, plant and equipment (note 16)

	Freehold Land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges, power equipment and related software RO'000	Telephone, telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work in progress RO'000	Assets in use but awaiting capitalisation RO'000	Total RO'000
Cost											
1 January 2005	668	17,532	151,822	142,866	6,378	5,434	14,849	2,564	57,716	62,430	462,259
Additions	3	80	738	182	203	210	852	84	8,927	51,533	62,812
Transfers	6	2,486	3,121	25,479	-	307	1,285	189	(12,199)	(20,674)	-
Disposals	-	-	-	-	-	-	-	(24)	-	-	(24)
30 September 2005	677	20,098	155,681	168,527	6,581	5,951	16,986	2,813	54,444	93,289	525,047
Depreciation											
1 January 2005	-	8,739	58,952	75,594	4,097	3,706	9,996	1,530	-	9,460	172,074
Charge for the period	-	1,061	8,871	21,011	839	341	2,554	419	-	3,827	38,923
Disposals	-	-	-	-	-	-	-	(24)	-	-	(24)
30 September 2005	-	9,800	67,823	96,605	4,936	4,047	12,550	1,925	-	13,287	210,973
Net book amount											
At 30 September 2005	677	10,298	87,858	71,922	1,645	1,904	4,436	888	54,444	80,002	314,074
At 31 December 2004	668	8,793	92,870	67,272	2,281	1,728	4,853	1,034	57,716	52,970	290,185