

**OMAN TELECOMMUNICATIONS
COMPANY SAOG AND ITS SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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**REPORT OF THE AUDITORS TO THE
SHAREHOLDERS OF OMAN TELECOMMUNICATIONS COMPANY SAOG**

We have audited the accompanying consolidated balance sheet of **Oman Telecommunications Company SAOG** (the company) **and its subsidiary** (collectively the group) as at 31 December 2005 and the related consolidated profit and loss account and statements of cash flows and changes in shareholders' equity, for the year then ended. These financial statements set out on pages 2 to 28 are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

In our opinion, the accompanying financial statements comply, in all material respects, with the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority of the Sultanate of Oman.

PricewaterhouseCoopers LLP

9 March 2006

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2005

	Note	2005 RO'000	2004 RO'000
Revenue			
Service revenue		247,809	239,193
External administration revenue	6	13,826	8,193
Interconnection income	7(a)	<u>8,961</u>	<u>-</u>
		<u>270,596</u>	<u>247,386</u>
Expenses			
Roaming operator services		(4,501)	(2,427)
Interconnection expense	7(b)	(3,868)	-
Cost of content services	8	(2,817)	(217)
External administration expenses	9	(16,252)	(12,773)
Marketing and advertising expenses		(5,865)	(2,689)
Staff costs	10	(30,225)	(27,886)
Operating and maintenance expenses	11	(18,701)	(17,128)
Administrative expenses	12	(7,907)	(6,054)
Depreciation	17	(52,377)	(44,662)
Commission	13	(11,368)	(11,228)
Provision for impairment of receivables		(5,703)	(8,070)
Provision for against penalties	4(b)	(1,703)	-
Write back of provision		-	1,341
Amortisation of licence fee - net	18	(2,793)	(2,480)
Annual licence fees	18	(598)	(1,944)
Royalty		<u>(29,162)</u>	<u>(31,633)</u>
		<u>193,840</u>	<u>(167,850)</u>
Operating profit		76,756	79,536
Finance (costs)/income - net	14	(212)	1,149
Other income		1,079	2,043
Share of profit from associated companies - net	19	<u>157</u>	<u>14</u>
Profit before taxation		77,780	82,742
Taxation	15	<u>(9,634)</u>	<u>(9,790)</u>
Profit for the year		<u>68,146</u>	<u>72,952</u>
Attributable to:			
Equity holders of the company		67,771	72,800
Minority interest		<u>375</u>	<u>152</u>
		<u>68,146</u>	<u>72,952</u>
Earnings per share for profit attributable to the equity holders of the company for the year	16	RO <u>0.090</u>	RO <u>0.097</u>

The notes on pages 6 to 28 form an integral part of these consolidated financial statements.

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2005

	Note	2005 RO'000	2004 RO'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	320,168	290,185
Licences	18	39,608	42,401
Investments in associated companies	19	2,290	1,731
Investments at fair value through profit or loss	20	<u>4,336</u>	<u>4,074</u>
		366,402	338,391
Current assets			
Inventories	21	5,189	5,759
Trade and other receivables	22	35,362	18,098
Cash and cash equivalents	23	<u>47,564</u>	<u>78,782</u>
		88,115	102,639
Total assets		RO 454,517	RO 441,030
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	24	75,000	75,000
Legal reserve	25	30,218	26,508
Voluntary reserve	26	42,718	39,008
Capital contribution		44,181	44,181
Retained earnings		8,623	772
Proposed dividend		<u>52,500</u>	<u>78,835</u>
		253,240	264,304
Minority interest		<u>655</u>	<u>402</u>
Total equity		253,895	264,706
LIABILITIES			
Non-current liabilities			
Borrowings	27	51,527	1,153
Deferred Government grant		-	175
Deferred tax	28	2,129	1,553
Amount payable to the Government	29	-	30,000
End of service benefits	30	<u>1,741</u>	<u>1,753</u>
		55,397	34,634
Current liabilities			
Borrowings	27	35,757	664
Creditors and accruals	31	60,065	55,061
Amount payable to the Government	29	2,852	15,000
Dividend payable to the Government	32	-	28,752
Dividend payable to minority interest		122	-
Royalty payable	33	36,821	31,633
Taxation		<u>9,608</u>	<u>10,580</u>
		145,225	141,690
Total liabilities		200,622	176,324
Total equity and liabilities		RO 454,517	RO 441,030
Net assets per share	34	RO 0.338	RO 0.353

The consolidated financial statements on pages 2 to 28 were approved and authorised for issue to the shareholders by the Board of Directors on 9 March 2006 and were signed on their behalf by:

CHAIRMAN

DIRECTOR

EXECUTIVE PRESIDENT

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 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	Minority interest RO'000	Total RO'000
At 1 January 2004		75,000	25,000	35,475	-	12,757	-	-	148,232
Minority interest of share capital of subsidiary introduced		-	-	-	-	-	-	250	250
Disposal of available-for-sale investments		-	-	-	-	(1,033)	-	-	(1,033)
Deferred tax on sale of available-for-sale investments		-	-	-	-	124	-	-	124
Net profit for the year		-	-	-	-	72,800	-	152	72,952
Transfer to legal reserve	25	-	1,508	-	-	(1,508)	-	-	-
Transfer to voluntary reserve	26	-	-	3,533	-	(3,533)	-	-	-
Fair value gain on licences	18	-	-	-	44,181	-	-	-	44,181
Proposed dividend		-	-	-	-	(78,835)	78,835	-	-
At 31 December 2004		<u>75,000</u>	<u>26,508</u>	<u>39,008</u>	<u>44,181</u>	<u>772</u>	<u>78,835</u>	<u>402</u>	<u>264,706</u>
Balance at 1 January 2005		75,000	26,508	39,008	44,181	772	78,835	402	264,706
Dividend relating to 2004		-	-	-	-	-	(78,835)	(122)	(78,957)
Net profit for the year		-	-	-	-	67,771	-	375	68,146
Transfer to legal reserve	25	-	3,710	-	-	(3,710)	-	-	-
Transfer to voluntary reserve	26	-	-	3,710	-	(3,710)	-	-	-
Proposed dividend		-	-	-	-	(52,500)	52,500	-	-
At 31 December 2005		<u>75,000</u>	<u>30,218</u>	<u>42,718</u>	<u>44,181</u>	<u>8,623</u>	<u>52,500</u>	<u>655</u>	<u>253,895</u>

The notes on pages 6 to 28 form an integral part of these consolidated financial statements.

Report of the Auditors - page 1.

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	2005 RO'000	2004 RO'000
Cash flows from operating activities		
Profit before taxation	77,780	82,742
Adjustments for:		
Depreciation	52,377	44,662
Provision for impairment of receivables	5,703	8,070
Write back of provision for impairment of receivables	-	(1,341)
Impairment/amortisation of goodwill	96	96
Amortisation of licences	2,793	2,480
Fair value gains on investments	(262)	(337)
Profit on sale of investments or fair value through profit or loss	-	(1,672)
Interest income	(1,570)	(875)
Dividend income	(58)	(180)
Share of profit from associated companies	(157)	(14)
(Profit)/loss on sale of property, plant and equipment	(39)	37
Interest expense	2,154	-
End of service benefits expense	<u>170</u>	<u>169</u>
Operating profit before payment of end of service benefits and changes in working capital	138,987	133,837
Payment of end of service benefits	(182)	(85)
Working capital changes:		
Stock	570	(1,394)
Trade and other receivables	(25,677)	8,750
Royalty payable	5,188	31,633
Creditors and accruals	<u>8,245</u>	<u>1,113</u>
Cash generated from operations	127,131	173,854
Tax paid	<u>(10,419)</u>	<u>(12,316)</u>
Net cash generated from operating activities	<u>116,712</u>	<u>161,538</u>
Cash flow from investing activities		
Interest received	1,551	912
Purchase of property, plant and equipment	(82,360)	(84,702)
Proceeds from sale of fixed assets	39	-
Purchase of investments in associated companies	(612)	(301)
Proceeds from sale of investments at fair value through profit or loss	2,710	72
Dividend received	172	227
Purchase of licences	<u>-</u>	<u>(700)</u>
Net cash used in investing activities	<u>(78,500)</u>	<u>(84,492)</u>
Cash flow from financing activities		
Amount paid to the Government	(15,000)	(15,000)
Bank borrowings	4,560	-
Dividends paid	(49,002)	(45,000)
Repayment of loan to Government	(664)	(664)
Interest paid	(124)	-
Amount paid to contractors on behalf of the Ministry of Finance	<u>(9,200)</u>	<u>-</u>
Cash used in financing activities	<u>(69,430)</u>	<u>(60,664)</u>
Net change in cash and cash equivalents	(31,218)	16,382
Cash and cash equivalents at beginning of the year	<u>78,782</u>	<u>62,400</u>
Cash and cash equivalents at the end of the year	<u>47,564</u>	<u>78,782</u>

The notes on pages 6 to 28 form an integral part of these consolidated financial statements.

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

1 General information

Oman Telecommunication Company SAOG (the parent company or company) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The company's principal place of business is located at Ministries Street, Al Khuwair, Sultanate of Oman. The company was established under Royal Decree 46/99 dated 18 July 1999 by the transformation of the General Telecommunications Organisation (the Organisation) into the company. 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 company to new investors. Consequently, the Government sold 30% of its existing shares in the company to the public. The shares were listed on the Muscat Securities Market (the IPO) 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 associated companies, which are incorporated in the Sultanate of Oman are set out below.

	Percentage shareholding		Principal activities
	2005	2004	
	%	%	
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 Summary of significant accounting policies

The principal accounting policies applied in the preparation of each of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) The consolidated financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below and in accordance with International Financial Reporting Standards (IFRS) and comply with the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority of the Sultanate of Oman.

(b) The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

2.1 Basis of preparation (continued)

(c) At 31 December 2005 the company had net current liabilities of RO 57.110 million (2004 - RO 39.051 million). The Directors have reviewed cash flow projections prepared by management and are satisfied that the group will be able to meet its obligations for the next 12 months.

(d) *Standards, interpretations and amendments to published standards that are not yet effective.*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2006 or later periods but which the group has not early adopted. Management is currently evaluating the impact, if any, of these pronouncements on the group's financial statements for the year ending 31 December 2006:

- IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments and will require the group to disclose additional qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures and risk management policies including sensitivity analysis to market risk. The group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.
- IAS 19 (amendment), Employee Benefits (effective from 1 January 2006).
- IAS 39 (amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006).
- IAS 39 (amendment), The Fair Value Option (effective from 1 January 2006).
- IAS 39 and IFRS 4 (amendment), Financial Guarantee Contracts (effective from 1 January 2006).
- IFRS 1 (amendment), First time adoption of International Financial Reporting Standards (effective from 1 January 2006).
- IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 December 2005).

2.2 Consolidation

2.2.1 Subsidiary companies

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

2.2 Consolidation (continued)

2.2.2 Transactions and minority interests

The group applies a policy of treating transactions with minority interests as transactions with parties external to the group. Disposals to minority interests result in gains and losses for the group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.2.3 Associated companies

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates are changed, where necessary, to ensure consistency with the policies adopted by the group.

2.3 Segment reporting

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

2.4 Service revenue

Revenue comprises 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 installations is based on a time basis and on actual installation of telecommunication equipment, respectively.

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.

2.5 Finance costs - 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 or loss less interest payable on borrowings.

Interest income is accounted for on the accrual basis.

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

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

2.6 Commission

Commission comprises commission payable to factoring and collection agents and agents that 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. Commission payable to collection agents is accounted for at the time of collection of the bills.

2.7 Foreign currency

Items included in the financial statements of each of the group entities are measured using Rials Omani (RO) which is the functional currency of the primary economic environment in which the group operates. The consolidated financial statements are presented in Rials Omani, which is the parent company's functional and presentation currency, rounded off to the nearest thousand.

Foreign currency transactions are translated into Rials Omani at the exchange rate prevailing on the transaction date. Foreign currency assets and liabilities are translated into Rials Omani at the exchange rate prevailing at the balance sheet date. Differences on exchange are dealt with in the profit and loss account.

2.8 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses, if any. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. All other expenditure is recognised in the profit and loss account as an expense as incurred.

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:

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

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

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 fixed assets 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.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

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 profit before taxation.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

2.9 Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Licences

Licences acquired from the Telecommunications Regulatory Authority are recognised at fair value less any subsequent accumulated amortisation costs 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.

2.11 Assets at fair value through profit or loss

Financial assets at fair value through profit or loss principally comprise marketable securities. A financial asset is held in this category if acquired principally for the purpose of short-term profit taking or if so designated by management. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. These assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the profit and loss account in the period in which they arise. The fair values of quoted investments in active markets are based on current bid prices.

2.12 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 stock and bringing it to its existing location and condition. Net realisable value is the price at which stock 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.

2.13 Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account within "other operating expenses".

2.14 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.

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 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 profit and loss account as incurred.

2.17 Creditors and accruals

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

2.18 Deferred income 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 or substantially enacted tax rates are used to determine deferred income tax.

The principal temporary differences arise from depreciation on fixed assets and the provisions for doubtful debts and slow moving stocks.

3 Financial risk management

Financial instruments carried on the balance sheet comprise cash and cash equivalents, receivables, payables and borrowings.

The group's activities expose it to a variety of financial risks including the effects of changes in foreign currency exchange rates, interest rates and credit risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. Risk management is carried out by the management under directives approved by the Board.

3.1 Financial risk factors

(i) Interest rate risk

The group has short term deposits, amounts due to the Government and short term borrowings, which are interest bearing and exposed to changes in market interest rates.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(ii) Credit risk

At the balance sheet date amounts receivable from a factoring agent approximate to 39% (2004 - 37%) of the group's total trade debtors. Bank guarantees provided by the factoring agents represent 43% (2004 - 61%) 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 amounts of committed credit facilities.

(iv) Foreign currency risk

The group's transactions are primarily in Rial Omani and the group's performance is substantially independent of changes in foreign currency rates as its foreign currency dealings are principally in US Dollars to which the Rial Omani is pegged. There are no significant financial instruments denominated in foreign currency other than US Dollars and consequently foreign currency risk is not significant.

3.2 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 licences is disclosed in note 18 of these 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.

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below:

(a) Revenue recognition

Income amounting to approximately RO 0.717 million from the Ministry of Information for each of the years 2004 and 2005 has been recognised based on provision of TV transmission services at rates discussed with the customer and awaiting formalisation. Prior to the IPO, these services were provided but no revenue was realised in the absence of a formal agreement. A formal claim for payment of the amount of RO 1.43 million has been made with the Ministry of Information.

(b) Claims against the group

(i) The TRA has made a claim of RO 1.751 million of penalties for delay in payment of equipment license fees for the period 2004 to 2005. As the group was disputing the charges at which the equipment license fees for the period from 2003 to 2005 have been computed, the payment of these fees was delayed and they were finally paid to the TRA in 2005. However a penalty was imposed by the TRA for the period from the date the payments were due up to when they were actually paid. The issue is to be referred to the Ministry of Legal Affairs by the Ministry of Transport and Communication and the company has made a provision against the penalties for RO 1.703 million.

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

4 Critical accounting estimates and judgements (continued)

(ii) Certain regulatory non-compliance items, due to operational and budgetary constraints, may pose a risk of penalty being imposed by the TRA. However, neither the amount of penalty nor whether the TRA will actually impose a penalty can be determined at present.

(iii) A local licensed mobile operator (the operator) made a claim for retrospective reduction of interconnection charges in relation to international calls charges by the parent company to the operator. The TRA has forwarded the claim to the group and the proceedings are in progress. Management have not made a provision as they believe no loss will arise from the claim against the group.

(c) Income taxes

There are a number of transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 Segment reporting

At 31 December 2005, the group is organized into two main business segments:

1. Provision of international and national calls from fixed lines, including rentals and installations of fixed telephones; (fixed lines and others).
2. Operation of Global System for Mobile Communication (GSM) for prepaid and postpaid services, equipment rentals and amounts derived from the sale of telecommunication equipment and other associated services falling within the group's ordinary activities (mobile). From 1 March 2004 this segment has started to operate separately under the subsidiary.

The segment results for the year ended 31 December 2005 are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Total gross segment revenues	<u>151,927</u>	<u>186,061</u>	<u>(67,392)</u>	<u>270,596</u>
Profit before taxation	<u>46,935</u>	<u>42,910</u>	<u>(12,065)</u>	<u>77,780</u>

The segment results for the year ended 31 December 2004 are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Total gross segment revenues	<u>151,826</u>	<u>160,965</u>	<u>(65,405)</u>	<u>247,386</u>
Profit before taxation	<u>47,760</u>	<u>34,982</u>	<u>-</u>	<u>82,742</u>

Other segment items for the year ended 31 December 2005 included in the profit and loss statement are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	<u>29,754</u>	<u>22,623</u>	<u>52,377</u>
Amortisation	<u>300</u>	<u>2,493</u>	<u>2,793</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

5 Segment reporting

Other segment items for the year ended 31 December 2004 included in the profit and loss statement are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	<u>28,928</u>	<u>15,734</u>	<u>44,662</u>
Amortisation	<u>267</u>	<u>2,213</u>	<u>2,480</u>

The segment assets and liabilities at 31 December 2005 and capital expenditures for the year then ended are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Assets	<u>363,010</u>	<u>206,686</u>	<u>(115,179)</u>	<u>454,517</u>
Liabilities	<u>149,881</u>	<u>141,169</u>	<u>(90,428)</u>	<u>200,622</u>
Capital expenditures	<u>33,011</u>	<u>49,349</u>	<u>-</u>	<u>82,360</u>

The segment assets and liabilities at 31 December 2004 and capital expenditures for the year then ended are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Assets	<u>383,414</u>	<u>175,408</u>	<u>(117,792)</u>	<u>441,030</u>
Liabilities	<u>134,193</u>	<u>135,173</u>	<u>(93,042)</u>	<u>176,324</u>
Capital expenditures	<u>50,570</u>	<u>42,841</u>	<u>-</u>	<u>93,411</u>

6 External administration revenue

	2005 RO'000	2004 RO'000
Telephones and GSM	<u>13,826</u>	<u>8,188</u>
Telegrams	<u>-</u>	<u>5</u>
	<u>13,826</u>	<u>8,193</u>

7 Interconnection income and expense

(a) 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 on the group's network.

(b) Interconnection expense represents the charges paid by the group to a licensed local mobile operator for the termination of the traffic on the network of the operator.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

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 and SMS to TV channels etc.

9 External administration expenses

	2005 RO'000	2004 RO'000
Telephones (fixed and mobile)	16,228	12,762
Telegrams	22	10
Telex	<u>2</u>	<u>1</u>
	<u>16,252</u>	<u>12,773</u>

10 Staff costs

	2005 RO'000	2004 RO'000
Salaries and allowances	26,492	24,898
Social security costs	1,561	1,378
End of service benefits	170	169
Other employee benefits	<u>2,002</u>	<u>1,441</u>
	<u>30,225</u>	<u>27,886</u>

11 Operating and maintenance expenses

	2005 RO'000	2004 RO'000
Asset maintenance	5,762	3,659
Cost of sale of prepaid products	4,480	2,911
Satellite channels rent and frequency charges - net	3,898	7,542
Office rent	1,553	1,063
Electricity and water	1,335	993
Maintenance and hire charges	824	359
Petrol, oil and lubricants	435	322
Insurance	269	232
Others	<u>145</u>	<u>47</u>
	<u>18,701</u>	<u>17,128</u>

12 Administrative expenses

	2005 RO'000	2004 RO'000
Training costs	1,906	2,323
Professional fees for group re-organisation	1,676	762
Professional consultancy fees	1,477	803
Administrative services	1,224	632
Business travel	942	954
Office supplies and services	586	484
Amortisation of goodwill on investment in associated companies	<u>96</u>	<u>96</u>
	<u>7,907</u>	<u>6,054</u>

Professional fees for group re-organisation were incurred in respect of services by a consultant for the enhancement of organisational efficiency and processes.

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

13 Commission

On 25 February 2004, the parent company entered into an agreement with Oman Investments and Finance Company SAOG (OIFC) whereby with effect from 1 January 2004 the parent company has assigned all amounts due from private customers to OIFC.

The agreement with OIFC for the collection of assigned amounts due from private customers has been extended for a period of three months and expires on 31 March 2006.

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.

In addition, OIFC endeavours to collect, on behalf of the group, 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 paid to collection agents against bill collections are reduced from the commission payable to OIFC.

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

14 Finance (costs)/income - net

	2005 RO'000	2004 RO'000
Interest income	1,570	875
Dividend income	58	180
Exchange gain/(loss)	52	(243)
Fair value gain on investments at fair value through profit and loss	262	337
Amortisation of deferred Government grant	-	128
Interest on borrowings	(2,154)	(128)
	<u>(212)</u>	<u>1,149</u>

15 Taxation

(a) The tax charge for the year comprises:

	2005 RO'000	2004 RO'000
Current taxation	9,058	10,421
Deferred taxation		
- in respect of current year	747	(493)
- in respect of prior years	(171)	(138)
	<u>576</u>	<u>(631)</u>
	<u>9,634</u>	<u>9,790</u>

(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 the profit and loss account is as follows:

	2005 RO'000	2004 RO'000
Tax on accounting profit of RO 77,780,000 (2004 - RO 82,742,000)	9,326	9,922
Add/(less) tax effect of:		
Expenses not deductible	1,983	293
Income not subject to tax (see note below)	(1,504)	(287)
Deferred tax relating to prior years	(171)	(138)
Tax charge as per profit and loss account	<u>9,634</u>	<u>9,790</u>

Includes tax effect of approximately RO 1.45 million on dividends received by the company from its subsidiary (2004 - nil).

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

15 Taxation (continued)

(c) For all years up to 31 December 2004 taxation returns have been filed but have yet to be agreed with the Oman Taxation Authorities. Assessments have been completed up to the year 2001 and a refund has been determined. The group filed an appeal in 2005, in respect of certain disallowances for the period from 1999 to 2001.

16 Earnings per share

The earnings per share has been derived by dividing the net profit for the year attributable to the equity holders of the parent company by the weighted average number of shares outstanding. For comparative purposes, the earnings per share for 2004 has been restated based on the reduced par value of each share of RO 0.100 (note 24). As there are no potential dilutive shares, the diluted earnings per share is identical to the basic earnings per share.

17 Property, plant and equipment

- (a) The movement in fixed assets during 2005 and 2004 is set out on page 27 and 28.
- (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, fixed assets having an original cost of approximately RO 430 million and accumulated depreciation of approximately RO 247 million were transferred to the company at their net book value (note 1).

18 Licences

The movement in licences is as follows:

	2005 RO'000	2004 RO'000
At 1 January	42,401	-
Acquired at fair value from Government Authorities	-	44,881
Charge for the year	<u>(2,793)</u>	<u>(2,480)</u>
Net book amount at 31 December	<u>39,608</u>	<u>42,401</u>

- (a) 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 2005, who have determined the fair value of the fixed and mobile licences on an open market basis at approximately RO 44.881 million.

The basis of the valuations was on an assessed 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 non-distributable capital contribution within equity.

- (b) The group is also required to pay an annual licence fee to the TRA.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

19 Investments 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:

	2005 RO'000	2004 RO'000
At beginning of the year	1,731	1,408
Transfer from advance account	-	151
Investment during the year	612	301
Share of profit – net	157	14
Dividend received	(114)	(47)
Impairment/amortisation of goodwill	(96)	(96)
At end of the year	<u>2,290</u>	<u>1,731</u>

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

	2005 RO'000	2004 RO'000
Cost		
At 1 January and 31 December	<u>480</u>	<u>480</u>
Amortisation		
At beginning of the year	384	288
Impairment/amortisation of goodwill	<u>96</u>	<u>96</u>
At end of the year	<u>480</u>	<u>384</u>
Carrying amount at end of the year	<u>-</u>	<u>96</u>

(c) The fair value of the parent company's investment in Oman Fiber Optic Company SAOG, which is listed on Muscat Securities Market, is RO 2,586,000 (2004 - 3,358,030).

(d) The group's share of the results of its principal associates, all of which are incorporated in the Sultanate of Oman and one of which is unlisted, and its share of the assets (including goodwill and liabilities) are as follows:

Name	Assets RO'000	Liabilities RO'000	Revenues RO'000	Profit RO'000	% interest held
Year 2005					
Oman Fiber Optic SAOG	2,130	791	884	156	25.96%
Infoline LLC	450	126	266	19	45%
Year 2004					
Oman Fiber Optic SAOG	2,200	903	757	129	25.96%

(a) As Infoline LLC's year end is 31 March, the information provided above relates to the unaudited results of the 9 months period ended 31 December 2005.

(b) Management believes that Omania e-commerce LLC's financial position and its results for the period ended 31 December 2005 are not material to the group.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

20 Investments at fair value through profit or loss

	Carrying amount as at 31 December 2004 RO'000	Fair value adjustment RO'000	Carrying amount as at 31 December 2005 RO'000
Non-current and unquoted			
Thuraya Telecommunication Company	1,437	192	1,629
Arab Satellite Communications Organisation	<u>2,637</u>	<u>70</u>	<u>2,707</u>
	<u>4,074</u>	<u>262</u>	<u>4,336</u>

21 Inventories

	2005 RO'000	2004 RO'000
Stores and spares	7,940	8,702
Prepaid cards and handsets	<u>621</u>	<u>1,399</u>
	8,561	10,101
Provision for inventory obsolescence	<u>(3,372)</u>	<u>(4,342)</u>
	<u>5,189</u>	<u>5,759</u>

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

	2005 RO'000	2004 RO'000
At 1 January	4,342	4,342
Charged during the year	<u>209</u>	-
	4,551	4,342
Released during the year	<u>(1,179)</u>	-
At 31 December	<u>3,372</u>	<u>4,342</u>

22 Trade and other receivables

	2005 RO'000	2004 RO'000
Amounts due from customers	28,233	25,293
Amounts due from OIFC	24,700	17,270
Amounts due from Debt Recovery Services LLC	-	793
Amounts due from other operators	10,536	3,754
Other receivables	<u>1,812</u>	<u>4,234</u>
	<u>65,281</u>	<u>51,344</u>
Provision in respect of claims finalised by Ministerial Committee (note (a) below)	<u>(3,379)</u>	(4,950)
Provision for impairment of receivables	<u>(33,111)</u>	(29,422)
	<u>(36,490)</u>	<u>(34,372)</u>
Trade and other receivables - (net)	28,791	16,972
Prepayments, advances and staff loans (note (c) below)	<u>6,571</u>	<u>1,126</u>
	<u>35,362</u>	<u>18,098</u>

(a) During 2000, a Ministerial Committee was formed to review OIFC's claims against the parent 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 company 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 provisions had been established at 31 December 2004, the write back of such bad debt provision will be credited and paid to the Government (see note 29).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

22 Trade and other receivables (continued)

(c) During the year the parent company has extended interest free loans to the staff of the group to finance the purchase of its shares in the IPO. The loan is secured by way of pledge on the shares. The entire loan amount is repayable by 24 January 2006 after which pledged shares relating to balances outstanding are to be sold and the sale proceeds of the shares will be adjusted against the loan. Subsequent to the year end all loans have been repaid either directly by the employees or through the sale of the pledged shares by the group.

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

	2005 RO'000	2004 RO'000
At 1 January	34,372	28,112
Charge for the year	5,703	8,070
Amount written off during the year	(344)	(469)
Amount written back during the year	<u>(3,241)</u>	<u>(1,341)</u>
At 31 December	<u>36,490</u>	<u>34,372</u>

23 Cash and cash equivalents

	2005 RO'000	2004 RO'000
Short term bank deposits	5,080	65,271
Cash at bank and in hand	<u>42,484</u>	<u>13,511</u>
	<u>47,564</u>	<u>78,782</u>

Short term deposits are placed with commercial banks at interest rates ranging from 2.6% to 4.3% (2004 - 0.6% to 2.6%) per annum and mature between one and three months from the date of deposit.

24 Share capital

The share capital comprises 750,000,000 (2004 - 75,000,000) ordinary shares of RO 0.100 (2004 - RO 1) each fully paid. In accordance with the Ministerial Decision at their counsel meeting No. 3/2005 dated 18 January 2005, the par value of each 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 31 December 2005 are as follows:

	2005		2004	
	Shares held	%	Shares held	%
Government of the Sultanate of Oman	525,000,000	70	75,000,000	100

25 Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, annual appropriations of 10% of the net profit for the year 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. The balance at the end of the year represents amounts relating to the company and its share of the legal reserve of its subsidiary.

	2005 RO'000	2004 RO'000
Company	25,000	25,000
Subsidiary	<u>5,218</u>	<u>1,508</u>
	<u>30,218</u>	<u>26,508</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

26 Voluntary reserve

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

	2005 RO'000	2004 RO'000
Company	37,500	37,500
Subsidiary	<u>5,218</u>	<u>1,508</u>
	<u>42,718</u>	<u>39,008</u>

27 Borrowings

	2005 RO'000	2004 RO'000
Non-current		
Government loan and other borrowings	87,284	1,992
Deferred Government grant	<u>-</u>	<u>(175)</u>
	87,284	1,817
Current portion included under current liabilities	<u>(35,757)</u>	<u>(664)</u>
	<u>51,527</u>	<u>1,153</u>

	2005 RO'000	2004 RO'000
Current		
Current portion of borrowings from Government	31,197	664
Overdraft	<u>4,560</u>	<u>-</u>
	<u>35,757</u>	<u>664</u>

	2005 RO'000	2004 RO'000
(a) Maturity of non-current borrowings is as follows:		
1 to 2 years	38,388	604
2 to 5 years	<u>13,139</u>	<u>549</u>
	<u>51,527</u>	<u>1,153</u>

(b) The Government loan, which was interest free until 31 July 2005, 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. During the year, RO 30 million and RO 28.8 million from amounts due to the Government (see note 29) and dividends payable to the Government (see note 32), respectively were transferred to the Government loan.

(c) Effective 1 August 2005, the Government started to charge 5% interest per annum on the balance of the Government loan. As a result, the balance of the deferred government grant was reversed back to borrowings.

(e) Borrowings also include an overdraft facility extended by a local bank. The effective interest rate is 4.25% per annum.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

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/(credit) in the profit and loss account are attributable to the following items:

	31 December 2004 RO'000	Charged/(credited) to profit and loss account RO'000	31 December 2005 RO'000
Asset			
Tax effect of provisions	(2,785)	(840)	(3,625)
Liability			
Tax effect of depreciation	4,338	1,416	5,754
	<u>1,553</u>	<u>576</u>	<u>2,129</u>

	31 December 2003 RO'000	Credited to equity RO'000	Charged/(credited) to profit and loss account RO'000	31 December 2004 RO'000
Asset				
Tax effect of provisions	(1,854)	(124)	(807)	(2,785)
Liability				
Tax effect of depreciation	4,162	-	176	4,338
	<u>2,308</u>	<u>(124)</u>	<u>(631)</u>	<u>1,553</u>

29 Amount payable to the Government

	2005 RO'000	2004 RO'000
At 1 January	30,000	60,000
Transferred to Government loan (note 27)	(30,000)	-
Payments made during the year	-	(15,000)
Write back of impaired debt provision (note 22(b))	2,852	-
At 31 December	2,852	45,000
Less: current portion	(2,852)	(15,000)
Non current portion	<u>-</u>	<u>30,000</u>

As disclosed in note 33, during the year, the TRA has permitted the deduction of interconnection expenses in relation to local licensed operators which is applicable retrospectively. As the determination of royalty payable for the year 2004 is in the process of being finalised by the TRA, any concessions granted by the TRA, in respect of royalty paid for the period 11 February 2004 to 31 December 2004, will be transferred to the Government.

30 End of service benefits

The movement in end of service benefits is as follows:

	2005 RO'000	2004 RO'000
At 1 January	1,753	1,669
Charge for the year	170	169
Payments during the year	(182)	(85)
At 31 December	<u>1,741</u>	<u>1,753</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

31 Creditors and accruals

	2005 RO'000	2004 RO'000
Trade payables	1,852	5,550
Amounts due to other telecommunication administrators	8,365	4,765
Retentions payable	18,160	14,406
Accruals	16,366	18,374
Deferred income	10,606	6,796
Other payables	<u>4,716</u>	<u>5,170</u>
	<u>60,065</u>	<u>55,061</u>

Retentions payable include approximately RO 2,855,000 (2004 - RO 6,809,000) due after one year.

32 Dividend payable to the Government

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

	2005 RO'000	2004 RO'000
At 1 January	28,752	85,457
Transferred to Government loan ((b) below)	(28,752)	
Payments during the year	-	(45,000)
Assets taken over at carrying value	-	(11,455)
Amount paid for Government's investment in the subsidiary	<u>-</u>	<u>(250)</u>
At 31 December	<u>-</u>	<u>28,752</u>

(a) A dividend of RO 52.500 million (2004 - RO 78.835) million is to be approved by the shareholders at the forthcoming Annual General Meeting.

(b) The Board of Directors approached the Ministry of Finance to reschedule the dividends payable to the Government in respect of the year 2004 and earlier years and the Ministry of Finance has agreed to reschedule the amount due. As a result the balance of dividend due to the Government has been transferred to the Government loan (see note 27).

33 Royalty payable

In accordance with Article 4 (1) of the fixed and mobile licences referred to in note 1, the licensee is required to pay royalty to the TRA at the rates of 10% and 12% respectively of its gross revenue as royalty. During the year the TRA has permitted the group to deduct interconnection expenses in respect of local licensed operators which is applicable retrospectively. As the determination of royalty payable for the year 2004 is in the process of being finalised by the TRA, any concessions granted by the TRA, in respect of royalty paid for the period 11 February 2004 to 31 December 2004, will be transferred to the Government.

34 Net asset per share

Net assets per share attributable to equity holders of the company is calculated by dividing the net assets at year end by the number of shares outstanding at 31 December as follows:

	2005 RO'000	2004 RO'000
Net assets attributable to the equity holders of the company	<u>253,240</u>	<u>264,304</u>
Number of shares outstanding at 31 December	<u>750,000</u>	<u>750,000</u>
Net assets per share	<u>0.338</u>	<u>0.352</u>

For comparative purposes, the net assets per share as at 31 December 2004 has been restated based on the reduced par value of each share of RO 0.100 (note 24).

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

35 Related parties

The group enters into transactions in the normal course of business with concerns in which certain directors of the parent company are interested. The nature and amounts of transactions during the year were as follows:

(i) Purchase of goods and services

	2005 RO'000	2004 RO'000
Entities under significant influence of the parent company	<u>1,376</u>	<u>1,981</u>
Entities with significant influence over the parent company	<u>11,264</u>	<u>13,210</u>

(ii) Remuneration to directors

	2005 RO	2004 RO
Parent company		
Directors' remuneration – executive	-	5,000
Directors' remuneration - non executive	84,000	30,000
Directors' sitting fees - non executive	14,400	-
Executive directors' basic salaries, allowances, other benefits and social security costs	<u>105,883</u>	<u>128,942</u>
	<u>204,283</u>	<u>163,942</u>
Subsidiary company		
Directors' remuneration – executive	42,000	70,000
Directors' remuneration - non executive	10,000	15,000
Directors' sitting fees – executive	22,800	18,500
Directors' sitting fees - non executive	5,500	4,000
Executive directors' basic salaries, allowances, other benefits and social security costs	<u>151,930</u>	<u>125,070</u>
	<u>232,230</u>	<u>232,570</u>
Consolidation	<u>436,513</u>	<u>396,512</u>

(iii) Key management compensation

	2005 RO	2004 RO
Parent company		
Basic salaries and allowances	360,393	283,111
Other benefits and expenses	10,056	2,160
Social security costs	<u>17,668</u>	<u>16,052</u>
	<u>388,117</u>	<u>301,323</u>
Subsidiary company		
Basic salaries and allowances	49,133	72,023
Other benefits and expenses	1,000	-
Social security costs	<u>6,096</u>	<u>4,660</u>
	<u>56,229</u>	<u>76,683</u>
Consolidation	<u>444,346</u>	<u>378,006</u>

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

35 Related parties (continued)

(iv) Year end balances arising from sales/purchases of goods/services

	2005 RO'000	2004 RO'000
Receivable from related parties	<u>3,956</u>	<u>3,441</u>
Payable to related parties	<u>28</u>	<u>35</u>

(v) Loans to directors / key management

	2005 RO	2004 RO
(a) Executives	40,128	-
Division heads	<u>18,240</u>	-
	<u>58,368</u>	-
(b) The movement in loans to directors/key management is set out as follows:		
Beginning of the year	-	-
Loans given	151,104	-
Loans repayment received	<u>(92,736)</u>	-
End of year	<u>58,368</u>	-

(c) The loans advanced to directors and management have the following terms and conditions:

	Amount of loan RO	Terms	Interest rate
Executives	40,128	Due by 24 January 2006	Nil
Division heads	18,240	Due by 24 January 2006	Nil

36 Dividend per share

	2005 RO	2004 RO
Dividend per share	<u>0.070</u>	<u>0.105</u>

Dividend per share has been calculated based on the dividend proposed for the year ended 31 December 2005 of approximately RO 52.500 million (2004 - RO 78.84 million) and the number of shares in issue as at 31 December 2005 of 750 million (2004 - restated for comparative purposes).

37 Commitments

(a) Capital commitments

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

	2005 RO'000	2004 RO'000
Contracted for	64,109	75,370
Authorised but not contracted for	<u>58,189</u>	<u>107,987</u>
	<u>122,298</u>	<u>183,357</u>

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

37 Commitments (continued)

(a) Capital commitments (continued)

The group's share in the purchase commitments and lease commitments of an associated company at 31 December 2005 was approximately RO 584,000 (2004 - RO 761,000) and RO 105,000 (2004 - RO 78,000), respectively.

At 31 December 2005, the aggregate capital commitment made by the group on behalf of the Government amounts to RO 1.77 million (2004 - RO 10.97 million). The group is entitled to recover these amounts from the Government when they fall due for payment.

(b) Operational commitments

	2005	2004
	RO'000	RO'000
Letters of credit	<u>3,936</u>	<u>1,601</u>

(c) Contingent liabilities

	2005	2004
	RO'000	RO'000
Bank guarantees	<u>192</u>	<u>—</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

Movement in property, plant and equipment (note 17)

	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	106	1,009	289	261	212	1,232	201	(14,688)	93,735	82,360
Transfers	6	3,517	7,968	57,051	15	966	2,197	190	(13,758)	(58,152)	-
Disposals	-	-	-	-	-	-	-	(24)	-	-	(24)
31 December 2005	<u>677</u>	<u>21,155</u>	<u>160,799</u>	<u>200,206</u>	<u>6,654</u>	<u>6,612</u>	<u>18,278</u>	<u>2,931</u>	<u>29,270</u>	<u>98,013</u>	<u>544,595</u>
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 year	-	1,644	12,224	31,062	1,132	586	3,515	560	-	1,654	52,377
Disposals	-	-	-	-	-	-	-	(24)	-	-	(24)
31 December 2005	<u>-</u>	<u>10,383</u>	<u>71,176</u>	<u>106,656</u>	<u>5,229</u>	<u>4,292</u>	<u>13,511</u>	<u>2,066</u>	<u>-</u>	<u>11,114</u>	<u>224,427</u>
Net book amount											
At 31 December 2005	<u>677</u>	<u>10,772</u>	<u>89,623</u>	<u>93,550</u>	<u>1,425</u>	<u>2,320</u>	<u>4,767</u>	<u>865</u>	<u>29,270</u>	<u>86,899</u>	<u>320,168</u>

OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (continued)

Movement in property, plant and equipment (note 17)

	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 2004	649	15,733	146,926	133,742	6,131	5,035	9,789	2,022	29,869	31,883	381,779
Additions	16	60	709	436	229	70	784	195	41,659	49,253	93,411
Transfers	3	1,739	4,800	9,930	18	329	4,702	347	(9,597)	(12,271)	-
Disposals	-	-	(613)	(1,242)	-	-	(426)	-	(4,215)	(6,435)	(12,931)
31 December 2004	<u>668</u>	<u>17,532</u>	<u>151,822</u>	<u>142,866</u>	<u>6,378</u>	<u>5,434</u>	<u>14,849</u>	<u>2,564</u>	<u>57,716</u>	<u>62,430</u>	<u>462,259</u>
Depreciation											
1 January 2004	-	7,177	47,325	57,726	3,014	3,250	6,680	1,037	-	2,643	128,852
Charge for the year	-	1,562	11,744	18,489	1,083	456	3,705	493	-	7,130	44,662
Disposals	-	-	(117)	(621)	-	-	(389)	-	-	(313)	(1,440)
31 December 2004	<u>-</u>	<u>8,739</u>	<u>58,952</u>	<u>75,594</u>	<u>4,097</u>	<u>3,706</u>	<u>9,996</u>	<u>1,530</u>	<u>-</u>	<u>9,460</u>	<u>172,074</u>
Net book amount											
At 31 December 2004	<u>668</u>	<u>8,793</u>	<u>92,870</u>	<u>67,272</u>	<u>2,281</u>	<u>1,728</u>	<u>4,853</u>	<u>1,034</u>	<u>57,716</u>	<u>52,970</u>	<u>290,185</u>

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