

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

1 LEGAL INFORMATION AND ACTIVITIES

Oman Telecommunications Company SAOG (the "Parent Company" or the "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 Al Mawaleh, Muscat, Sultanate of Oman. The company's shares are listed at Muscat Securities Market. The principal activities of the Company are establishment, operation, maintenance and development of telecommunication services in the Sultanate of Oman. The principal activities of the subsidiaries and associated companies of the Group, are set out below.

| <i>Name</i> | <i>Place of incorporation</i> | <i>Principal activities</i> | | <i>Shareholding directly held by parent (%)</i> | <i>Shareholding directly held by the group (%)</i> |
|---|-------------------------------|---|------------|---|--|
| Oman Data Park LLC | Sultanate of Oman | Engaged in the provision of data services | Subsidiary | 60 | 60 |
| Omania e-commerce LLC | Sultanate of Oman | Engaged in the provision of e-commerce services | Subsidiary | - | 100 |
| Internet of Things LLC | Sultanate of Oman | Engaged in developments of app and services for smart and M2M communication | Subsidiary | 55 | 55 |
| Omantel France SAS | France | Engaged in provision of wholesale services | Subsidiary | 100 | 100 |
| Oman Fiber Optic Company SAOG | Sultanate of Oman | Engaged in the manufacture and design of optical fibre and cables | Associate | 40.96 | 40.96 |
| Infoline LLC | Sultanate of Oman | Engaged in the provision of IT enabled services | Associate | 45.45 | 45.45 |
| First Issue SAOC | Sultanate of Oman | Special purpose vehicle | Subsidiary | 100 | 100 |
| Oztel Holdings Limited | Cayman Islands | Holds investment in Mobile Telecommunications Company (Zain) | Subsidiary | 100 | 100 |
| Mobile Telecommunication Company (Zain Group) | Kuwait | Engaged in operation, maintenance and development of telecommunication services | Associate | - | 9.84 |

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation 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) Statement of compliance and basis of measurement

The interim consolidated financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below. The interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority and comply with the requirements of the Commercial Companies Law of 1974, as amended. The accounting policies used in the preparation of the interim consolidated financial statements ("the financial statements") are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2016.

(b) Use of estimates and judgements

The preparation of interim consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(c) Standards, amendments and interpretation effective in 2017

For the period ended 30 September 2017, the Group has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2017.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its interim condensed consolidated financial statements, but will disclose additional information in its annual financial statements for the year ending 31 December 2017.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The adoption of these standards and interpretations has not resulted in any significant changes to the Group's accounting policies and has not affected the amounts reported for the current year.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of Group but are not yet mandatory for the nine month period ended 30 September 2017:

IFRS 9 Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Group has performed a high-level impact assessment of all three aspects of IFRS 9 and expects no significant impact on its balance sheet and equity. The Group plans to adopt the new standard on the required effective date.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretation effective in 2017

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

IFRS 15 Revenue from contracts with customers: IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The potential impact of the standard for the Group is expected to be as follows:

- 1) Provision of service or equipment: Where the contract with customer contains multiple performance obligations or bundled products revenue recognition is expected to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of products and over the period of time when the services are delivered over the contract period.
- 2) Contract costs: Incremental contract costs incurred to obtain and fulfil a contract to provide goods or services are required to be capitalised under IFRS 15, if these costs are expected to be recovered. These costs are to be amortised over expected contract period and tested for impairment regularly.

The Group is continuing to assess the impact of these and other changes on the Group's financial statements.

IFRS 16 Leases: The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. For lessors, there is little change to the existing accounting in IAS 17 Leases. The Group will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16. The Group is in the process of assessing implications of IFRS 16.

2.2 Basis of consolidation

2.2.1 Subsidiary companies

The interim consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 30 September 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of subsidiaries begins when the Group obtains control over the subsidiaries and ceases when the Group loses control of the subsidiaries. Assets, liabilities, income and expenses of subsidiaries acquired or disposed of during the year are included in the statement of income from the date the Group gains control until the date the Group ceases to control the subsidiaries.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (Continued)

2.2.1 Subsidiary companies

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of subsidiaries, without a loss of control, is accounted for as an equity transaction. If the Group loses control over subsidiaries, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiaries
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

2.2.2 Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.3 Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control is similar to those necessary to determine control over subsidiaries. The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

2.2.3 Investment in associates (continued)

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognises the loss as 'Share of results of associates in the statement of profit or loss.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

2.2.4 Business combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to OCI. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. The accounting policies of the reportable segments are the same as the Group's accounting policies described under note 2. Identification of segments and reporting are disclosed in note 6.

2.4 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, and is net of discounts and rebates allowed.

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

Sales of payphone and prepaid cards are recognised as revenue based on the actual utilisation of the payphone and prepaid cards sold.

Sales relating to unutilised payphone and prepaid cards are accounted for as deferred income. Interconnection income and expenses are recognised when services are performed. Subscription revenue from Cable TV, Internet over cable and channels subscription is recognised on provision of services.

Incentives are provided to customers in various forms and are usually offered on signing a new contract or as part of a promotional offering. Where such incentives are provided on connection of a new customer or the upgrade of an existing customer, revenue representing the fair value of the incentive, relative to other deliverables provided to the customer as part of the same arrangement, is deferred and recognised in line with the Group's performance of its obligations relating to the incentive.

In revenue arrangements including more than one deliverable, the arrangement consideration is allocated to each deliverable based on the fair value of the individual element. The Group generally determines the fair value of individual elements based on prices at which the deliverable is regularly sold on a standalone basis.

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

2.5 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Revenue from granting of IRU on submarine cables classified as a finance lease is recognised at the time of delivery and acceptance by the customer. The cost of IRU is recognised at the amount of the Group's net investment in leases. Amounts due from lessees under other finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Revenue from the sale of transmission capacity on terrestrial and submarine cables are recognised on a straight-line basis over the life of the contract.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Leases (Continued)

The Group as lessee

Rentals payable under operating leases are charged to the statement of income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2.6 Finance income / costs

Interest income and expense are recognised using the effective interest rate (EIR). The EIR is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the borrowings.

2.7 Factoring, collection and distribution fees

Factoring, collection and distribution fees comprise fees payable to factoring and collection agents and agents that sell prepaid cards. Fees payable to factoring agents are accounted for at the time of the assignment of receivables. Fees payable to collection agents are accounted for at the time of collection of the bills. Fees payable to selling agents are accounted for at the time of the sale of cards to the agents.

2.8 Foreign currency

- (i) Transactions in foreign currencies are translated into Rial Omani at exchange rates ruling at the value dates of the transactions.
- (ii) Monetary assets and liabilities denominated in foreign currencies are translated into Rial Omani at exchange rates ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised costs in the Rial Omani at the beginning of the period, adjusted for effective interest and payments during the period and the amortised costs in foreign currency translated at the exchange rate at the end of the period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.
- (iii) Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to Rial Omani at the exchange rate at the date that the fair value was determined. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.
- (iv) On consolidation, the assets and liabilities of foreign operations are translated into Rial Omani at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation and foreign associates are recognised in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss in other operating expenses or other operating income. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

A Group may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of capital or abandonment of all, or part of, that entity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**2.9 Property, plant and equipment**

Items of 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 statement of income 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 | 3- 20 |
| Cables and transmission equipment | 3- 30 |
| Telephone exchanges, power equipment and related software | 2- 20 |
| Telephone, telex and related equipment | 1 – 5 |
| Satellite communication equipment | 5-14 |
| Furniture and office equipment | 3 – 5 |
| Motor vehicles and equipment | 3 – 5 |

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date. Freehold land is not depreciated as it is deemed to have an indefinite life.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or where shorter, the term of the relevant lease.

Capital work-in-progress (CWIP) is not depreciated until it is taken to fixed assets when the asset is available for use. CWIP is tested for impairment, if any

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.

2.10 Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Intangible assets (Continued)

Amortisation

The estimated useful lives for the current and comparative years/period are as follows:

| | |
|------------------------|---------------|
| Licences | 4 to 25 years |
| Patents and copyrights | 10 years |
| Software | 3 to 5 years |

2.11 Investment property

Investment property, which is property held to earn rentals and / or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in statement of income in the period in which they arise.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

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 Financial instruments

(a) Non-derivative financial assets

The Group initially recognises loans and receivables on the date they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - The Group has transferred substantially all the risks and rewards of the asset; Or
 - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies non-derivative financial assets into the following categories:

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial instruments (Continued)

(a) Non-derivative financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets and financial liabilities classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:

- i) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- ii) The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- iii) The financial instrument contains one or more embedded derivatives, which significantly modify the cash flows that would otherwise be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in other operating income. Interest earned or incurred is accrued in interest income or interest expense, respectively, using the EIR, while dividend income is recorded in other operating income when the right to the payment has been established.

Held-to-maturity investments

Investments with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held to maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective rate if interest method less any impairment, with revenue recognised on an effective yield basis. Held to maturity financial assets comprises debt securities.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to the initial recognition, loans and receivables are recognised at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short term commitments.

Available-for-sale financial assets

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity (other comprehensive income) in the change in fair value of investments available-for-sale. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss in other operating income. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available-for-sale financial investments are recognised in the profit or loss as other operating income when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the profit or loss in impairment for investments and removed from the change in fair value of investments available-for-sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial instruments (Continued)

(b) Non derivative financial liabilities

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) 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 interim consolidated statement of income over the period of the borrowings using the effective interest method.

Trade and other payables

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Group, at amortised cost.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the interim consolidated statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the interim consolidated statement of income depends on the nature of the hedge relationship.

A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Hedge accounting

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The effective portion of the changes in the fair value of the interest rate swap that is designated and qualifies as a cash flow hedge is deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in the interim consolidated statement of income.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in the interim consolidated statement of income.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the interim consolidated statement of income.

2.14 Non-current assets held for sale and discontinued operations

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. Such non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of reclassification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Non-current assets held for sale and discontinued operations (Continued)

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or,
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

Additional disclosures are provided in Note 5. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

2.15 Impairment

(a) Non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Non-current assets held for sale and discontinued operations (Continued)

(a) Non-financial assets (continued)

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired. An impairment loss is recognised if the carrying amount of an asset or cash generating unit is higher than its recoverable amount. Recoverable amount is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(b) Financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss events had an impact on the estimated future cash flows of that asset that can be estimated.

Objective evidence that financial assets are impaired include default or delinquency by a debtor, adverse change in the payment status etc. In addition for an investment in equity security classified as available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

2.16 Retirement benefits

End of service benefits are accrued in accordance with the terms of employment of the Group's employees in Oman at the reporting date, having regard to the requirements of the Oman Labour Law. 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 reporting date. These accruals are included in current liabilities, while those relating to end of service benefits are disclosed as non-current liabilities.

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 statement of income as incurred.

A subsidiary of the Group operates an unfunded defined benefit gratuity plan for all permanent employees. Provisions are made in the financial statements to cover obligations on the basis of actuarial valuations carried out annually under the projected unit credit method.

All actuarial gains and losses are recognised in other comprehensive income as and when they occur.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Voluntary end of service benefits

Voluntary end of service benefits are recognized as expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if it is probable that the offer made by the Group will be accepted, and the number of acceptances can be estimated reliably.

2.18 Provisions

Provisions are recognised when the Group has present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability.

2.19 Taxation

Income tax expense comprises current and deferred tax. Taxation is provided in accordance with relevant fiscal regulations of the countries, in which the Group operates.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustments to tax payable in respect of previous years.

Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

The carrying amount of deferred income tax assets/liabilities is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

2.20 Directors' remuneration

Directors' remuneration is computed in accordance with the provisions of the Commercial Companies Law of 1974, as amended and the requirements of the Capital Market Authority in Oman and, in case of subsidiaries, in accordance with the relevant laws and regulations.

2.21 Dividend distribution

The Board of directors adopts a prudent dividend policy, which complies with regulatory requirements applicable in the Sultanate of Oman. Dividends are distributed in accordance with the Company's Memorandum of Association and are subject to the approval of shareholders. Dividend distribution to the Company's shareholders is recognised as a liability in the Group's interim consolidated financial statements only in the period in which the dividends are approved by the Company's shareholders.

2.22 Loyalty programme

The Group has a customer loyalty programme whereby customers are awarded credits ("Points") based on the usage of products and services, entitling customers to the right to redeem the accumulated points via specified means. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the Points and the other components of sale. The amount allocated to Points is estimated by reference to the fair value of the right to redeem it at a discount for the products of the Group or for products or services provided by third parties. The fair value of the right to redeem is estimated based on the amount of discount, adjusted to take into account the expected forfeiture rate. The amount allocated to Points is deferred and included in deferred revenue. Revenue is recognized when these Points are redeemed and the Group has fulfilled its obligations to the customer. Deferred revenue is also released to revenue when it is no longer considered probable that the Points will be redeemed.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Royalty

Royalty is payable to the Telecommunication Regulatory Authority of the Sultanate of Oman on an accrual basis.

2.24 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

3 FINANCIAL RISK MANAGEMENT

Financial instruments carried in the consolidated statement of financial position comprise investments, cash and cash equivalents, receivables, payables, borrowings and derivative financial instruments.

3.1 Financial risk factors

Overview

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Executive Committee which is responsible for developing and monitoring the Group's risk management policies. The Committee reports regularly to the Board of Directors on its activities. The Management team develops methods of monitoring the Group's risk management policies, and reports to the Executive Committee who in return report to the Board of Directors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group Audit Committee oversees how Management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group has exposure to the following risks from its use of financial instruments:

- (i) Credit risk
- (ii) Liquidity risk
- (iii) Market risk

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and investment securities.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group has established credit policies and procedures that are considered appropriate for a licensed service provider commensurate with the nature and size of receivables. Credit limits for customers are established based on the amount of receivables and age of debts. In monitoring customer credit risk, customers are segmented according to their credit characteristics in the following categories:

- Private individual customers
- Corporate customers
- Government customers
- Amounts due from operators

Credit risk on other trade debtors is limited to their carrying values as the management regularly reviews these balances whose recoverability is in doubt.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Relevant details regarding credit risk is set out in note 40.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

Investments

The Group limits its exposure to credit risk by generally investing in liquid securities and only with counterparties which have a good credit rating. Given good credit ratings and liquidity, Management does not expect any counterparty to fail to meet its obligations.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivery of cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition the Group has access to credit facilities. Relevant details on liquidity risk are set out in note 41.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign currency risk

The Group's main exposure to foreign exchange 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. The US Dollar and Omani Rial exchange rate have remained unchanged since 1986. There are no significant financial instruments denominated in foreign currency other than US Dollars and consequently the management believes that the foreign currency risk on other monetary assets and liabilities is not significant. The Group has acquired an investment in an associate, the translation difference of which is included as a part of foreign currency translation difference.

Interest rate risk

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. Hedging activities are evaluated by the Group's treasury regularly to align with interest rate views and defined risk appetite ensuring that optimal hedging strategies are applied by either positioning the interim consolidated statement of financial position or protecting the interest expense through different interest rate cycles. Relevant details are set out in note 42.

Other market price risk

Equity price risk arises from investments held for trading and at fair value through profit or loss and available for sale investments. The primary goal of the Group's investment strategy is to maximise investment returns on surplus cash available. Management is assisted by external advisors in this regard. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

The following table demonstrates the sensitivity of the Group's profit or loss to a 5% change in the price of its equity holdings, assuming all other variables in particular foreign currency rates remain constant.

| | <i>Change in price</i> | <i>RO'000</i> |
|--------------------------|------------------------|---------------|
| 30 September 2017 | +/- 5% | 2,671 |
| 31 December 2016 | +/- 5% | 3,074 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders as well as return on shareholders' equity. Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. Neither the Parent Company nor its Oman subsidiary is subject to externally imposed relevant capital requirements.

3.2 Fair value estimation

Investments

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.

Derivatives

The fair value of interest rate swaps is measured at the present value of future cash flows estimated as the difference between the contractual interest rate and the applicable LIBOR curve for the residual maturity of the contract and discounted based on the LIBOR curve derived from the yield curve.

Financial assets and liabilities

The fair values of other financial assets and liabilities approximate their carrying amounts as presented in the interim consolidated statement of financial position.

Relevant details relating to fair value are set out in note 44.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the reporting date and the resultant provisions and changes in fair value. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty. Actual results may differ from Management's estimates resulting in future changes in estimated liabilities and assets.

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.

Impairment of accounts receivable

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

At the reporting date, trade accounts receivable amounted to RO 154.240 million (31 December 2016: RO 118.190 million), and the provision for impaired debts is RO 44.801 million (31 December 2016: RO 40.398 million). Any difference between the amounts actually collected in future periods and the amounts expected to be collected will be recognised in the interim consolidated statement of income.

Impairment of inventories

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

At the reporting date, inventories amounted to RO 13.364 million (31 December 2016: RO 12.406 million) with provision for old and obsolete inventories of RO 3.275 million (31 December 2016: RO 3.066 million). Any difference between the amounts actually realised in future periods and the amounts recognised are dealt with in the statement of income.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Useful lives of property, plant and equipment

Depreciation is charged so as to allocate the cost of assets over their estimated useful lives. The calculation of useful lives is based on Management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

Taxes

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of the Group. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Contingencies

Contingent liabilities may arise from the ordinary course of business in relation to claims against the group, including legal, contractor, land access and other claims. By their nature, contingencies will be resolved only when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgement and the use of estimates regarding the outcome of future events.

5 DERECOGNITION OF A SUBSIDIARY

On 11 October 2016, the Parent Company signed a Share Purchase Agreement (SPA) with WorldCall Services Limited (WSL) and Ferret Consulting (the "Acquirers") for sale of ordinary and convertible preference shares of WTL held by Omantel. At 31 December 2016, Worldcall Telecommunications Limited (WTL) was classified as a disposal group held for sale and as a discontinuing operation. Thereafter, the acquirer has initiated the process and during June 2017, the board of directors resigned, however, there were certain regulatory approvals outstanding as of that date. The transfer of shares has been made by the Parent company after receiving appropriate regulatory approvals post reporting date and as such the Parent Company no longer controls WTL. Accordingly, the investment in WTL has been derecognised in the consolidation financial statements.

The assets and liabilities of WTL derecognised as at 30 September 2017 and its impact on the financial position of the Group is as follows:

| | 30 September 2017 RO'000 |
|---|---|
| Total assets | 8,230 |
| Total liabilities | (59,368) |
| Fair value reserve | (853) |
| Net liability position | (51,991) |
| Less: Non-controlling interests | 35,648 |
| Net assets | (16,343) |
| Loan from National Bank of Oman SAOG (NBO) (refer note (a) below) | 13,667 |
| Consideration | - |
| Investment retained in convertible preference shares (refer note (b) below) | - |
| Gain on derecognition | 2,676 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

5 DERECOGNITION OF A SUBSIDIARY (continued)

- a) As per the terms of the SPA, loan obtained by WTL from National Bank of Oman (NBO) including accrued interest against which a Corporate guarantee was provided by the Parent Company will be assumed by the Parent company (refer note 20(b)).
- b) As per the terms of the SPA, Parent company sold 85% of the convertible preference shares to Ferret Consulting. The remaining interest of 15% can be converted into ordinary shares only on the mandatory conversion date. Management believes that the fair value of the remaining amount approximates to zero value.
- c) The details of the assets and liabilities of WTL as at the date of derecognition and as at 31 December 2016 is as follows:

| | 30 September 2017 RO'000 | 31 December 2016 RO'000 |
|--------------------------------|---|--|
| ASSETS | | |
| Non-current assets | | |
| Investment property | 140 | 140 |
| Other financial assets | 403 | 406 |
| | <u>543</u> | <u>546</u> |
| Current assets | | |
| Inventories | 538 | 813 |
| Trade and other receivables | 4,563 | 5,076 |
| Other financial assets | 2,239 | 882 |
| Prepayments | 32 | 72 |
| Cash and bank balances | 315 | 1,747 |
| | <u>7,687</u> | <u>8,590</u> |
| Total assets | <u><u>8,230</u></u> | <u><u>9,136</u></u> |
| LIABILITIES | | |
| Non-current liabilities | | |
| Borrowings | 321 | 198 |
| Retirement benefit obligation | 427 | 1,492 |
| Other liabilities | 126 | 127 |
| | <u>874</u> | <u>1,817</u> |
| Current liabilities | | |
| Borrowings | 22,911 | 22,372 |
| Trade and other payables | 35,583 | 35,186 |
| | <u>58,494</u> | <u>57,558</u> |
| Total liabilities | <u><u>59,368</u></u> | <u><u>59,375</u></u> |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

5 DERECOGNITION OF A SUBSIDIARY (continued)

The results of WTL up to 30 June 2017 are included in the interim consolidated statement of income. The management believes that no significant transactions occurred between the period till date of derecognition. The results are set out below:

| | 30 September 2017 RO'000 | 30 September 2016 RO'000 |
|--|---|-----------------------------------|
| Revenue | 2,603 | 1,602 |
| Expenses | (5,066) | (3,327) |
| Operating loss | (2,463) | (1,725) |
| Finance costs- (net) | (1,136) | (363) |
| Other income- net | 577 | 89 |
| Loss for the period from discontinued operations | (3,022) | (1,999) |
| Attributable to: | | |
| Equity holders of parent | (1,716) | (1,135) |
| Non-controlling interests | (1,306) | (864) |
| Loss for the period from discontinued operations | (3,022) | (1,999) |
| Basic loss for the period per share (RO) from discontinued operations | (0.002) | (0.001) |
| Presented in the interim consolidated statement of income as follows: | | |
| Loss for the period from discontinued operations | (3,022) | (1,999) |
| Gain on derecognition | 2,676 | - |
| Net loss from discontinued operations | (346) | (1,999) |
| The net cash flows generated/(incurred): | | |
| Operating | (3,550) | - |
| Financing | 2,118 | - |

WTL has no non-comprehensive transactions during the period. Adjustments relating to impairment losses and reclassification of foreign currency translation reserve were recorded by the Group during 2015 as consolidation adjustments. Considering the liquidity position of WTL and the Parent Company's decision to not to invest/support WTL any further, the Group considered this as an abandonment of a foreign operation in accordance with the requirement of IAS 21 – The Effect of changes in foreign exchange rates. Consequently, the Group reclassified the cumulative foreign currency translation losses on investment in WTL (subsidiary) to interim consolidated statement of income in 2015.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

6 SEGMENT REPORTING

Information regarding the Group's operating segments is set out below in accordance with IFRS 8 - Operating segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Operating decision maker in order to allocate resources to the segment and to assess its performance. There has not been a change in segment reporting compared to the previous period as the Group's internal reporting is based on a risks and rewards approach.

Products and services from which reportable segments derive their revenues

At 30 September 2017, the Group is organised into two main business segments:

Fixed line and others

Provision of international and national calls from fixed lines, including rentals and installations of fixed telephones and internet services (fixed lines and other) and services rendered by Wholesale business division.

Mobile

Operation of Global System for Mobile Communication (GSM) for prepaid and post-paid services, equipment rentals and amounts derived from the sale of telecommunication equipment and other associated services falling within the Group's ordinary activities (mobile).

Segment revenues and results

Segment result represents the profit earned by each segment without allocation of finance income and finance costs. This is the measure reported to the Group's Board of Directors for the purposes of resource allocation and assessment of segment performance.

Inter-segment sales are charged at prevailing market prices. The segment results for the period ended 30 September 2017 are as follows:

| | <i>Fixed line and other RO'000</i> | <i>Mobile RO'000</i> | <i>Consolidation adjustments RO'000</i> | <i>Total RO'000</i> |
|--|--|--------------------------|---|-------------------------|
| Revenue | | | | |
| External sales | 160,530 | 246,242 | - | 406,772 |
| Inter-segment sales | 38,475 | 4,964 | (43,439) | - |
| Total revenue | <u>199,005</u> | <u>251,206</u> | <u>(43,439)</u> | <u>406,772</u> |
| Segment result | 15,283 | 56,012 | - | 71,295 |
| Finance and investment income | | | | 2,284 |
| Finance cost | | | | (3,127) |
| Share of profit from associates | | | | 2,258 |
| Other non-operating income | | | | <u>833</u> |
| Profit before taxation from continuing operations | | | | 73,543 |
| Taxation | | | | <u>(8,980)</u> |
| Profit for the period from continuing operations | | | | <u>64,563</u> |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

6 SEGMENT REPORTING (continued)**Segment revenues and results (continued)**

The segment results for the period ended 30 September 2016 were as follows:

| | <i>Fixed line and other RO'000</i> | <i>Mobile RO'000</i> | <i>Consolidation adjustments RO'000</i> | <i>Total RO'000</i> |
|---|--|--------------------------|---|-------------------------|
| Revenue | | | | |
| External sales | 151,525 | 243,297 | - | 394,822 |
| Inter-segment sales | 40,731 | 5,427 | (46,158) | - |
| Total revenue | 192,256 | 248,724 | (46,158) | 394,822 |
| Segment result | 30,659 | 75,462 | - | 106,121 |
| Finance and investment income | | | | 2,643 |
| Finance cost | | | | (1,122) |
| Share of results of associated companies | | | | 924 |
| Other non-operating income | | | | 744 |
| Profit before taxation from continuing operations | | | | 109,310 |
| Taxation | | | | (13,325) |
| Profit for the period from continuing operations | | | | 95,985 |

Other segment items for the period ended 30 September 2017 included in the interim consolidated statement of income are as follows:

| | <i>Fixed line and other RO'000</i> | <i>Mobile RO'000</i> | <i>Total RO'000</i> |
|---------------------|--|--------------------------|-------------------------|
| Depreciation | 35,78 | 44,836 | 80,618 |
| | 2 | | |
| Amortisation | 2,649 | 3,768 | 6,417 |

Other segment items from continuing operations for the period ended 30 September 2016 included in the interim consolidated statement of income are as follows:

| | <i>Fixed line and other RO'000</i> | <i>Mobile RO'000</i> | <i>Total RO'000</i> |
|--------------|--|--------------------------|-------------------------|
| Depreciation | 32,565 | 36,084 | 68,649 |
| Amortisation | 2,494 | 3,638 | 6,132 |

The segment total assets and total liabilities from continuing operations at 30 September 2017 and capital expenditures for the period ended are as follows:

| | <i>Fixed line and other RO'000</i> | <i>Mobile RO'000</i> | <i>Consolidation adjustments RO'000</i> | <i>Total RO'000</i> |
|-----------------------------|--|--------------------------|---|-------------------------|
| Assets | 434,995 | 284,390 | 417,985 | 1,137,370 |
| Liabilities | 139,395 | 92,968 | 327,999 | 560,362 |
| Capital expenditures | 64,694 | 45,121 | - | 109,815 |

The segment total assets and total liabilities from continuing operations at 31 December 2016 and capital expenditures for the year ended are as follows:

| | <i>Fixed line and other RO'000</i> | <i>Mobile RO'000</i> | <i>Consolidation adjustments RO'000</i> | <i>Total RO'000</i> |
|-------------|--|--------------------------|---|-------------------------|
| Assets | 444,202 | 272,438 | 100,327 | 816,967 |
| Liabilities | 137,298 | 87,885 | (5,156) | 220,027 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

| | | | | |
|----------------------|---------|--------|---|---------|
| Capital expenditures | 100,844 | 67,303 | - | 168,147 |
|----------------------|---------|--------|---|---------|

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

7 PROPERTY, PLANT AND EQUIPMENT

| | <i>Freehold land</i> | <i>Buildings</i> | <i>Network infrastructure and equipment</i> | <i>Furniture and office equipment</i> | <i>Motor vehicles and equipment</i> | <i>Capital work- in- progress</i> | <i>Total</i> |
|---|--------------------------|------------------|---|---|---|---|------------------|
| | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> |
| Cost | | | | | | | |
| 1 January 2017 | 1,125 | 76,407 | 1,070,799 | 32,511 | 6,815 | 72,209 | 1,259,866 |
| Additions | - | 2 | 434 | 256 | 86 | 107,835 | 108,613 |
| Transfers | - | 3,058 | 118,898 | 1,173 | - | (123,129) | - |
| Transfers to other assets | - | - | - | - | - | (231) | (231) |
| Disposals | - | - | (27,671) | (74) | (239) | - | (27,984) |
| 30 September 2017 | 1,125 | 79,467 | 1,162,460 | 33,866 | 6,662 | 56,684 | 1,340,264 |
| Depreciation | | | | | | | |
| 1 January 2017 | - | 47,576 | 665,127 | 28,422 | 2,062 | - | 743,187 |
| Charge for the period | - | 2,877 | 75,306 | 1,380 | 1,055 | - | 80,618 |
| Disposals | - | - | (11,080) | (74) | (232) | - | (11,386) |
| 30 September 2017 | - | 50,453 | 729,353 | 29,728 | 2,885 | - | 812,419 |
| At 30 September 2017 (unaudited) | 1,125 | 29,014 | 433,107 | 4,138 | 3,777 | 56,684 | 527,845 |

The Board of Directors considers that leasehold plots of land made available by the Government for its operations in the Sultanate of Oman 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.

During the period, salary cost amounting to RO 3.523 million (2016: RO 4.118 million) was capitalised.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

7 PROPERTY, PLANT AND EQUIPMENT (continued)

| | <i>Freehold land RO'000</i> | <i>Buildings RO'000</i> | <i>Network infrastructure and equipment RO'000</i> | <i>Furniture and office equipment RO'000</i> | <i>Motor vehicles and equipment RO'000</i> | <i>Capital work- in- progress RO'000</i> | <i>Total RO'000</i> |
|---------------------------------------|-------------------------------------|-----------------------------|--|--|--|--|-------------------------|
| Cost | | | | | | | |
| 1 January 2016 | 1,125 | 79,677 | 1,012,237 | 33,106 | 5,593 | 68,437 | 1,200,175 |
| Additions | - | - | 3,882 | 107 | 2,268 | 156,293 | 162,550 |
| Transfers | - | 1,596 | 143,417 | 2,451 | - | (147,464) | - |
| Transfer to other assets | - | - | - | - | - | (5,057) | (5,057) |
| Adjustment | - | (4,866) | 8,785 | (2,435) | (47) | - | 1,437 |
| Disposals/write-off | - | - | (97,522) | (718) | (999) | - | (99,239) |
| 31 December 2016 | 1,125 | 76,407 | 1,070,799 | 32,511 | 6,815 | 72,209 | 1,259,866 |
| Depreciation | | | | | | | |
| 1 January 2016 | - | 45,293 | 660,304 | 29,556 | 1,730 | - | 736,883 |
| Charge for the year | - | 3,738 | 87,291 | 1,927 | 1,359 | - | 94,315 |
| Adjustment | - | (1455) | 5,282 | (2,343) | (47) | - | 1,437 |
| Disposals/write-off | - | - | (87,750) | (718) | (980) | - | (89,448) |
| 31 December 2016 | - | 47,576 | 665,127 | 28,422 | 2,062 | - | 743,187 |
| Net book value At 31 December 2016 | 1,125 | 28,831 | 405,672 | 4,089 | 4,753 | 72,209 | 516,679 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

8 INVESTMENT PROPERTY

| | Unaudited 30 September 2017 RO'000 | <i>Audited 31 December 2016 RO'000</i> |
|----------------------------------|---|--|
| Opening balance | - | 140 |
| Transfer to assets held for sale | - | (140) |
| | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> |

9 OTHER INTANGIBLE ASSETS

| | Licenses RO'000 | Software RO'000 | Subscriber acquisition costs RO'000 | Total RO'000 |
|---|----------------------------|----------------------------|--|-------------------------|
| Cost | | | | |
| At 1 January 2016 | 62,538 | 22,100 | 161 | 84,799 |
| Addition during the year | - | 4,922 | - | 4,922 |
| Adjustment | - | (1,203) | - | (1,203) |
| Disposal | - | (12) | - | (12) |
| | <u>62,538</u> | <u>25,807</u> | <u>161</u> | <u>88,506</u> |
| At 31 December 2016 (audited) | 62,538 | 25,807 | 161 | 88,506 |
| At 1 January 2017 | 62,538 | 25,807 | 161 | 88,506 |
| Addition during the period | - | 669 | - | 669 |
| | <u>62,538</u> | <u>26,476</u> | <u>161</u> | <u>89,175</u> |
| At 30 September 2017 (unaudited) | 62,538 | 26,476 | 161 | 89,175 |
| Amortisation | | | | |
| At 1 January 2016 | 37,871 | 18,142 | 161 | 56,174 |
| Charge for the year | 5,655 | 2,798 | - | 8,453 |
| Disposal | - | (12) | - | (12) |
| Adjustment | (5) | (1,198) | - | (1,203) |
| | <u>43,521</u> | <u>19,730</u> | <u>161</u> | <u>63,412</u> |
| At 31 December 2016 | 43,521 | 19,730 | 161 | 63,412 |
| At 1 January 2017 | 43,521 | 19,730 | 161 | 63,412 |
| Charge for the period | 4,212 | 2,205 | - | 6,417 |
| | <u>47,733</u> | <u>21,935</u> | <u>161</u> | <u>69,829</u> |
| At 30 September 2017 (unaudited) | 47,733 | 21,935 | 161 | 69,829 |
| Net book value | | | | |
| At 30 September 2017 (unaudited) | 14,805 | 4,541 | - | 19,346 |
| | <u>14,805</u> | <u>4,541</u> | <u>-</u> | <u>19,346</u> |
| At 31 December 2016 (audited) | 19,017 | 6,077 | - | 25,094 |
| | <u>19,017</u> | <u>6,077</u> | <u>-</u> | <u>25,094</u> |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

10 INVESTMENT IN ASSOCIATED COMPANIES

- (a) The share of post-acquisition profits and the carrying value of the investments in associated companies are as follows:

| | <i>Unaudited</i> 30 September <i>2017</i> RO'000 | <i>Audited</i> 31 December <i>2016</i> RO'000 |
|--|---|--|
| Opening balance | 9,776 | 9,381 |
| Addition during the period (refer note (b) below) | 327,945 | - |
| Other additions | 41 | - |
| Share of results of associated companies | 2,258 | 1,172 |
| Share of other comprehensive income of associate companies | 129 | - |
| Foreign currency translation losses | (1,332) | - |
| Dividend received | (886) | (777) |
| | <hr/> | <hr/> |
| Closing balance | 337,931 | 9,776 |
| | <hr/> <hr/> | <hr/> <hr/> |

- (b) On 24 August 2017, the Parent Company acquired 425.7 million treasury shares representing 9.84% of the share capital in Mobile Telecommunication Company KSCP ("Zain") at a price of KWD 0.060/share. The total consideration for the acquisition amounted to RO 327.9 million, which includes the acquisition related costs amounting to RO 1.3 million. The purchase price was determined by the Group based on accounting, legal and tax due diligences and independent valuation performed by the consultants appointed by the Group. Although, the Group owns less than 20% of the equity interests, the Group has determined that it has significant influence because it has a representation on the Board of Directors of Zain.

At this stage, management has performed initial accounting for the acquisition of Zain by applying purchase method of accounting because the fair values to be assigned to the Zain's identifiable assets and liabilities can only be determined provisionally. In accordance with the provisions of IFRS 3, the Group will recognise any adjustments to these provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

The fair value of the Group's investment in Zain, which is listed on the Kuwait Stock Exchange, amounted to RO 277.3 million as at 30 September 2017.

The table provided below summarises the financial information of Zain. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in Zain.

| | 30 September 2017 RO'000 |
|--|---|
| Percentage ownership interest | 9.84% |
| Non-current assets | 2,941,157 |
| Current assets | 1,028,136 |
| Non-current liabilities | (952,569) |
| Current liabilities | (969,403) |
| | <hr/> |
| Net assets | 2,047,321 |
| Less: Minority interest | (199,642) |
| | <hr/> |
| Net assets after minority interest | 1,847,679 |
| Group's share of net assets (9.84%) | 181,812 |
| Goodwill - provisional | 147,194 |
| | <hr/> |
| Carrying amount of interest in Zain | 329,006 |
| | <hr/> <hr/> |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

10 INVESTMENT IN ASSOCIATED COMPANIES (continued)

| | <i>From the date of acquisition to 30 September 2017 RO'000</i> |
|--|---|
| Revenue | 107,869 |
| Profit from continuing operations | 23,002 |
| Other comprehensive income | 1,318 |
| Total comprehensive income for the period | 24,230 |
| Group's share of total comprehensive income (9.84%) | 2,393 |

The related details regarding Zain's contingent liabilities and commitments are set out on note 39 (b).

- (c) The Group also has interests in other associates. The summarised financial information of these associates are as follows:

| | <i>Assets RO'000</i> | <i>Liabilities RO'000</i> | <i>Revenues RO'000</i> | <i>(Loss)/Profit RO'000</i> | <i>Percentage shareholding</i> |
|---------------------------|--------------------------|-------------------------------|----------------------------|---------------------------------|------------------------------------|
| 30 September 2017 | | | | | |
| Oman Fiber Optic Co. SAOG | 37,547 | 21,059 | 15,979 | (271) | 40.96 |
| Infoline LLC | 4,215 | 2,307 | 7,697 | 150 | 45 |
| 30 September 2016 | | | | | |
| Oman Fiber Optic Co. SAOG | 41,398 | 22,998 | 21,377 | 2,012 | 40.96 |
| Infoline LLC | 2,737 | 983 | 5,313 | 222 | 45 |
| 31 December 2016 | | | | | |
| Oman Fiber Optic Co. SAOG | 41,878 | 22,953 | 29,115 | 2,536 | 40.96 |
| Infoline LLC | 2,854 | 1,062 | 7,198 | 261 | 45 |

Impairment testing of investment in associates was carried out and accordingly, no impairment was recorded in the current period (2016: nil impairment).

11 OTHER FINANCIAL ASSETS

| | <i>Current</i> | | <i>Non-current</i> | |
|---|---|--|---|--|
| | <i>Unaudited 30 September 2017 RO'000</i> | <i>Audited 31 December 2016 RO'000</i> | <i>Unaudited 30 September 2017 RO'000</i> | <i>Audited 31 December 2016 RO'000</i> |
| Investments at fair value through profit or loss | | | | |
| Financial assets designated as at fair value through profit or loss (a) | - | - | 34,646 | 34,452 |
| Held for trading investments (b) | 18,769 | 27,024 | - | - |
| Available for sale investment carried at cost | | | | |
| unquoted equity (c) | 101 | - | 2,683 | 2,933 |
| Available for sale investment carried at fair value | | | | |
| Quoted investments | - | - | 239 | 241 |
| Held to maturity investments | | | | |
| Bonds (d) | - | 3,420 | 9,000 | 9,000 |
| Long term deposits at cost | | | | |
| Fixed deposits with banks and financial institution | 1,000 | 58,500 | 2,000 | 4,000 |
| | 19,870 | 88,944 | 48,568 | 50,626 |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

11 OTHER FINANCIAL ASSETS (continued)

(a) Financial assets designated as at fair value through profit or loss

| | <i>Carrying amount as at 31 December 2016 RO'000</i> | <i>Movement during the period RO'000</i> | <i>Gains recognised in profit or loss RO'000</i> | <i>Carrying amount as at 30 September 2017 RO'000</i> |
|--------------------------|--|--|--|---|
| Equities | 12,555 | (813) | 108 | 11,850 |
| Fixed income instruments | 7,009 | 1,248 | 167 | 8,424 |
| Mutual funds | 14,888 | (805) | 289 | 14,372 |
| | <u>34,452</u> | <u>(370)</u> | <u>564</u> | <u>34,646</u> |

(b) Held for trading investments

Held for trading investments represent quoted marketable securities. These investments are valued at quoted market price at the reporting date.

(c) Available for sale investment carried at cost

Available for sale investment represents investments in a mutual fund and unquoted equities. The investments are carried at cost less impairment due to unavailability of the fair value.

(d) Held to maturity investment

Held to maturity investments represents investment in bonds as set out below:

| | <i>Unaudited 30 September 2017 RO '000</i> | <i>Audited 31 December 2016 RO '000</i> | <i>Annual effective rate of interest</i> | <i>Maturity (year)</i> |
|--------------------|--|---|--|----------------------------|
| Current | | | | |
| Subordinated bonds | - | 1,420 | 5.5% | 2017 |
| Subordinated bonds | - | 2,000 | 6.5% | 2017 |
| Non-current | | | | |
| Subordinated notes | 5,000 | 5,000 | 5.757% | 2018 |
| Islamic bonds | 1,000 | 1,000 | 5% | 2018 |
| Islamic bonds | 1,000 | 1,000 | 8.5% | 2021 |
| Subordinated notes | 1,000 | 1,000 | 4% | 2019 |
| Subordinated notes | 1,000 | 1,000 | 5.5% | 2021 |
| | <u>9,000</u> | <u>12,420</u> | | |

12 INVENTORIES

| | <i>Unaudited 30 September 2017 RO'000</i> | <i>Audited 31 December 2016 RO'000</i> |
|--------------------------------------|---|--|
| Stores and spares | 9,958 | 9,336 |
| Prepaid cards and handsets | 3,406 | 3,070 |
| | <u>13,364</u> | <u>12,406</u> |
| Provision for inventory obsolescence | (3,275) | (3,066) |
| | <u>10,089</u> | <u>9,340</u> |

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

12 INVENTORIES (continued)

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

| | <i>Unaudited</i> 30 September 2017 <i>RO'000</i> | <i>Audited</i> <i>31 December 2016</i> <i>RO'000</i> |
|---|---|--|
| Opening balance | 3,066 | 4,392 |
| Charge/ (reversed) during the period / year | 209 | (366) |
| Write off during the period / year | - | (264) |
| Transfer to held for sale assets | - | (696) |
| | <u>3,275</u> | <u>3,066</u> |

13 TRADE AND OTHER RECEIVABLES

| | <i>Unaudited</i> 30 September 2017 <i>RO'000</i> | <i>Audited</i> <i>31 December 2016</i> <i>RO'000</i> |
|--|---|--|
| Amounts due from customers | 102,846 | 44,365 |
| Amounts due from Oman Investment Finance Company SAOG (OIFC) | 14,553 | 44,274 |
| Amounts due from other operators | 35,677 | 28,403 |
| Other receivables | 1,164 | 1,148 |
| | <u>154,240</u> | <u>118,190</u> |
| Provision for impairment of receivables | <u>(44,801)</u> | <u>(40,398)</u> |
| | 109,439 | 77,792 |
| Deposits | 3,949 | 4,846 |
| Advances | 5,690 | 3,956 |
| | <u>119,078</u> | <u>86,594</u> |

The movement in provision for impairment of receivables is disclosed in note 40 (b) (ii).

The deposits includes amounts held with TRA under protest as explained in note 24.

14 SHARE CAPITAL AND DIVIDENDS

The share capital comprises 750,000,000 (31 December 2016: 750,000,000) authorised and issued, ordinary shares of RO 0.100 (31 December 2016: RO 0.100) each fully paid. Shareholders of the Parent Company who own not less than 10% of the Parent Company's shares at reporting date are as follows:

| | 30 September 2017 | | 31 December 2016 | |
|--|--------------------------|-------|-------------------------|-------|
| | Shares held | % | Shares held | % |
| United International Telecommunication Investment & Projects LLC | 382,500,345 | 51.00 | - | - |
| Oman Investment Fund | 31,724,655 | 4.23 | 414,225,000 | 55.23 |

For the year 2016, a final cash dividend of RO 0.070 per share (2015: RO 0.060 per share) amounting to RO 52.5 million (2015: RO 45 million) was approved by the shareholders at the annual general meeting held on 30 March 2017.

An interim cash dividend of RO 0.020 (2016: RO 0.040) amounting to RO 15 million (2016: RO 30 million) was approved by the Board of Directors on 7 August 2017.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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15 LEGAL RESERVE

In accordance with the Oman Commercial Companies Law of 1974, as amended, annual appropriations of 10% of the profit for the year are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid-up share capital. This reserve is not available for distribution. As the reserve equals one third of paid up share capital, the Company has discontinued the transfer.

16 VOLUNTARY RESERVE

In accordance with the Board of Directors' Resolution No.16T/5/2000, the Parent Company transfer 10% of its annual net profits to a distributable voluntary reserve until it becomes equal to one-half of the entity's paid up share capital. As the reserve equals at least half of paid up share capital, the Company has discontinued the transfer.

17 CAPITAL CONTRIBUTION

On 11 February 2004, the Telecommunications Regulatory Authority (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 periods of 15 and 25 years, respectively.

The Group engaged an independent firm of consultants to determine the fair value of the licences as at 11 February 2004, who determined the fair value of the fixed and mobile licences as being in the amount of approximately RO 44.881 million.

The basis of the valuation was on an assessed open market value of the licences under their current terms 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 a non-distributable capital contribution within equity.

18 FOREIGN CURRENCY TRANSLATION RESERVE

Foreign currency translation reserve represents an unrealised exchange loss on the Group's investment in associates. The reserve is not available for distribution.

19 FAIR VALUE RESERVE

The fair value reserve arises on the revaluation of available for sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in the statement of income. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in the statement of income.

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20 BORROWINGS

| | Currency | Nominal interest rate | Year of maturity | Current | | Non-current | |
|----------------------------------|----------|---|------------------|---------------------------|------------------------|------------------------------|------------------------|
| | | | | Unaudited 30 September | Audited 31 December | Unaudited 30 September | Audited 31 December |
| | | | | 2017 RO'000 | 2016 RO'000 | 2017 RO'000 | 2016 RO'000 |
| Secured-at amortised cost | | | | | | | |
| Bridge loan | USD | LIBOR+1.9% p.a | 2018 (note a) | 333,578 | - | - | - |
| Deferred financing cost | USD | | | (3,455) | - | - | - |
| | | | | 330,123 | - | - | - |
| Term loan | USD | 3 months LIBOR+1.75 p.a | 2021 (note b) | 2,503 | - | 10,400 | - |
| Bank loan | RO | 3 months LIBOR+2.5%-3.5 (floor of 4.75%-6%p.a) | 2019 – 2021 | 2,633 | 1,900 | 5,136 | 5,475 |
| Bank overdraft | RO | 3 months LIBOR+2.5% (floor of 5.5%p.a) | - | 462 | 489 | - | - |
| Finance lease liabilities | RO | 12.695% p.a | - | 276 | 42 | - | 265 |
| | | | | 335,997 | 2,431 | 15,536 | 5,740 |

- a) The Parent Company acquired a bridge loan facility of RO 333 million (USD 866 million) from a consortium of banks for the purpose of financing the acquisition of shares in Mobile Telecommunication Company (Zain Group). The bridge loan facility is payable within a period for 1 year from the date of drawdown. The loan is secured by way of a pledged on the acquired shares of Zain. The first interest period for the loan is set at 8 months from the date of drawdown and thereafter at a 3 month period till the date of repayment.
- b) The term loan is repayable in 16 quarterly instalments commencing from 30 September 2017. Profit is payable quarterly and is charged at three months average London Inter-Bank Offer Rate (LIBOR) plus 1.75% per annum and monitoring fee at 1.5% per annum. The loan is unsecured.

The other borrowings pertain to the borrowings raised by its subsidiary in Oman and are secured by assignments of its receivables and related to a subsidiary in the Sultanate of Oman.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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21 DEFERRED TAX (ASSET)/LIABILITY

The net deferred tax (asset) /liability and deferred tax charge / (credit) in the interim statement of income are attributable to the following items:

| | 1 January 2017 RO'000 | Impact of change in tax rate RO '000 | Others RO '000 | Charged / (credited) to statement of income RO '000 | Unaudited 30 September 2017 RO '000 | 1 January 2016 RO '000 | Charged / (credited) to statement of income RO'000 | Others RO '000 | 31 December 2016 RO '000 |
|---|-----------------------------|---|-------------------|---|--|------------------------------|--|-------------------|-----------------------------------|
| Temporary differences | | | | | | | | | |
| Depreciation and amortisation | 4,865 | 1,216 | - | (1,426) | 4,655 | 4,773 | 92 | - | 4,865 |
| Provision for impaired receivables | (2,843) | (711) | - | (661) | (4,215) | (2,968) | 125 | - | (2,843) |
| Disposal / impairment of investment in subsidiary | (11,361) | (2,840) | - | 14,201 | - | (11,252) | (109) | - | (11,361) |
| Provision for inventory obsolescence | (40) | (10) | - | (31) | (81) | (115) | 75 | - | (40) |
| Fair value gain on investments | 583 | 146 | - | 127 | 856 | 490 | 93 | - | 583 |
| Licence amortisation | (615) | (154) | 223 | - | (546) | - | - | (615) | (615) |
| Tax losses | - | - | - | (881) | (881) | - | - | - | - |
| | <u>(9,411)</u> | <u>(2,353)</u> | <u>223</u> | <u>11,333</u> | <u>(212)</u> | <u>(9,072)</u> | <u>276</u> | <u>(615)</u> | <u>(9,411)</u> |

The Corporate tax rate in Oman has been increased to 15% with effect from 1 January 2017. Details are set out in note 36.

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22 RETIREMENT BENEFIT OBLIGATION

The movement in retirement benefit obligation is as follows:

| | <i>Unaudited</i> 30 September 2017 <i>RO'000</i> | <i>Audited</i> 31 December 2016 <i>RO'000</i> |
|---|--|--|
| Opening balance | 4,477 | 5,772 |
| Charge for the period / year (Note 30) | 550 | 746 |
| Payments during the period / year | (449) | (690) |
| Transfer to liability associated with held for sale | - | (1,351) |
| Closing balance | <u>4,578</u> | <u>4,477</u> |

23 TRADE AND OTHER PAYABLES

| | <i>Unaudited</i> 30 September 2017 <i>RO'000</i> | <i>Audited</i> 31 December 2016 <i>RO'000</i> |
|---|--|--|
| Trade payables | 9,684 | 20,840 |
| Amounts due to other telecommunication administrators | 10,012 | 8,512 |
| Retentions payable | 26,687 | 27,838 |
| Accruals | 72,279 | 61,158 |
| Deferred income | 22,490 | 13,510 |
| Billings in advance | 11,651 | 15,970 |
| Accrued interest | 1,604 | - |
| Voluntary end of service | 2,432 | 6,337 |
| Other payables | 3,453 | 3,407 |
| | <u>160,292</u> | <u>157,572</u> |

24 ROYALTY PAYABLE

In accordance with Article 4(1) of the fixed and mobile licence and as permitted by the TRA, the licensee is required to pay royalty to the TRA at the rate of 12% of its gross revenue excluding certain categories of wholesale revenue and interconnection expenses. Details regarding recent demand made by TRA are set out in note 39 (c) (i).

The deposits amounting to RO 1.6 million is held with TRA under protest as set out in note 13.

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25 NET ASSETS PER SHARE

Net assets per share attributable to equity holders of the Parent Company is calculated by dividing the net assets at the reporting date by the number of shares outstanding:

| | 30 September 2017 | <i>31 December 2016</i> |
|--|----------------------------------|---------------------------------|
| Net assets attributable to the owners of the parent (RO'000) | 577,825 | 582,345 |
| Number of shares outstanding (thousands) | 750,000 | 750,000 |
| Net assets per share (RO) | 0.770 | 0.776 |

26 WHOLESALE REVENUE

| | 9 month ended 30 September 2017 RO'000 | 3 month ended 30 September 2017 RO'000 | <i>9 month ended 30 September 2016 RO'000</i> | <i>3 month ended 30 September 2016 RO'000</i> |
|-------------------------------------|---|---|---|---|
| External administration revenue (a) | 21,871 | 9,607 | 21,788 | 9,322 |
| Interconnection income (b) | 12,110 | 3,728 | 13,216 | 3,945 |
| Capacity sales | 33,247 | 11,926 | 28,293 | 3,147 |
| Others | 18,506 | 5,933 | 17,955 | 6,541 |
| | 85,734 | 31,194 | 81,252 | 22,955 |

- a) External administration revenue represents the revenue derived from termination of other international operators' traffic on Group's network and revenue from transit international calls.
- b) Interconnection income represents the revenue derived from licensed local operators for the use of transmission equipment, facilities and the charges for the termination of the operator's traffic on the group's network.

27 INTERCONNECTION EXPENSE

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

28 COST OF CONTENT SERVICES

Cost of content services represents the charges paid by the Group to various content service providers for provision of Group's IPTV services.

29 EXTERNAL ADMINISTRATION EXPENSE

External administration expense represents the charges paid by the Group to international operators for the termination of the traffic on the network of the operator.

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30 STAFF COSTS

| | 9 month ended 30 September 2017 RO'000 | 3 month ended 30 September 2017 RO'000 | 9 month ended 30 September 2016 RO'000 | 3 month ended 30 September 2016 RO'000 |
|----------------------------------|---|---|---|---|
| Salaries and allowances | 45,621 | 15,044 | 44,614 | 15,027 |
| Social security costs | 3,653 | 1,226 | 3,648 | 1,190 |
| Retirement benefits (Note below) | 549 | 141 | 485 | 100 |
| Other employee benefits | 3,589 | 1,181 | 3,322 | 1,250 |
| | <u>53,412</u> | <u>17,592</u> | <u>52,069</u> | <u>17,567</u> |

Includes an amount of RO 0.083 million (2016: RO 0.051 million) capitalised during the period. Total salary costs capitalised during the period amounted to RO 3.5 million (2016: 4.1 million) (note 7).

31 OPERATING AND MAINTENANCE EXPENSES

| | 9 month ended 30 September 2017 RO'000 | 3 month ended 30 September 2017 RO'000 | 9 month ended 30 September 2016 RO'000 | 3 month ended 30 September 2016 RO'000 |
|--|---|---|---|---|
| Asset maintenance | 18,259 | 6,251 | 16,599 | 5,100 |
| Cost of sales | 33,486 | 12,261 | 19,237 | 3,385 |
| Satellite channels and frequency charges | 10,789 | 3,313 | 10,767 | 3,351 |
| Rent, rates and taxes | 6,051 | 1,919 | 5,998 | 1,949 |
| Electricity and water | 3,011 | 1,390 | 2,283 | 768 |
| Maintenance and hire charges | 1,947 | 660 | 2,031 | 577 |
| Petrol, oil and lubricants | 477 | 160 | 543 | 181 |
| Insurance | 554 | 175 | 586 | 172 |
| Others | 4,179 | 849 | 2,727 | 874 |
| | <u>78,753</u> | <u>26,978</u> | <u>60,771</u> | <u>16,357</u> |

32 ADMINISTRATIVE EXPENSES

| | 9 month ended 30 September 2017 RO'000 | 3 month ended 30 September 2017 RO'000 | 9 month ended 30 September 2016 RO'000 | 3 month ended 30 September 2016 RO'000 |
|-------------------------------|---|---|---|---|
| Training costs | 1,117 | 505 | 1,006 | 215 |
| Professional consultancy fees | 1,151 | 477 | 2,958 | 586 |
| Administrative services | 1,923 | 550 | 1,571 | 368 |
| Business travel | 938 | 291 | 1,007 | 312 |
| Office supplies and services | 977 | 333 | 909 | 309 |
| | <u>6,106</u> | <u>2,156</u> | <u>7,451</u> | <u>1,790</u> |

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33 FACTORING, COLLECTION AND DISTRIBUTION FEES

The Parent company has awarded an agreement to OIFC whereby all amounts due from certain category of customers in the Sultanate of Oman are assigned and factored to OIFC. Amounts due from such customers are also collected by the Group through its own facilities and through its other collection agents. Factoring fees for such collections are deducted from the charges payable to OIFC. The Group pays factoring fees under the above agreements based on the customer category and the amounts assigned. On 31 December 2016, the factoring contract with OIFC came to an end and was not renewed by the management. In addition, OIFC collects, on behalf of the Group, amounts due in respect of customer bills issued prior to the present assignment, for which factoring fees are paid at rates varying in accordance with the age of the amounts collected. Distribution fees are also paid to agents selling prepaid cards and other services of the Group.

34 FINANCE INCOME / (COSTS) - NET

| | 9 month ended 30 September 2017 RO'000 | 3 month ended 30 September 2017 RO'000 | 9 month ended 30 September 2016 RO'000 | 3 month ended 30 September 2016 RO'000 |
|---|---|---|---|---|
| (i) Finance income | | | | |
| Interest income | 1,277 | 708 | 1,916 | 630 |
| Exchange gain | - | - | 209 | 57 |
| | <u>1,277</u> | <u>708</u> | <u>2,125</u> | <u>687</u> |
| (ii) Investment income | | | | |
| Dividend income | 1,217 | 412 | 829 | 130 |
| Fair value gain on investment at fair value through profit and loss | 564 | 551 | 5 | 26 |
| Fair value gain/(loss) on held for trading investments | (626) | (368) | 420 | (427) |
| Realised loss on held for trading investments – net | (148) | (148) | (736) | (23) |
| | <u>1,007</u> | <u>447</u> | <u>518</u> | <u>(294)</u> |
| (iii) Finance cost | | | | |
| Exchange loss | (73) | - | - | - |
| Amortisation of transactions costs on borrowings | (543) | (543) | - | - |
| Interest on borrowings | (2,511) | (2,190) | (1,122) | (614) |
| | <u>(3,127)</u> | <u>(2,733)</u> | <u>(1,122)</u> | <u>(614)</u> |
| 35 OTHER INCOME - net | | | | |
| | 9 month ended 30 September 2017 RO'000 | 3 month ended 30 September 2017 RO'000 | 9 month ended 30 September 2016 RO'000 | 3 month ended 30 September 2016 RO'000 |
| Miscellaneous income-net | 833 | 285 | 744 | 295 |

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36 TAXATION

(a) The tax charge for the period comprises:

| | 9 month ended 30 September 2017 RO'000 | 3 month ended 30 September 2017 RO'000 | 9 month ended 30 September 2016 RO'000 | 3 month ended 30 September 2016 RO'000 |
|--|---|---|---|---|
| Current taxation | - | (9,279) | 13,791 | 4,072 |
| Deferred taxation (note 21) | 11,333 | 13,112 | (466) | (40) |
| Impact of change in tax rate (note 21) | (2,353) | - | - | - |
| | 8,980 | 3,872 | 13,325 | 4,032 |

(b) The reconciliation of tax on the accounting profit with the taxation charge in the statement of income is as follows:

| | 9 month ended 30 September 2017 RO'000 | 3 month ended 30 September 2017 RO'000 | 9 month ended 30 September 2016 RO'000 | 3 month ended 30 September 2016 RO'000 |
|--|---|---|---|---|
| Tax on accounting profit | 10,870 | 3,365 | 13,165 | 3,872 |
| Add / (less) tax effect of: | | | | |
| Expenses not deductible | 465 | 434 | 260 | 87 |
| Income not subject to tax | (2) | 43 | (100) | 73 |
| Change in tax rate | (2,353) | - | - | - |
| Tax charge as per statement of income | 8,980 | 3,842 | 13,325 | 4,032 |

(c) Status of tax assessments

Assessments have been completed for the taxable year up to 2014 for the Parent Company. The management is not aware of and does not expect any additional tax liabilities to be incurred relating to open tax years.

37 BASIC AND DILUTED EARNINGS PER SHARE

The earnings per share has been derived by dividing the profit for the period attributable to the owners of the Parent Company by the weighted average number of shares outstanding. As there are no dilutive shares, the diluted earring per share is identical to basic earring per share.

38 RELATED PARTIES

Related parties comprise the shareholders, directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Group maintains balances with these related parties which arise in the normal course of business from the commercial transactions, and are entered into at mutually agreed terms and conditions.

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38 RELATED PARTIES (continued)

The nature and amounts of transactions during the period were as follows:

(i) Purchase of goods and services

| | <i>Unaudited</i> 30 September 2017 <i>RO'000</i> | <i>Unaudited</i> 30 September 2016 <i>RO'000</i> |
|--------------|---|---|
| Associates | 11,548 | 7,431 |
| Total | 11,548 | 7,431 |

(ii) Directors' sitting fees – non executive

| | |
|-----------|-----------|
| 75 | 76 |
|-----------|-----------|

(iii) Key management compensation

| | <i>Unaudited</i> 30 September 2017 <i>RO'000</i> | <i>Unaudited</i> 30 September 2016 <i>RO'000</i> |
|-------------------------------|---|---|
| Basic salaries and allowances | 1,026 | 1,036 |
| Other benefits and expenses | 1,114 | 911 |
| Social security costs | 47 | 48 |
| Retirement benefits | 31 | 29 |
| Total | 2,218 | 2,024 |

(iv) Balances arising from sales / purchases of goods / services

| | <i>Receivables</i> | | <i>Payables</i> | |
|---------------------|---|--|---|--|
| | <i>Unaudited</i> 30 September 2017 <i>RO'000</i> | <i>Audited</i> 31 December 2016 <i>RO'000</i> | <i>Unaudited</i> 30 September 2017 <i>RO'000</i> | <i>Audited</i> 31 December 2016 <i>RO'000</i> |
| Associates | - | - | 1,720 | 987 |
| Other related party | - | 96 | 112 | 214 |
| | - | 96 | 1,832 | 1,201 |

(v) Sale of services-Other related parties

| | |
|---|----------|
| - | 8 |
|---|----------|

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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39 COMMITMENTS

(a) Commitments

Commitments, for which no provision has been made in these interim consolidated financial statements, in respect of the purchase of equipment and investments, are as follows:

| | <i>Unaudited</i> 30 September 2017 RO'000 | <i>Audited</i> 31 December 2016 RO'000 |
|--|---|--|
| Commitment for fixed capital expenditure | 73,901 | 99,678 |
| Capital expenditure commitment-share of an associate | 12,049 | - |
| Investments | 4,141 | 5,153 |

(b) Contingent liabilities

| | | |
|--|---------------|-------|
| Group's share of contingent liabilities of Zain (refer note below) | 26,527 | - |
| Letter of Credit | 427 | 427 |
| Bank guarantees | 1,390 | 1,327 |

The above letters of credit and bank guarantees were issued in the normal course of business.

The Group's share of contingent liabilities of Zain mainly pertain to subsidiary in Iraq which are set out below:

- i) In 2011, the Iraqi Telecom Regulatory Authority, the Communications and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 79.046 million) from Atheer, citing non-compliance with certain license terms. These claims were resolved in favor of Atheer during the second quarter of 2015. However, in March 2016, the Executive Director of the CMC filed a complaint with the Hearing Panel of the CMC claiming US\$ 100 million (KD 30.170 million) relating to the matter, which had been ruled in favor of Atheer by the CMC Appeals Board on three previous occasions. On 13 July 2016, the Hearing Panel of the CMC issued a decision in favor of CMC. On 8 September 2016, Atheer filed an appeal against this decision with the CMC Appeals Board. On 15 January 2017, the CMC Appeals Board issued a decision in favor of CMC. Atheer challenged this decision of the CMC Appeals Board in the Court of First instance. The Court of Appeals is currently in the process of reviewing the case. Based on the report of its attorneys, the Group believes that the prospects of resolving this matter is in its favor.
- ii) On 30 May 2016, the Director General of the CMC sent a letter to Atheer demanding that Atheer pay approximately US\$ 61 million (KD 18.404 million) in spectrum fees for the period commencing from 2010. Atheer appealed this decision to the CMC Appeals Board on 28 June 2016. The CMC Appeals Board issued a decision against Atheer on 9 November 2016 rejecting Atheer's appeal. On 15 December 2016, Atheer filed a suit before the Commercial Court of First Instance in Baghdad. On 5 February 2017, Atheer obtained an order from the Commercial Court of First Instance to stop any enforcement proceedings by the CMC to collect the spectrum fee until the case is decided by the Court. In June 2017, the Court of First Instance turned down Atheer's challenge on the basis that the Court lacked jurisdiction to hear this dispute. Atheer subsequently filed an appeal with the Court of Appeals. On 26 July 2017, the Court of Appeals affirmed the decision of Court of First Instance. Atheer appealed to the Court of Cassation on 14 August 2017. On 10 September 2017, Court of Cassation affirmed the decision of the Court of Appeals. Atheer is currently preparing a correction to the Court of Cassation to re-consider its decision dated 10 September 2017. On the basis of the report of its attorneys, the Group believes that Atheer will prevail in this matter.

39 COMMITMENTS (continued)

(b) Contingent liabilities (continued)

- iii) Certain regulatory and taxation claims have been initiated against Zain in some jurisdictions. On the basis of information currently available and the advice of the legal advisors, Group management is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position or the consolidated performance of the Group.

(c) Claims

- i) The TRA vide its decision No.6/2015 dated 25 March 2015 imposed a penalty of RO 5 million in relation to disruption of Company's telecommunication services on 17 November 2014. On 9 July 2015, TRA passed a resolution to reduce the penalty to RO 1 million. Further Omantel also agreed to invest an amount of RO 2 million in expanding the Mobile network in rural area, for which sites finalisation is still in progress. This balance amount of RO 2 million is recorded as deposit included under trade and other receivables and management is confident of its recovery in due course.
- ii) The Parent Company during FY 2015 received demand notice amounting to RO 4.4 million from the TRA towards additional royalty payable for the prior years on certain categories of wholesale revenue. The Parent Company has paid RO 1.7 under protest to TRA (note 13). Based upon legal opinion and interpretation of the relevant provisions of the Parent Company's license terms, the management believes that the additional royalty amount is not payable.
- iii) Certain other 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 the actual event of the penalty can be determined with certainty at present. The legal and regulatory department of the Group considers these as low risk cases and at this stage, the outcome of the situations cannot be quantified or estimated with reasonable certainty.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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40 CREDIT RISK

(a) Exposure to credit risk

The gross carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| | <i>Unaudited</i> 30 September <i>2017</i> <i>RO '000</i> | <i>Audited</i> <i>31 December</i> <i>2016</i> <i>RO '000</i> |
|-----------------------------|--|---|
| Trade and other receivables | 154,240 | 118,190 |
| Other financial assets | 68,438 | 139,570 |
| | <u>222,678</u> | <u>257,760</u> |

The maximum exposure to credit risk for trade and other receivables at the reporting date by type of customer was:

| | <i>Unaudited</i> 30 September <i>2017</i> <i>RO '000</i> | <i>Audited</i> <i>31 December</i> <i>2016</i> <i>RO '000</i> |
|--------------------------------------|--|---|
| Post paid receivables | 51,557 | - |
| Oman Investment Finance Company SAOG | 14,553 | 44,274 |
| Due from other operators | 35,677 | 28,403 |
| Due from government | 12,218 | 12,754 |
| Agents for prepaid card sales | 8,722 | 4,719 |
| Other customers | 31,513 | 28,040 |
| | <u>154,240</u> | <u>118,190</u> |

(b) The ageing of trade receivables and related impairment loss at the reporting date was:

| | <i>Unaudited</i> 30 September 2017 | | <i>Audited</i> <i>31 December 2016</i> | |
|-------------------------|--|------------------------------------|---|------------------------------------|
| | <i>Gross</i> <i>RO'000</i> | <i>Impairment</i> <i>RO'000</i> | <i>Gross</i> <i>RO'000</i> | <i>Impairment</i> <i>RO'000</i> |
| Not past due | 50,604 | - | 30,203 | - |
| Past due 1 - 180 days | 35,316 | 2,989 | 21,623 | 3,163 |
| Past due 181 – 365 days | 11,011 | 1,606 | 12,249 | 2,073 |
| 1 - 2 years | 13,903 | 5,968 | 11,424 | 2,313 |
| More than 2 years | 43,406 | 34,238 | 42,691 | 32,849 |
| | <u>154,240</u> | <u>44,801</u> | <u>118,190</u> | <u>40,398</u> |

- (i) Included in the Group's trade receivable balance are debtors with a carrying amount of RO 58.8 (31 December 2016: RO 47.6 million) which are past due at the reporting date for which the Group has not provided any amount as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days.

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40 CREDIT RISK (continued)

(ii) The movement in provision for impairment of receivables is as follows:

| | Unaudited 30 September 2017 RO'000 | Audited 31 December 2016 RO'000 |
|---------------------------------------|---|--|
| Opening balance | 40,398 | 48,469 |
| Charge for the period / year | 4,403 | 2,082 |
| Written back during the period / year | - | (3,129) |
| Transfer to Government | - | (110) |
| Transfer to assets held for sale | - | (6,914) |
| Closing balance | <u>44,801</u> | <u>40,398</u> |

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount considered irrecoverable is written off against the financial asset directly.

In the event of subsequent recovery of the receivables in respect of which provisions had been established at 31 December 2004, the write back of such bad debt provision will be credited and paid to the Government.

The write back in respect of provisions established as at 31 December 2004 is credited to the Government and the remaining balance is credited to the interim consolidated statement of income.

41 LIQUIDITY RISK

The following are the contractual maturities of financial liabilities:

30 September 2017 (Unaudited)

| | Carrying amount RO'000 | 6 months or less RO'000 | 6 - 12 months RO'000 | 1 - 2 years RO'000 | More than 2 years RO'000 |
|--|---|--|---|---|---|
| Borrowings | 355,174 | 3,416 | 336,221 | 12,359 | 3,178 |
| Accrued interest | 1,604 | - | 1,604 | - | - |
| Trade payables | 9,684 | 9,684 | - | - | - |
| Amount due to other telecommunication administrators | 10,012 | 10,012 | - | - | - |
| Retentions payable | 26,687 | 26,687 | - | - | - |
| Accruals | 74,146 | 74,146 | - | - | - |
| Other payables | 3,939 | 2,967 | 486 | 486 | - |
| Royalty payable | 43,390 | 43,390 | - | - | - |
| Voluntary end of service | 2,432 | 2,432 | - | - | - |
| | <u>527,068</u> | <u>172,734</u> | <u>338,311</u> | <u>12,845</u> | <u>3,178</u> |

At 30 September 2017, the net current liabilities of the Group amounted to RO 338,078 thousands primarily due to financing the acquisition of Zain with a bridge loan facility. The management does not consider this as increasing the liquidity risk in view of subsequent take out of the facility through a long term loan facility and/or capital instrument. Accordingly, management do not foresee any difficulty in meeting the terms of liabilities as they fall due.

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41 LIQUIDITY RISK (continued)

31 December 2016 (Audited)

| | Contract amount RO'000 | 6 months or less RO'000 | 6 - 12 months RO'000 | 1 - 2 years RO'000 | More than 2 years RO'000 |
|---|------------------------------|-------------------------------|----------------------------|--------------------------|--------------------------------|
| Borrowings | 8,906 | 1,501 | 1,293 | 2,169 | 3,943 |
| Trade payables | 20,840 | 20,840 | - | - | - |
| Amount due to other telecommunication administrators | 8,512 | 8,512 | - | - | - |
| Retention payable | 27,838 | 27,838 | - | - | - |
| Accruals | 61,158 | 61,158 | - | - | - |
| Voluntary end of service | 6,337 | 5,700 | 637 | - | - |
| Other payables | 3,407 | 3,407 | - | - | - |
| Royalty payable | 33,903 | 33,903 | - | - | - |
| | <u>170,901</u> | <u>162,859</u> | <u>1,930</u> | <u>2,169</u> | <u>3,943</u> |

42 INTEREST RATE RISK

At the reporting date, the interest rate profile of the Group's interest bearing financial instruments was:

| | Unaudited 30 September 2017 RO'000 | Audited 31 December 2016 RO'000 |
|----------------------------------|---|--|
| Floating rate instruments | | |
| Financial liabilities | <u>(351,257)</u> | <u>(7,864)</u> |
| Fixed rate instruments | | |
| Financial assets | <u>12,000</u> | <u>74,920</u> |
| Financial liabilities | <u>(276)</u> | <u>(307)</u> |
| | <u>11,724</u> | <u>74,613</u> |

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any significant fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not significantly affect profit or loss.

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43 FOREIGN CURRENCY RISK

Receivables and payables are mainly denominated in United States Dollars. As the Rial Omani is pegged to US Dollars, management perceive the related currency risk to be minimal. Receivables and payables in other currencies are not significant.

44 FAIR VALUE OF ASSETS AND LIABILITIES

Fair value versus carrying amounts

The fair value of the financial assets and liabilities approximates their carrying value as stated in the statement of financial position except for financial assets which are measured at cost and which are classified as "Held to maturity". Financial assets are measured at cost where there is no reliable measure of fair value.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). These investments are valued based on share of net assets of investee which approximates to the fair value at the end of the reporting period.

| | <i>Level 1</i> | <i>Level 2</i> | <i>Level 3</i> | <i>Unaudited total</i> |
|--|----------------|----------------|----------------|------------------------|
| | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> | <i>30 September</i> |
| | | | | <i>2017</i> |
| | | | | <i>RO'000</i> |
| <i>Investments at fair value through profit or loss</i> | | | | |
| Investment in mutual funds | - | 18,029 | - | 18,029 |
| Fixed income instruments | - | 6,872 | - | 6,872 |
| Unquoted equity instruments | - | 5,571 | 6,374 | 11,945 |
| <i>Held for trading</i> | | | | |
| Quoted equity instruments | 18,769 | - | - | 18,769 |
| <i>Available-for-sale investments at fair value</i> | | | | |
| Mutual funds | - | 239 | - | 239 |
| | <u>18,769</u> | <u>30,711</u> | <u>6,374</u> | <u>55,854</u> |

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 30 September 2017

44 FAIR VALUE OF ASSETS AND LIABILITIES (continued)

| | <i>Level 1</i> | <i>Level 2</i> | <i>Level 3</i> | <i>Total</i> |
|--|----------------------|----------------------|---------------------|----------------------|
| | <i>RO'000</i> | <i>RO'000</i> | <i>RO'000</i> | <i>31 December</i> |
| | | | | <i>2016</i> |
| | | | | <i>RO'000</i> |
| <i>Investments at fair value through profit or loss</i> | | | | |
| Investment in mutual funds | - | 14,888 | - | 14,888 |
| Fixed income instruments | - | 7,009 | - | 7,009 |
| Unquoted equity instruments | - | 6,054 | 6,501 | 12,555 |
| <i>Held for trading</i> | | | | |
| Quoted equity instruments | 27,024 | - | - | 27,024 |
| <i>Available-for-sale investments at fair value</i> | | | | |
| Mutual funds | - | 241 | - | 241 |
| Quoted equity instruments | - | - | - | - |
| | <u>27,024</u> | <u>28,192</u> | <u>6,501</u> | <u>61,717</u> |
| | <u><u>27,024</u></u> | <u><u>28,192</u></u> | <u><u>6,501</u></u> | <u><u>61,717</u></u> |

There were no transfers between the levels during the period/year.

45 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current period presentation. The reclassification has no impact on Group's previously reported profit or other comprehensive income or total equity.

46. SUBSEQUENT EVENTS

On October 26, 2017, the Parent company entered into an agreement with Al Khair National for Stocks and Real Estate Company WLL, Kuwaiti British Ready Mix Company WLL and Gulf National Holding Company K.S.C.C to buy an aggregate of 521,975,416 shares, which represents 12.1% of the total issued share capital in Zain at a price of KWD 0.781/share. The total consideration on this transaction amounts to KWD 410.8 Mn. The transaction is expected to be closed following the approval of the Boursa Kuwait and completion of a public auction pursuant to the trading rules of the Boursa Kuwait. The purchase is expected to be financed with a combination of long term and bridge loan facilities.