

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 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 the 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.

Name	Place of incorporation	Principal activities		Shareholding directly held by parent (%)	Shareholding directly held by the group (%)
Worldcall Telecom Limited	Pakistan	Engaged in the provision of Wireless Local loop, long distance international services (LDI), Payphones and cable television services	Subsidiary	56.8	56.8
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	Will be 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
First Issue SAOC	Sultanate of Oman	Special purpose vehicle	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

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 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(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.

The estimates and underlying assumptions are reviewed on an ongoing 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 2016

For the period ended 31 March 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.

Adoption of new and revised International Financial Reporting Standards ("IFRS")

The following standards, amendments and interpretations became effective from 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(c) Standards, amendments and interpretation effective in 2016 (continued)

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 period ended 31 March 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.

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 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

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 31 March 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.

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of associates 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2.4 Business combinations and Goodwill (continued)

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.

2.3 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 Service revenue

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenues from the sale of transmission capacity on terrestrial and submarine cables classified as operating lease 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.

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.

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As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Foreign currency (continued)

- (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 are recognised in other comprehensive 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.

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. 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.

2.9 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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2 Summary of significant accounting policies (continued)

2.10 Intangible assets (continued)

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

Amortisation

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

Licences	4 to 25 years
Patents and Copyrights	10 years
Software	3-5 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

(a) Non-derivative financial assets (continued)

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:

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 interest rate method less any impairment, with revenue recognised on an effective yield basis. Held to maturity financial assets comprises debt securities.

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2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

(a) Non-derivative financial assets (continued)

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.

(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 comprehensive 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Financial instruments (continued)

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

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.

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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Impairment

(a) Non-financial assets

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, 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.

2.17 Voluntary end of service benefits

Voluntary end of service benefits are recognised 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognised 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.

2.23 Royalty

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on-going basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of 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 statement of consolidated 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:

- Credit risk
- Liquidity risk
- 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

3 FINANCIAL RISK MANAGEMENT (continued)

(i) Credit risk (continued)

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.

Investments

The Group limits its exposure to credit risk by only 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. Relevant details regarding credit risk is set out in note 40.

(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 volatility arises from its investment in a subsidiary company based in Pakistan. The subsidiary foreign currency risk arises mainly from its receivables, payables and borrowings. No forward exchange contracts cover on these balances was in place at the reporting date as the directors perceive the related currency risk to be minimal and most of these balances are denominated in the functional currency of the subsidiary.

In respect of other transactions of the Group, they 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 Management believes that foreign currency risk on other monetary assets and liabilities is not significant.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

3 FINANCIAL RISK MANAGEMENT (continued)

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 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.

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 capital requirements, other than the requirements of the Commercial Companies Law of 1974, as amended.

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 statement of financial position. Relevant details relating to fair value are set out in note 43.

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 of the Group amounted to RO 131.901 million (31 December 2016: RO 118.190 million), and the provision for impaired debts is RO 41.538 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.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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 13.558 million (31 December 2016: RO 12.406 million) with provision for old and obsolete inventories of RO 3.066 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.

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.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

5 Discontinuing operations

On 11 October 2016, the Parent Company signed a Share Purchase Agreement with WorldCall Services Limited (WSL) and Ferret Consulting for sale of ordinary and convertible preference shares of WTL held by Omantel. On 8 March 2017, WSL announced the public offer to acquire shares from minority shareholders. The public offer is open till 7 May 2017. The transactions is subject to the completion of the public offer, closing formalities and processes as per applicable regulations. It is expected that the transaction will be completed by the quarter ended 30 June 2017. At 31 December 2016, Worldcall Telecommunications Limited (WTL) was classified as a disposal group held for sale and as a discontinuing operation. The completion of the transaction is not expected to have any material financial impact on the Group's reported profit.

Accordingly, the results of WTL are not presented:

- Under "fixed line" in the primary reporting segments.
- Pakistan is not presented as separate geographical segment.

The results of WTL are presented below:

	31 March 2017 RO'000	31 March 2016 RO'000
Revenue	1,650	1,602
Expenses	(2,423)	(3,327)
Operating loss	(773)	(1,725)
Finance costs- (net)	(417)	(363)
Other income- net	30	89
Loss for the year from discontinuing operations	(1,160)	(1,999)
Attributable to:		
Equity holders of Parent	(658)	(1,135)
Non-controlling interests	(502)	(864)
Loss for the year from discontinued operations	(1,160)	(1,999)
Basic loss for the year and diluted earnings per share (RO) from discontinuing operations	0.002	0.003
The net cash flows generated/(incurred):		
Operating	-	(789)
Financing	-	560

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

5 Discontinuing operations (continued)

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 considers 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.

The assets and liabilities of WTL classified as held for sale as at 31 March 2017 are as follows:

	31 March 2017 RO'000	31 December 2016 RO'000
ASSETS		
Non-current assets		
Investment property	140	140
Other financial assets	408	408
	<u>546</u>	<u>546</u>
Current assets		
Inventories	813	813
Trade and other receivables	5,076	5,076
Other financial assets	882	882
Prepayments	72	72
Cash and bank balances	3,434	1,747
	<u>10,277</u>	<u>8,590</u>
Total assets	<u><u>10,823</u></u>	<u><u>9,136</u></u>
LIABILITIES		
Non-current liabilities		
Borrowings	198	198
Retirement benefit obligation	1,492	1,492
Other liabilities	127	127
	<u>1,817</u>	<u>1,817</u>
Current liabilities		
Borrowings	22,372	22,372
Trade and other payables	36,346	35,186
	<u>58,718</u>	<u>57,558</u>
Total liabilities	<u><u>60,535</u></u>	<u><u>59,375</u></u>

The Group's subsidiary in Pakistan is also exposed to certain claims arising out of regulatory, taxation and operational matters. The management believes that none of these claims are expected to have any significant implication on its interim consolidated financial statements.

5 Discontinuing operations (continued)

Borrowings represent term loan facility from banks and comprise the following:

- i) Loan from Soneri Bank Ltd of PKR 50 million which is repayable in 23 monthly instalments ending on 28 February 2016. It carries a mark up of one month KIBOR plus 3% per annum and is payable monthly. The mark up rate charged during the period on the outstanding balance ranges between 9% to 12.09% (2015: 9% to 12.09%) per annum. It is secured through joint pari passu hypothecation agreement over current and movable fixed assets. In August 2016, the facility was rescheduled by Soneri Bank Limited. Keeping other terms and conditions of the agreement un-modified, the principal is repayable in 18 monthly instalments ending on 30 January 2018. As per the terms of rescheduling, payments. As per the terms of rescheduling, payments in respect of principal aggregating Rs. 4.238 million were required to be made upto the year ended 31 December 2016. However, payments of only Rs. 3.128 million were made, hence, constituting a default as per the terms.
 - ii) A term loan facility of PKR 125 million obtained through restructuring of running finance facility. The facility is repayable in 43 monthly instalments ending on 31 July 2018. The mark up rate to be charged on the outstanding balance w.e.f April 01, 2015 will be 3 months KIBOR+50 Bps to be reset and recoverable quarterly. It is secured through a joint pari passu charge on present and future current and fixed assets excluding land and building of the subsidiary in Pakistan with a 25% margin.
 - iii) The subsidiary in Pakistan signed a foreign currency syndicated loan facility amounting to USD 35 million from National Bank of Oman SAOG and Ahli Bank SAOG with the lead arranger being National Bank of Oman. It is repayable in 16 quarterly instalments commencing 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. To secure the facility, the corporate guarantee of the Parent Company has been furnished. This arrangement shall remain effective until all obligations under the facility are settled. As of the reporting date, the subsidiary is in breach of a covenant of the facility. Moreover, the subsidiary has failed to pay profit against this facility for the quarter ended 31 December 2016 and 31 March 2017, which led to the consortium adjusting the payable against interest with the Debt Service Reserve Account Balance ("security") held with them. These constitute events of default under the facility and empowers the consortium to demand the outstanding amount at their will. Consequently, the total amount has become immediately payable. The Parent Company has recorded a full provision towards its corporate guarantee issued.
- (b) **Term finance certificates-3**
- Term finance certificates-3 were earlier rescheduled in December 2012 under which the principal was repayable in three semi-annual installments ending on 7 October 2015. In July 2014, the subsidiary initiated the process of second restructuring with the TFC holders. On 3 April 2015, the TFCs were rescheduled and the terms of the revised rescheduling agreement are effective from 7 October 2014. As per revised terms, the tenure of the TFCs were extended by seven years with principal installments ending in October 2021. As per terms of second rescheduling, payments in respect of principal and markup aggregating to Rs 230 million (RO 0.83 million) (includes interest of PKR 60 million (RO 0.22 million)) were required to be made during year. However, payments of Rs 146.617 million (RO 0.53 million) (includes interest of PKR 20 million (RO 0.07 million)) were made, hence, constituting a default as per the terms. Consequently, the total amount has been classified in current liabilities during 2015. Moreover, in April 2016, the IGI Investment Bank Limited's (Trustee) legal counsel issued a legal notice to WTL demanding immediate payment of all the principal amount and interest accrued thereon and liquidated damages within 30 days of the notice, failing which the Trustee would initiate a legal proceedings against WTL. The Trustee also withdrew its No Objection Certificate given to WTL in respect of sale of Wireless Local Loop (WLL) passive infrastructure. No payments have been made by the WTL in respect of principal amount or interest accrued thereon, in 2016. However, the management informed that no legal proceedings have been initiated against the WTL in this respect as of reporting date.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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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 March 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 31 March 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 from continuing operations				
External sales	49,280	83,291	-	132,571
Inter-segment sales	12,341	1,831	(14,172)	-
Total revenue	<u>61,621</u>	<u>85,122</u>	<u>(14,172)</u>	<u>132,571</u>
Segment result	6,205	19,447	-	25,652
Finance and investment income				1,378
Finance costs				(365)
Other non-operating income – net				51
Profit before taxation				<u>26,716</u>
Taxation				<u>(1,811)</u>
Profit for the period from continuing operations				<u>24,905</u>

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

6 SEGMENT REPORTING (continued)

The segment results for the period ended 31 March 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 from continuing operations				
External sales	51,199	82,713	-	133,912
Inter-segment sales	23,590	1,827	(25,417)	-
Total revenue	<u>74,789</u>	<u>84,540</u>	<u>(25,417)</u>	<u>133,912</u>
Segment result	17,084	23,293	-	40,377
Finance and investment income				289
Finance cost				(206)
Other non-operating income-net				375
Profit before taxation from continuing operations				40,835
Taxation				(5,078)
Profit for the period from continuing operations				<u>35,757</u>

Other segment items from continuing operations for the period ended 31 March 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	11,490	14,892	26,382
Amortisation	899	1,262	2,161

Other segment items from continuing operations for the period ended 31 March 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	10,474	11,081	21,555
Amortisation	828	1,184	2,012

The segment total assets and total liabilities from continuing operations at 31 March 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	447,666	252,304	116,130	816,099
Liabilities	201,369	89,872	6,919	298,160
Capital expenditures	19,934	15,604	-	35,538

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

6 SEGMENT REPORTING (continued)

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

Oman Telecommunications Company SAOG

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As at 31 March 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	58	12	18	35,153	35,243
Transfers	-	825	23,317	515	-	(24,657)	-
Transfers to other assets	-	-	-	-	-	(327)	(327)
Disposals	-	-	(12,237)	(26)	(120)	-	(12,383)
31 March 2017	1,125	77,234	1,081,937	33,012	6,713	82,378	1,282,399
Depreciation							
1 January 2017	-	47,576	665,127	28,422	2,062	-	743,187
Charge for the period	-	924	24,642	462	354	-	26,382
Disposals	-	-	(11,078)	(26)	(111)	-	(11,215)
31 March 2017	-	48,500	678,691	28,858	2,305	-	758,354
Net book value at 31 March 2017 (unaudited)	1,125	28,734	403,246	4,154	4,408	82,378	524,045

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 RO1.422 million (2016:RO1.455 Million) was capitalised.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 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	-	-	(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
Adjustments	-	(1,455)	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
	=	=					

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

8 INVESTMENT PROPERTY

	Consolidated	
	31 March 2017 RO'000	31 December 2016 RO'000
Opening balance	-	140
Transfer to assets held for sale	-	(140)
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

9 OTHER INTANGIBLE ASSETS

	<i>Licenses RO'000</i>	<i>Software RO'000</i>	<i>Subscriber acquisition costs RO'000</i>	<i>Total RO'000</i>
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	-	295	-	295
	<u>62,538</u>	<u>26,102</u>	<u>161</u>	<u>88,801</u>
At 31 March 2017 (unaudited)	62,538	26,102	161	88,801
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	1,404	757	-	2,161
	<u>44,925</u>	<u>20,487</u>	<u>161</u>	<u>65,573</u>
At 31 March 2017 (unaudited)	44,925	20,487	161	65,573
Net book value				
At 31 March 2017 (unaudited)	17,613	5,615	-	23,228
31 December 2016	<u>19,017</u>	<u>6,077</u>	<u>-</u>	<u>25,094</u>

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 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:

	Unaudited 31 March 2017 RO'000	<i>Audited</i> <i>31 December</i> <i>2016</i> <i>RO'000</i>
Opening balance	9,776	9,381
Share of (loss)/profit	(14)	1,172
Dividend received	(886)	(777)
Closing balance	8,876	9,776

- (a) The summarised financial information of the principal associates are as follows:

	Assets RO'000	Liabilities RO'000	Revenues RO'000	(Loss)/profit RO'000	Percentage shareholding
31 March 2017					
Oman Fiber Optic Co. SAOG	41,573	24,908	5,292	(95)	40.96
Infoline LLC	3,182	1,298	2,422	53	45
<i>31 March 2016</i>					
Oman Fiber Optic Co. SAOG	39,393	22,404	6,943	601	40.96
Infoline LLC	2,773	933	1,762	89	45
<i>31 December 2016</i>					
Oman Fiber Optic Co. SAOG	41,878	22,954	22,563	1,608	40.96
Infoline LLC	2,613	862	6,290	340	45

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

11 OTHER FINANCIAL ASSETS

	<i>Current</i>		<i>Non current</i>	
	<i>Unaudited 31 March 2017 RO'000</i>	<i>Audited 31 December 2016 RO'000</i>	<i>Unaudited 31 March 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)	-	-	35,412	34,452
Held for trading investments (b)	26,363	27,024	-	-
Available for sale investment carried at cost				
Unquoted equity (c)	-	-	2,784	2,933
Available for sale investment carried at fair value				
Quoted investments	-	-	236	241
Held to maturity investments				
Bonds (d)	3,420	3,420	9,000	9,000
Long term deposits at cost				
Fixed deposit with banks (e)	13,500	58,500	4,000	4,000
	43,283	88,944	51,432	50,626

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

	<i>Carrying amount as at 31 December 2016 RO'000</i>	<i>Additions RO'000</i>	<i>Gains / (losses) recognised in profit or loss RO'000</i>	<i>Carrying amount as at 31 March 2017 RO'000</i>
Unquoted				
Equity	12,555	-	(127)	12,428
Fixed income instruments	7,009	103	30	7,142
Mutual funds	14,888	794	160	15,842
	34,452	897	63	35,412

(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 investment in a mutual fund and unquoted equities. The investment is carried at cost less impairment due to unavailability of fair value.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

11 OTHER FINANCIAL ASSETS (continued)

(d) Held to maturity investment

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

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

(e) Fixed deposits

Fixed deposits are placed with commercial banks. The average interest rate on these deposits is 4% (2016: 4% per annum).

12 INVENTORIES

	<i>Unaudited</i> 31 March 2017 RO'000	<i>Audited</i> 31 December 2016 RO'000
Stores and spares	9,438	9,336
Prepaid cards and handsets	4,120	3,070
	<u>13,558</u>	<u>12,406</u>
Provision for inventory obsolescence	(3,066)	(3,066)
	<u>10,492</u>	<u>9,340</u>

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

Opening balance	3,066	4,392
Released during the year	-	(366)
Write-off during the year	-	(264)
Transfer to held for sale assets	-	(696)
	<u>3,066</u>	<u>3,066</u>
Closing balance	<u>3,066</u>	<u>3,066</u>

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

13 TRADE AND OTHER RECEIVABLES

	<i>Unaudited</i> 31 March <i>2017</i> RO'000	<i>Audited</i> <i>31 December</i> <i>2016</i> <i>RO'000</i>
Amounts due from customers	76,845	44,365
Amounts due from Oman Investment Finance Company SAOG (OIFC)	19,934	44,274
Amounts due from other operators	33,965	28,403
Other receivables	1,157	1,148
	131,901	118,190
Provision for impairment of receivables	(41,538)	(40,398)
	90,363	77,792
Deposits	3,950	4,846
Advances	5,215	3,956
	99,528	86,594

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 set out in note 24 (royalty).

14 FOREIGN CURRENCY TRANSLATION RESERVE

Considering the liquidity position of WTL and the Parent Company's decision to not to invest/support WTL any further, the Group considers 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. Refer note 5 for more details.

15 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:

	<i>31 March 2017</i>		<i>31 December 2016</i>	
	Shares held	%	Shares held	%
Oman Investment Fund	414,226,554	55.23	414,226,554	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 52.50 million (2015: RO 45 million) was approved by the shareholders at the annual general meeting held on 30 March 2017.

16 LEGAL RESERVE

In accordance with the Commercial Companies Law of Oman 1974, as amended, annual appropriations of 10% of the Parent Company's 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 Parent Company's paid-up share capital. This having been achieved, the Parent Company has discontinued the transfers. This reserve is not available for distribution.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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17 VOLUNTARY RESERVE

In accordance with the Board of Directors' Resolution No.16T/5/2000, the Parent Company transferred 10% of their annual net profits in prior years 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.

18 CAPITAL CONTRIBUTION

On 11 February 2004, the Telecom 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.

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 interim consolidated 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 interim consolidated statement of income.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

20 BORROWINGS

	<i>Currency</i>	<i>Nominal interest rate</i>	<i>Year of maturity</i>	<i>Current</i>		<i>Non-current</i>	
				<i>Unaudited 31 March 2017 RO'000</i>	<i>Audited 31 December 2016 RO'000</i>	<i>Unaudited 31 March 2017 RO'000</i>	<i>Audited 31 December 2016 RO'000</i>
Secured-at amortised cost							
Bank loan	RO	3 months LIBOR+2.5% (floor of 4.75%-6%p.a)	2019 – 2021	2,115	1,900	5,725	5,475
Bank overdraft	RO	3 months LIBOR+2.5% (floor of 5%p.a)	-	293	489	-	-
Finance lease liabilities	RO	12.695% p.a	-	42	42	254	265
				2,450	2,431	5,979	5,740

The borrowings are secured by assignment of receivables and relates to a subsidiary in the Sultanate of Oman.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

21 DEFERRED TAX ASSETS

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

	<i>1 January 2017</i>	<i>Impact of change in tax rate</i>	<i>Others</i>	<i>Charged / (credited) to statement of income</i>	<i>Unaudited 31 March 2017</i>	<i>1 January 2016</i>	<i>Charged / (credited) to statement of income</i>	<i>Others</i>	<i>Audited 31 December 2016</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>	<i>RO '000</i>	<i>RO '000</i>
Temporary differences									
Provision for impaired receivables	(2,843)	(711)	-	(171)	(3,725)	(2,968)	125	-	(2,843)
Provision for inventory obsolescence	(40)	(10)	-	-	(50)	(115)	75	-	(40)
Fair value gain on investments	583	146	-	46	775	490	93	-	583
Impairment of investment in subsidiary	(11,361)	(2,840)	-	-	(14,201)	(11,252)	(109)	-	(11,361)
Depreciation and amortisation	4,865	1,216	-	(1,096)	4,985	4,773	92	-	4,865
License amortisation	(615)	(154)	74	-	(695)	-	-	(615)	(615)
	<u>(9,411)</u>	<u>(2,353)</u>	<u>74</u>	<u>(1,221)</u>	<u>(12,911)</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.

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

22 RETIREMENT BENEFIT OBLIGATION

The movement in retirement benefit obligation is as follows:

	Unaudited 31 March 2017 RO'000	<i>Audited 31 December 2016 RO'000</i>
At 1 January	4,477	5,772
Charge for the period/ year	304	746
Payments during the period/year	(61)	(690)
Transfer to liability associated with held for sale	-	(1,351)
At 31 December	<u>4,720</u>	<u>4,477</u>

23 TRADE AND OTHER PAYABLES

	Unaudited 31 March 2017 RO '000	<i>Audited 31 December 2016 RO '000</i>
Trade payables	19,535	20,840
Amounts due to other telecommunication administrators	7,791	8,512
Retentions payable	26,957	27,838
Accruals	57,532	61,158
Deferred income	15,636	13,510
Billings in advance	18,333	15,970
Voluntary end of service (a)	3,641	6,337
Other payables	2,273	3,407
	<u>151,698</u>	<u>157,572</u>

(a) The movement in voluntary end of service is set out below:

	Unaudited 31 March 2017 RO'000	<i>Audited 31 December 2016 RO'000</i>
At 1 January	6,337	10,416
Payments during the period/year	<u>(2,696)</u>	<u>(4,079)</u>
At 31 December	<u>3,641</u>	<u>6,337</u>

Oman Telecommunications Company SAOG

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

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 7% of its gross revenue excluding sale of terminal equipment and interconnection expenses. Details regarding demand made by TRA are set out in note 39 (c) (i). TRA has increased the royalty rate to 12% with effect from 1 January 2017.

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

25 NET ASSETS PER SHARE

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

	<i>Unaudited</i> 31 March 2017	<i>Audited</i> 31 December 2016
Net assets attributable to the owners of the parent (RO'000)	553,637	582,345
Number of shares outstanding (thousands)	750,000	750,000
Net assets per share (RO)	0.738	0.776

26 WHOLESALE REVENUE

	<i>Unaudited</i> 31 March 2017 RO'000	<i>Unaudited</i> 31 March 2016 RO'000
External administration revenue (note a)	5,649	6,430
Interconnection income (note b)	4,435	4,492
Capacity sales	8,539	11,938
Others	6,297	5,373
	24,920	28,233

- a) External administration revenue represents the revenue derived from termination of other international operators traffic on the Group's network.
- 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 other 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.

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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28 COST OF CONTENT SERVICES

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

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.

30 STAFF COSTS

	<i>Unaudited</i> 31 March <i>2017</i> RO'000	<i>Unaudited</i> 31 March <i>2016</i> RO'000
Salaries and allowances	15,023	14,528
Social security costs	1,205	1,244
Retirement benefits (note below)	266	228
Other employee benefits	1,202	1,052
	<u>17,696</u>	<u>17,052</u>

Includes an amount of RO 0.038 million (2016:0.034 million) capitalised during the period

31 OPERATING AND MAINTENANCE EXPENSES

	<i>Unaudited</i> 31 March <i>2017</i> RO'000	<i>Unaudited</i> 31 March <i>2016</i> RO'000
Asset maintenance	6,092	5,277
Cost of sales	6,066	7,545
Satellite channels and frequency charge	4,048	3,460
Rental charges	2,050	1,859
Electricity and water	880	882
Maintenance and hire charges	613	671
Petrol, oil and lubricants	168	179
Insurance	153	209
Others	3,407	875
	<u>23,477</u>	<u>20,957</u>

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NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at 31 March 2017

32 ADMINISTRATIVE EXPENSES

	<i>Unaudited</i> 31 March <i>2017</i> RO'000	<i>Unaudited</i> <i>31 March</i> <i>2016</i> <i>RO'000</i>
Training costs	339	387
Professional consultancy fees	175	358
Administrative services	311	463
Business travel	319	342
Office supplies and services	333	302
	<hr/> 1,477 <hr/>	<hr/> 1,852 <hr/>

33 FACTORING, COLLECTION AND DISTRIBUTION FEES

The Group 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 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.

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35 OTHER INCOME

	<i>Unaudited</i> 31 March 2017 RO'000	<i>Unaudited</i> 31 March 2016 RO'000
Miscellaneous income	65	129
	<u>65</u>	<u>129</u>

36 TAXATION

(a) The tax charge for the period/ year comprises:

	<i>Unaudited</i> 31 March 2017 RO'000	<i>Unaudited</i> 31 March 2016 RO'000
Current taxation	5384	5,036
Deferred taxation (note 21)	(1,221)	42
Impact of change in tax rate (note 21)	(2,353)	-
	<u>1,811</u>	<u>5,078</u>

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

	<i>Unaudited</i> 31 March 2017 RO'000	<i>Unaudited</i> 31 March 2016 RO'000
Tax on accounting profit from continuing operations	4,165	5,005
Add / (less) tax effect of:		
Expenses not deductible	157	102
Income not subject to tax	(159)	(29)
Impact of change in tax rate	(2,353)	-
Tax charge as per interim consolidated statement of income	<u>1,811</u>	<u>5,078</u>

(c) Status of tax assessments

Assessments have been completed for tax years up to the taxable year 2014 for the Parent Company. The management is not aware 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 the Parent company does not have any dilutive potential shares, the diluted earnings per share is the same as the basic earnings per share.

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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.

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

(i) Purchase of goods and services		<i>Unaudited</i>	<i>Unaudited</i>
		<i>31 March</i>	<i>31 March</i>
		<i>2017</i>	<i>2016</i>
		<i>RO'000</i>	<i>RO'000</i>
Associates		2,146	1,988
		2,146	1,988
(ii) Directors' sitting fees – non executive		25	30
(iii) Key management compensation			
Basic salaries and allowances		353	346
Other benefits and expenses		1,096	891
Social security costs		16	16
Retirement benefits		14	12
		1,479	1,265
(iv) Balances arising from sales / purchases of goods / services			
	Receivables		Payables
	<i>Unaudited</i>	<i>Audited</i>	<i>Unaudited</i>
	<i>31 March</i>	<i>31</i>	<i>31 March</i>
	<i>2017</i>	<i>December</i>	<i>2017</i>
	<i>RO'000</i>	<i>2016</i>	<i>RO'000</i>
	<i>RO'000</i>	<i>RO'000</i>	<i>RO'000</i>
Associates	-	-	709
Other related party	2	96	81
	2	96	790
	2	96	1,201

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39 COMMITMENTS AND CONTINGENCIES

(a) Commitments

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

	<i>Unaudited 31 March 2017 RO'000</i>	<i>Audited 31 December 2016 RO'000</i>
Commitment for fixed capital expenditure	102,039	99,678
Investment	5,153	5,153

(b) Contingent liabilities

	<i>Unaudited 31 March 2017 RO'000</i>	<i>Audited 31 December 2016 RO'000</i>
Letters of credit	427	427
Bank guarantees	1,327	1,327

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

(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. The balance 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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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:

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Trade and other receivables	131,901	118,190
Other financial assets	94,715	139,570
	226,616	257,760

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

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Oman Investment Finance Company SAOG	19,934	44,274
Due from other operators	33,965	28,403
Government debts	13,050	12,754
Agents for prepaid card sales	3,573	4,719
Other customers	61,379	28,040
	131,901	118,190

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

	Unaudited 31 March 2017		Audited 31 December 2016	
	Gross RO'000	Impairment RO'000	Gross RO'000	Impairment RO'000
Not past due	41,085	-	30,203	-
Past due 1 - 180 days	30,119	1,945	21,623	3,163
Past due 181 - 365 days	7,687	2,073	12,249	2,073
1 - 2 years	9,098	2,314	11,424	2,313
More than 2 years	43,912	35,206	42,691	32,849
	131,901	41,538	118,190	40,398

- (i) Included in the Group's trade receivable balance are debtors with a carrying amount of RO 49.3 million (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 any significant change in the 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 31 March 2017 RO'000	<i>Audited 31</i> <i>December</i> <i>2016</i> <i>RO'000</i>
Opening balance	40,398	48,469
Charge for the year – continuing operations	1,140	2,082
Write off during the year	-	(3,129)
Transfer to Government	-	(110)
Transfer to assets held for sale	-	(6,914)
Closing balance	<u>41,538</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 owed is possible; at that point the amount considered irrecoverable is written off against the financial asset.

In the event of a 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 is credited to the Government.

41 LIQUIDITY RISK

The following are the contractual maturities of financial liabilities:

31 March 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	9,158	1,454	1,356	2,592	3,756
Trade payables	19,535	19,535	-	-	-
Amount due to other telecommunication administrators	7,791	7,791	-	-	-
Retention payable	26,957	26,957	-	-	-
Accruals	57,532	57,532	-	-	-
Voluntary end of service	3,641	3,641	-	-	-
Other payables	2,273	2,273	-	-	-
Royalty payable	14,617	14,617	-	-	-
	<u>141,504</u>	<u>133,800</u>	<u>1,356</u>	<u>2,592</u>	<u>3,756</u>

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41 LIQUIDITY RISK (continued)

31 December 2016 (Audited)

	<i>Carrying amount RO'000</i>	<i>6 months or less RO'000</i>	<i>6 - 12 months RO'000</i>	<i>1 - 2 years RO'000</i>	<i>More than 2 years RO'000</i>
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:

	<i>Unaudited 31 March 2017 RO'000</i>	<i>Audited 31 December 2016 RO'000</i>
Floating rate instruments		
Financial liabilities	<u>(8,133)</u>	<u>(7,864)</u>
Fixed rate instruments		
Financial assets	<u>26,500</u>	<u>74,920</u>
Financial liabilities	<u>(296)</u>	<u>(307)</u>
	<u>26,204</u>	<u>74,613</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any 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 affect profit or loss.

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43 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. 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>RO'000</i>	<i>Level 2</i> <i>RO'000</i>	<i>Level 3</i> <i>RO'000</i>	<i>31 March 2017</i> <i>RO'000</i>
<i>Investments at fair value through profit or loss</i>				
Investment in mutual funds	-	17,387	-	17,387
Fixed income instruments	-	7,142	-	7,142
Unquoted equity instruments	-	4,509	6,374	10,883
Quoted equity instruments	-	1,545	-	1,545
<i>Held for trading</i>				
Quoted equity instruments	26,363	-	-	26,363
<i>Available-for-sale investments at fair value</i>				
Mutual funds	-	236	-	236
	<u>26,363</u>	<u>30,819</u>	<u>6,374</u>	<u>63,556</u>
31 December 2016				
	<i>Level 1</i> <i>RO'000</i>	<i>Level 2</i> <i>RO'000</i>	<i>Level 3</i> <i>RO'000</i>	<i>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
	<u>27,024</u>	<u>29,737</u>	<u>6,501</u>	<u>61,717</u>

There were no transfers between the levels during the period.

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44 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year presentation and are not material and have no impact on the previously reported profit or equity position of the Group.