

**OMAN TELECOMMUNICATIONS  
COMPANY SAOG AND ITS SUBSIDIARY**

**Unaudited Interim consolidated financial statements  
for the period ended 30 September 2006**

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OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

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INTERIM CONSOLIDATED INCOME STATEMENT  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006

		(Unaudited)	(Unaudited)
	Note	I January 2006 to 30 September 2006 RO'000	1 January 2005 to 30 September 2005 RO'000
<b>Revenue</b>			
Service revenue		208,189	182,644
External administration revenue	6	12,556	10,301
Interconnection income	7	16,810	4,543
Capacity sale		2,087	-
		<hr/>	<hr/>
		239,642	197,488
<b>Expenses</b>			
Roaming operator services		(3,662)	(3,572)
Interconnection expense	7	(9,891)	(1,801)
Cost of content services	8	(1,286)	(1,908)
External administration expenses	9	(12,528)	(11,990)
Marketing and advertising expenses		(3,349)	(4,041)
Staff costs	10	(25,259)	(21,014)
Operating and maintenance expenses	11	(14,467)	(13,590)
Administrative expenses	12	(4,527)	(5,429)
Depreciation		(44,556)	(38,923)
Commission	13	(12,001)	(8,247)
Provision for impairment of receivables		(6,464)	(4,247)
Amortisation of licence fee - net	18	(2,095)	(2,095)
Annual licence fees	18	(1,244)	(1,467)
Royalty	33	(27,255)	(21,552)
		<hr/>	<hr/>
		(168,584)	(139,876)
<b>Operating profit</b>			
		71,058	57,612
Finance (costs)/income – net	14	(2,104)	885
Other income		524	323
Share of profit / (loss) from associated companies - net	19	52	123
		<hr/>	<hr/>
<b>Profit before taxation</b>			
		69,530	58,943
Taxation	15(b)	(8,583)	(7,095)
		<hr/>	<hr/>
<b>Profit for the period</b>			
		60,947	51,848
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		60,625	51,566
Minority interest		322	282
		<hr/>	<hr/>
		60,947	51,848
		<hr/>	<hr/>
<b>Earnings per share for profit attributable to the equity holders of the company for the period (RO)</b>			
	16	0.081	0.069
		<hr/>	<hr/>

The notes on pages 5 to 26 form an integral part of these interim consolidated financial statements.

# OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY

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## INTERIM CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2006

		(Unaudited) 30 September 2006 RO'000	(Audited) 31 December 2005 RO'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	316,628	320,168
Licences	18	37,513	39,608
Investments in associated companies	19	2,228	2,290
Investments at fair value through profit or loss	20	4,455	4,336
		360,824	366,402
<b>Current assets</b>			
Inventories	21	5,731	5,189
Trade and other receivables	22	35,015	35,362
Cash and cash equivalents	23	57,751	47,564
		98,497	88,115
<b>Total assets</b>		459,321	454,517
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	24	75,000	75,000
Legal reserve	25	30,218	30,218
Voluntary reserve	26	42,718	42,718
Capital contribution	18	44,181	44,181
Retained earnings		69,248	8,623
Proposed dividend		-	52,500
Attributable to equity holders of the company		261,365	253,240
<b>Minority interest</b>		678	655
<b>Total equity</b>		262,043	253,895
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	27	28,139	51,527
Deferred tax	28	2,690	2,129
End of service benefits	30	1,702	1,741
		32,531	55,397
<b>Current liabilities</b>			
Borrowings	27	38,722	35,757
Amount payable to the Government	29	-	2,852
Creditors and accruals	31	66,399	60,065
Dividend payable to the Government	32	16,377	-
Dividend payable to minority interest		-	122
Royalty payable	33	34,673	36,821
Taxation		8,576	9,608
		164,747	145,225
<b>Total liabilities</b>		197,278	200,622
<b>Total equity and liabilities</b>		459,321	454,517
<b>Net assets per share (RO)</b>	<b>34</b>	<b>0.348</b>	<b>0.338</b>

The interim consolidated financial statements on pages 1 to 26 were approved and authorized for issue to the shareholders by the Board of Directors on 12 November 2006 and were signed on their behalf by:

\_\_\_\_\_  
**CHAIRMAN**

\_\_\_\_\_  
**DIRECTOR**

\_\_\_\_\_  
**CHIEF EXECUTIVE OFFICER**

The notes on pages 5 to 26 form an integral part of these interim consolidated financial statements.

**OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY**

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**INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (Unaudited)**

	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
<b>At 1 January 2005</b>		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	25	-	2,793	-	-	(2,793)	-	-	-	-
Transfer to voluntary reserve	26	-	-	2,793	-	(2,793)	-	-	-	-
Dividend payable to Ministry of Finance		-	-	-	-	-	(78,835)	(78,835)	-	(78,835)
<b>At 30 September 2005</b>		75,000	29,301	41,801	44,181	46,752	-	237,035	684	237,719
<b>Balance at 1 January 2006</b>		75,000	30,218	42,718	44,181	8,623	52,500	253,240	655	253,895
Dividend paid		-	-	-	-	-	(52,500)	(52,500)	(299)	(52,799)
Profit for the period		-	-	-	-	60,625	-	60,625	322	60,947
<b>At 30 September 2006</b>		75,000	30,218	42,718	44,181	69,248	-	261,365	678	262,043

The notes on pages 5 to 26 form an integral part of these interim consolidated financial statements.

**OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY**

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**INTERIM CONSOLIDATED CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006**

	(Unaudited)	(Unaudited)
	1 January 2006 to 30 September 2006 RO'000	1 January 2005 to 30 September 2005 RO'000
<b>Operating activities</b>		
Profit before taxation	69,530	58,943
Adjustments for:		
Depreciation	44,556	38,923
Provision for impairment of receivables	6,464	4,247
Amortisation of goodwill	-	72
Amortisation of licences	2,095	2,095
Fair value gains on investments	(119)	(263)
Interest income	(540)	(1,272)
Dividend income		(58)
Share of (profit) / loss from associated companies	(52)	(123)
Interest on dues to Ministry of Finance	3,110	874
Interest on bank borrowings	13	51
End of service benefits expenses	174	120
<b>Operating profit before payment of end of service benefits and changes in working capital</b>	<b>125,231</b>	<b>103,609</b>
Payment of end of service benefits	(213)	(133)
<b>Working capital changes:</b>		
Inventories	(542)	471
Trade and other receivables	(6,116)	(17,102)
Royalty payable	(2,148)	(2,422)
Creditors and accruals	5,915	1,932
<b>Cash generated from operations</b>	<b>122,127</b>	<b>86,355</b>
Tax paid	(9,054)	(10,420)
<b>Net cash generated from operating activities</b>	<b>113,073</b>	<b>75,935</b>
<b>Investing activities</b>		
Dividend and interest received	1,073	1,444
Purchase of property, plant and equipment	(41,016)	(62,812)
Purchase of investment in associated companies	-	(612)
<b>Net cash used in investing activities</b>	<b>(39,943)</b>	<b>(61,980)</b>
<b>Financing activities</b>		
Dividends paid to Ministry of Finance	(30,573)	(53,926)
Repayment of term loan	(23,387)	(664)
Bank borrowings	(4,560)	7,047
Interest on borrowings	(4,423)	(51)
<b>Net cash used in financing activities</b>	<b>(62,943)</b>	<b>(47,594)</b>
<b>Net change in cash and cash equivalents</b>	<b>10,187</b>	<b>(33,639)</b>
Cash and cash equivalents at beginning of the period	47,564	78,782
<b>Cash and cash equivalents at the end of the period</b>	<b>57,751</b>	<b>45,143</b>

The notes on pages 5 to 26 form an integral part of these interim consolidated financial statements.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006**

**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
	September 2006	December 2005	
	%	%	
Oman Mobile Telecommunications Company (LLC)	<b>99</b>	99	Engaged in the establishment, operation, maintenance and development of mobile telecommunication services.
Oman Fibre Optic Company SAOG	<b>25.96</b>	25.96	Engaged in the manufacture and design of optical fibre and cables.
Infoline LLC	<b>45</b>	45	Engaged in the provision of IT enabled services.
Omania e-commerce LLC	<b>40</b>	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 interim consolidated financial statements are set out below. These policies have been consistently applied to the periods presented, unless otherwise stated.

**2.1 Basis of preparation**

(a) The interim 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**2 Summary of significant accounting policies (continued)****2.1 Basis of preparation (continued)**

(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.

(c) At 30 September 2006 the company had net current liabilities of RO 66.3 million (2005 - RO 57.1 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.*

A new standard and amendment to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2007 but which the group has not adopted earlier. Management is currently evaluating the impact, if any, of these pronouncements on the group's financial statements for the period ended 30 September 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.

(e) The Group Management and Directors are in the process of implementing an integrated computer accounting systems. The implementation is scheduled to be completed by close of financial year end. Until the implementation is complete, the updating of certain accounting records can not be completed. The Group Management and Directors have assessed the status of the implementation and concluded that the outstanding procedures will not have a significant impact on the reported results.

**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 income statement.

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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)****2 Summary of significant accounting policies (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 income statement. 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 income statement, 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**

**2 Summary of significant accounting policies (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 income statement.

**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 income statement 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:

	<b>Years</b>
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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)****2 Summary of significant accounting policies (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 income statement. 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 income statement 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 to 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.

**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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)****2 Summary of significant accounting policies (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 income statement 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 income statement 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (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 59% (2005 - 39%) of the group's total trade debtors. Bank guarantees provided by the factoring agents represent 60% (2005 - 43%) 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 licenses 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 0.5 million from the Ministry of Information the period 1 January 2006 and 30 September 2006 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 1.3 million has been made with the Ministry of Information, for the period 2004 to 2005.

**(b) Claims against the group**

(i) 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.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**

**4 Critical accounting estimates and judgements (continued)**

(ii) A local licensed mobile operator (the operator) made a claim for retrospective reduction of interconnection charges in relation to national and international calls charges by the parent company and in relation to national calls charged by Oman Mobile to the operator. The TRA has completed its proceedings and issued a determination in favour of the group. However the local licensed operator has applied for a review of the decision by the regulator. Management have not made a provision as they believe that the review will be in favour of the group. Effective 1 January 2007, TRA has determined that the international outbound call charges to the mobile operators should be charged at retail rates less 20%.

(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.

(d) *Royalty*

The subsidiary of the group is in the midst of a regulatory review relating to certain type of interconnection costs as an eligible deduction for the purpose of the calculation of royalty payments. While the subsidiary is making representations to the regulator to support its case for the deduction of all types of interconnection costs as eligible deduction, it is probable that certain types of interconnection costs may not fully qualify for deduction and therefore the subsidiary may have to incur additional royalty payments. If the TRA completely disallows interconnection cost under review then the group will incur an additional royalty charge of RO 2.3 million for the year 2006 against which the group has created a provision of RO 2 million.

(e) *Back dated depreciation and deferred income*

The group is undertaking a review of its deferred income and assets in use but awaiting capitalization. The conclusion of the review will result in adjustments to the financial statements and a prior period adjustment is likely. The amount of adjustments cannot be determined at this stage.

**5 Segment reporting**

At 30 September 2006, 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 and internet services; (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 period ended 30 September 2006 are as follows:

	<b>Fixed line and other RO'000</b>	<b>Mobile RO'000</b>	<b>Consolidation adjustments RO'000</b>	<b>Total RO'000</b>
Total gross segment revenues	<u>129,966</u>	<u>169,590</u>	<u>(59,914)</u>	<u>239,642</u>
Profit before taxation	<u>62,344</u>	<u>36,861</u>	<u>(29,675)</u>	<u>69,530</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**5 Segment reporting (continued)**

The segment results for the period ended 30 September 2005 are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Total gross segment revenues	110,902	135,610	(49,024)	197,488
Profit before taxation	36,629	32,314	(10,000)	58,943

Other segment items for the period ended 30 September 2006 included in the income statement are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	23,040	21,516	44,556
Amortisation	225	1,870	2,095

Other segment items for the period ended 30 September 2005 included in the income statement are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	22,853	16,070	38,923
Amortisation	225	1,870	2,095

The segment assets and liabilities at 30 September 2006 and capital expenditures for the period then ended are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
<b>Assets</b>	<b>362,424</b>	<b>228,812</b>	<b>(131,915)</b>	<b>459,321</b>
<b>Liabilities</b>	<b>146,288</b>	<b>161,007</b>	<b>(110,017)</b>	<b>197,278</b>
<b>Capital expenditures</b>	<b>12,630</b>	<b>28,386</b>	<b>-</b>	<b>41,016</b>

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

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

**OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY**

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**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**

**6 External administration revenue**

	<b>1 January 2006 to 30 September 2006 RO'000</b>	1 January 2005 to 30 September 2005 RO'000
Telephones and GSM	12,556	10,298
Telegrams	-	(1)
Telex	-	4
	<u>12,556</u>	<u>10,301</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.

**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**

	<b>1 January 2006 to 30 September 2006 RO '000</b>	1 January 2005 to 30 September 2005 RO'000
Telephones and GSM	12,528	11,986
Telegrams	-	1
Telex	-	3
	<u>12,528</u>	<u>11,990</u>

**10 Staff costs**

Salaries and allowances	22,198	18,285
Social security costs	1,251	1,163
End of service benefits	173	120
Other employee benefits	1,637	1,446
	<u>25,259</u>	<u>21,014</u>

**11 Operating and maintenance expenses**

Asset maintenance	5,145	3,589
Cost of sale of payphone and other cards	2,598	3,304
Satellite channels rent	2,307	3,734
Office rent	1,401	1,152
Electricity and water	1,060	804
Petrol, oil and lubricants	275	249
Insurance	225	259
Others	1,456	499
	<u>14,467</u>	<u>13,590</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**12 Administrative expenses**

	<b>1 January 2006 to 30 September 2006 RO '000</b>	1 January 2005 to 30 September 2005 RO'000
Training costs	958	1,554
Professional fees for group re-organization	630	1,330
Professional consultancy fees	1,390	544
Amortization of goodwill on investment in associated companies	-	72
Administrative services	659	789
Business travel	365	744
Office supplies and services	525	396
	<u>4,527</u>	<u>5,429</u>

Professional fees for the group reorganization were incurred in respect of services by a consultant for the enhancement of organizational efficiency and processes.

**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 one year until 31 December 2006. The procedures for finalizing the factoring agreement are in progress. The Group and its agents also collect amounts due from private customers. Commission for such collections are deducted from the commission payable to OIFC.

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

**14 Finance (costs)/income - net**

	<b>1 January 2006 to 30 September 2006 RO '000</b>	1 January 2005 to 30 September 2005 RO'000
Interest income	959	1,272
Dividend income	-	58
Exchange gain/(loss)	47	217
Fair value gain on investments at fair value through profit and loss	-	263
Interest on dues to the Ministry of Finance (Note 27 c)	(3,110)	(874)
Interest on bank borrowings	-	(51)
	<u>(2,104)</u>	<u>885</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**15 Taxation**

(a) The tax charge for the period comprises:

	<b>1 January 2006 to 30 September 2006</b>	1 January 2005 to 30 September 2005
	<b>RO '000</b>	RO'000
Current taxation	<b>8,022</b>	7,137
Deferred taxation		
- in respect of current period	<b>561</b>	(42)
	<u><b>8,583</b></u>	<u>7,095</u>

(b) The reconciliation of tax on the accounting profit at the applicable rate of 12% after the basic exemption limit of RO 60,000 with the taxation charge in the income statement is as follows:

	<b>1 January 2006 to 30 September 2006</b>	1 January 2005 to 30 September 2005
	<b>RO '000</b>	RO'000
Tax on accounting profit of RO 69,530 (30 September 2005 – RO 58,943)	<b>8,336</b>	8,266
<b>Add / (less) tax effect of:</b>		
Expenses not deductible	<b>252</b>	252
Income not assessable for tax purposes	<b>(566)</b>	(1,253)#
Deferred tax	<b>561</b>	(170)
<b>Tax charge as per income statement</b>	<u><b>8,583</b></u>	<u>7,095</u>

# 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 2005 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 profit for the period attributable to the equity holders of the parent company by the weighted average number of shares outstanding.

**17 Property, plant and equipment**

(a) The movement in property, plant and equipment during 2006 and 2005 is set out on page 26 and 27.

(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 1st 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).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**18 Licences**

The movement in licences is as follows:

	<b>30 September 2006</b>	31 December 2005
	<b>RO'000</b>	RO'000
At 1 January	<b>39,608</b>	42,401
Charge for the period/ year	<b>(2,095)</b>	(2,793)
<b>Net book amount at period/ year end</b>	<b>37,513</b>	39,608

(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.

**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:

	<b>30 September 2006</b>	31 December 2005
	<b>RO'000</b>	RO'000
<b>At beginning of the period / year</b>	<b>2,290</b>	1,731
Investment during the period / year	-	612
Share of profit – net	<b>52</b>	157
Dividend received	<b>(114)</b>	(114)
Impairment/amortization of goodwill	-	(96)
<b>At end of the period / year</b>	<b>2,228</b>	2,290

(b) The fair value of the parent company's investment in Oman Fiber Optic Company SAOG, which is listed on Muscat Securities Market, is RO 2,463,125 (31 December 2005 – RO 2,586,000).

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006

**19 Investments in associated companies (continued)**

(c) 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 / (loss) RO'000	% interest held
<b>Period ended 30 September 2006</b>					
Oman Fiber Optic SAOG	1,996	689	716	82	25.96%
Infoline LLC	452	66	543	65	45.00%
Omania e-Commerce	264	15	12	(95)	40.00%
<b>Year 2005</b>					
Oman Fiber Optic SAOG	2,130	791	884	156	25.96%
Infoline LLC	450	126	266	19	45.00%

i. The information provided above relates to the unaudited results of the nine months period ended 30 September 2006.

**20 Investments at fair value through profit or loss**

	Carrying amount as at 31 December 2005 RO'000	Fair value adjustment RO'000	Carrying amount as at 30 September 2006 RO'000
<b>Non-current and unquoted</b>			
Thuraya Telecommunication Company	1,629	119	1,748
Arab Satellite Communications Organisation	2,707	-	2,707
	<u>4,336</u>	<u>119</u>	<u>4,455</u>

**21 Inventories**

	30 September 2006 RO '000	31 December 2005 RO '000
Stores and spares	7,429	7,940
Prepaid cards and handsets	1,674	621
	<u>9,103</u>	<u>8,561</u>
Provision for inventory obsolescence	(3,372)	(3,372)
	<u>5,731</u>	<u>5,189</u>

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

	30 September 2006 RO '000	31 December 2005 RO '000
At beginning of period / year	3,372	4,342
Charged during the period / year	-	209
	<u>3,372</u>	<u>4,551</u>
Released during the period	-	(1,179)
At end of the period / year	<u>3,372</u>	<u>3,372</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**22 Receivables and prepayments**

	<b>30 September 2006</b>	31 December 2005
	<b>RO '000</b>	RO '000
Amounts due from customers	<b>11,932</b>	28,233
Amounts due from OIFC	<b>44,686</b>	24,700
Amounts due from other operators	<b>14,238</b>	10,536
Other receivables	<b>5,277</b>	1,812
	<u><b>76,133</b></u>	<u>65,281</u>
Provision in respect of claims finalized by Ministerial Committee (note (i) below)	<b>(3,379)</b>	(3,379)
Provision for impairment of receivables	<b>(39,575)</b>	(33,111)
	<u><b>(42,954)</b></u>	<u>(36,490)</u>
<b>Trade and other receivables – (net)</b>	<b>33,179</b>	28,791
Prepayments, advances and staff loans	<b>1,836</b>	6,571
	<u><b>35,015</b></u>	<u>35,362</u>

i. 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.

ii. 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).

iii. The movement in provision for impairment is as follows:

	<b>30 September 2006</b>	31 December 2005
	<b>RO '000</b>	RO '000
At 1 January	<b>36,490</b>	34,372
Charge for the period / year	<b>6,464</b>	5,703
Amount written off during the period / year	-	(344)
Amount written back during the period / year	-	(3,241)
	<u><b>42,954</b></u>	<u>36,490</u>

**23 Cash and cash equivalents**

Short term bank deposits	<b>23,495</b>	5,080
Cash at bank and in hand	<b>34,256</b>	42,484
	<u><b>57,751</b></u>	<u>47,564</u>

Short term deposits are placed with commercial banks at interest rates ranging from 4.3% to 5 % (2005 - 2.6% to 4.3%) per annum and mature between one and three months from the date of deposit.

**NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**

**24 Share capital**

The share capital comprises 750,000,000 (2005 - 750,000,000) ordinary shares of RO 0.100 (2005 - 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 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 balance sheet date are as follows:

	2006		2005	
	Shares held	%	Shares held	%
Government of the Sultanate of Oman	<b>525,000,000</b>	<b>70</b>	525,000,000	70

**25 Legal reserve**

In accordance with the Commercial Companies Law of Oman, No. 4, 1974, annual appropriations of 10% of the 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. The transfer to legal reserve will be made at the end of the year.

**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. The transfer to voluntary reserve will be made at the end of the year.

**27 Borrowings**

	30 September 2006 RO'000	31 December 2005 RO'000
<b>Non-current</b>		
Government loan and other borrowings	<b>66,861</b>	87,284
Current portion included under current liabilities	<b>(38,722)</b>	(35,757)
	<b>28,139</b>	51,527
<b>Current</b>		
Current portion of borrowings from Government	<b>38,722</b>	31,197
Overdraft	-	4,560
	<b>38,722</b>	35,757
(a) Maturity of non-current borrowings is as follows:		
1 to 2 years	<b>15,000</b>	38,388
2 to 5 years	<b>13,139</b>	13,139
	<b>28,139</b>	51,527

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 from amounts due to the Government (see note 29) and dividends payable to the Government, respectively were transferred to the Government loan.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)

**27 Borrowings (continued)**

- c) Effective 1 August 2005, the Government started to charge 5% interest per annum on the balance of the Government loan. However, effective 20 June 2006, the rate of interest has been reduced to 3% per annum.
- d) Borrowings as at 31 December 2005 also include an overdraft facility extended by local bank. The overdraft has been repaid during the current period. The effective interest rate during 2005 was 4.25% per annum.

**28 Deferred tax**

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12% (2005 - 12%). The net deferred tax liability and deferred tax charge/(credit) in the income statement are attributable to the following items:

	1 January 2006 RO'000	Charged/(credited to income statement RO'000	30 September 2006 RO'000
<b>Asset</b>			
Tax effect of provisions	(3,440)	(813)	(4,253)
<b>Liability</b>			
Tax effect of depreciation	5,569	1,374	6,943
	<u>2,129</u>	<u>561</u>	<u>2,690</u>
	1 January 2005 RO'000	Charged/(credited) to income statement RO'000	31 December 2005 RO'000
<b>Asset</b>			
Tax effect of provisions	(2,600)	(840)	(3,440)
<b>Liability</b>			
Tax effect of depreciation	4,153	1,416	5,569
	<u>1,553</u>	<u>576</u>	<u>2,129</u>

**29 Amount payable to the Government**

	30 September 2006 RO'000	31 December 2005 RO'000
At 1 January	-	30,000
Transferred to Government loan (note 27)	-	(30,000)
Write back of impaired debt provision (note 22(b))	-	2,852
Amount paid in current period		
At end of the period/ year	-	2,852
Less: current portion	-	(2,852)
Non current portion	-	-

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 finalized 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**30 End of service benefits**

The movement in end of service benefits is as follows:

	<b>30 September 2006</b>	31 December 2005
	<b>RO'000</b>	RO'000
At 1 January	<b>1,741</b>	1,753
Charge for the period / year	<b>174</b>	170
Payments during the period / year	<b>(213)</b>	(182)
	<hr/>	<hr/>
At end of the period / year	<b>1,702</b>	1,741
	<hr/> <hr/>	<hr/> <hr/>

**31 Creditors and accruals**

Trade payables	<b>7,920</b>	1,852
Retentions payable	<b>13,819</b>	18,160
Accruals	<b>22,587</b>	16,366
Deferred income	<b>8,320</b>	10,606
Other payables	<b>13,753</b>	13,081
	<hr/>	<hr/>
	<b>66,399</b>	60,065
	<hr/> <hr/>	<hr/> <hr/>

Retentions payable include approximately RO 2,040,898 (2005 - RO 2,855,000) due after one year.

**32 Dividend payable**

For the year 2005, a dividend of RO 52.5 million was approved by the shareholders at the Annual General Meeting held on 28 March 2006. The balance of RO 16 million represents amounts payable to the government in November 2006. Interest at the rate of 5% is payable on the dividend for 2005 from 12 April 2006.

**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 2005 the TRA has permitted the group to deduct interconnection expenses in respect of local licensed operators which is applicable to years 2004 and 2005 and calculations for 2006 are based accordingly [Refer Note 4(b) and 4(d)].

**34 Net asset per share**

Net assets per share attributable to equity holders of the company is calculated by dividing the net assets at period / year end by the number of shares outstanding at the period / year end:

	<b>30 September 2006</b>	31 December 2005
Net assets attributable to the equity holders of the company (RO'000)	<b>261,365</b>	253,240
Number of shares outstanding at period / year end ('000)	<b>750,000</b>	750,000
	<hr/>	<hr/>
Net assets per share (RO)	<b>0.348</b>	0.338
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (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 period/ year were as follows:

**(i) Purchase of goods and services**

	<b>30 September 2006</b> <b>RO'000</b>	30 September 2005 RO'000
Entities under significant influence of the parent company	<b>181</b>	1,179
Entities with significant influence over the parent company	<b>9,788</b>	9,722

**(ii) Remuneration to directors****Parent company**

Directors' sitting fees - non executive	<b>21</b>	8
Executive directors' basic salaries, allowances, other benefits and social security costs	<b>-</b>	6
	<b>21</b>	14

**Subsidiary company**

Directors' sitting fees – executive	<b>12</b>	13
Directors' sitting fees - non executive	<b>4</b>	4
	<b>16</b>	17
<b>Consolidation</b>	<b>37</b>	31

**Key management compensation (see note below)****Parent company**

Basic salaries and allowances	<b>192</b>	45
Other benefits and expenses	<b>18</b>	8
Social security costs	<b>15</b>	3
	<b>225</b>	56

**Subsidiary company**

Basic salaries and allowances	<b>96</b>	75
Other benefits and expenses	<b>9</b>	5
Social security costs	<b>4</b>	4
	<b>109</b>	84
<b>Consolidation</b>	<b>334</b>	140

The figures for September 2006 include compensation and allowances of Division Heads which were not reflected in the comparative period.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (CONTINUED)**35 Related parties (continued)****(iv) Period/ year end balances arising from sales/purchases of goods/services**

	<b>30 September 2006</b>	31 December 2005
	<b>RO'000</b>	RO'000
Receivable from related parties	<b>4,061</b>	3,956
Payable to related parties	<b>238</b>	28

**(v) Loans to directors / key management**

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

**36 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:

	<b>30 September 2006</b>	31 December 2005
	<b>RO'000</b>	RO'000
Contracted for	<b>89,107</b>	64,109
Authorised but not contracted for	<b>100,135</b>	58,189
	<b>189,242</b>	122,298

At 30 September 2006, the aggregate capital commitment made by the group on behalf of the Government amounts to RO 1.77 million (2005 - RO 1.77 million). The Group is entitled to recover these amounts from the Government when they fall due for payment.

**(b) Operational commitments**

	<b>30 September 2006</b>	31 December 2005
	<b>RO'000</b>	RO'000
Letters of credit	<b>605</b>	3,936

**(c) Contingent liabilities**

Bank guarantees	-	192
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**OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (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
<b>Cost</b>											
1 January 2006	677	21,155	160,799	200,206	6,654	6,612	18,278	2,931	29,270	98,013	544,595
Additions		76	131	195	51	114	182	103	(2,859)	43,023	41,016
Transfers		353	1,050	74,010	68	-	223	51	(6,855)	(68,900)	-
<b>30 September 2006</b>	<b>677</b>	<b>21,584</b>	<b>161,980</b>	<b>274,411</b>	<b>6,773</b>	<b>6,726</b>	<b>18,683</b>	<b>3,085</b>	<b>19,556</b>	<b>72,136</b>	<b>585,611</b>
<b>Depreciation</b>											
1 January 2006	-	10,383	71,176	106,656	5,229	4,292	13,511	2,066	-	11,114	224,427
Charge for the period	-	1,298	8,927	27,218	758	364	2,374	382	-	3,235	44,556
<b>30 September 2006</b>	<b>-</b>	<b>11,681</b>	<b>80,103</b>	<b>133,874</b>	<b>5,987</b>	<b>4,656</b>	<b>15,885</b>	<b>2,448</b>	<b>-</b>	<b>14,349</b>	<b>268,983</b>
<b>Net book amount</b>											
<b>At 30 September 2006</b>	<b>677</b>	<b>9,903</b>	<b>81,877</b>	<b>140,537</b>	<b>786</b>	<b>2,070</b>	<b>2,798</b>	<b>637</b>	<b>19,556</b>	<b>57,787</b>	<b>316,628</b>

**OMAN TELECOMMUNICATIONS COMPANY SAOG AND ITS SUBSIDIARY**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 30 SEPTEMBER 2006 (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
<b>Cost</b>											
1 January 2005	668	17,532	151,822	142,866	6,378	5,434	14,849	2,564	57,716	62,430	<b>462,259</b>
Additions	3	106	1,009	289	261	212	1,232	201	(14,688)	93,735	<b>82,360</b>
Transfers	6	3,517	7,968	57,051	15	966	2,197	190	(13,758)	(58,152)	-
Disposals	-	-	-	-	-	-	-	(24)	-	-	<b>(24)</b>
<b>31 December 2005</b>	<b>677</b>	<b>21,155</b>	<b>160,799</b>	<b>200,206</b>	<b>6,654</b>	<b>6,612</b>	<b>18,278</b>	<b>2,931</b>	<b>29,270</b>	<b>98,013</b>	<b>544,595</b>
<b>Depreciation</b>											
1 January 2005	-	8,739	58,952	75,594	4,097	3,706	9,996	1,530	-	9,460	<b>172,074</b>
Charge for the year	-	1,644	12,224	31,062	1,132	586	3,515	560	-	1,654	<b>52,377</b>
Disposals	-	-	-	-	-	-	-	(24)	-	-	<b>(24)</b>
<b>31 December 2005</b>	<b>-</b>	<b>10,383</b>	<b>71,176</b>	<b>106,656</b>	<b>5,229</b>	<b>4,292</b>	<b>13,511</b>	<b>2,066</b>	<b>-</b>	<b>11,114</b>	<b>224,427</b>
<b>Net book amount</b>											
<b>At 31 December 2005</b>	<b>677</b>	<b>10,772</b>	<b>89,623</b>	<b>93,550</b>	<b>1,425</b>	<b>2,320</b>	<b>4,767</b>	<b>865</b>	<b>29,270</b>	<b>86,899</b>	<b>320,168</b>