

OMAN TELECOMMUNICATIONS COMPANY SAOG

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

General information

Oman Telecommunications Company SAOG (the parent company or company) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The company's principal place of business is located at Burj Al Khuwair, Sultanate of Oman. The company was established under Royal Decree 46/99 dated 18 July 1999 by the transformation of the General Telecommunications Organisation (the Organisation) into the company. The company completed registration as a closed joint stock company in the Sultanate of Oman on 22 April 2000. In accordance with Royal Decree 46/99, effective 1 August 1999, the company was vested with all the assets and liabilities of the Organisation.

Effective 29 February 2004, the company established a subsidiary company, Oman Mobile Telecommunications Company LLC (the subsidiary or Oman Mobile), the principal activity of which is the provision of mobile telecommunication services. The Government of the Sultanate of Oman (the Government) has established a Telecommunications Regulatory Authority (TRA), which has issued two licences to the company for mobile and other telecommunications services. The licences have been initially accounted for by the group at an aggregate fair value of RO 44.881 million (Note 22).

Following the issuance of Royal Decree 35/2005, the Ministry of Finance was authorised to dispose of 30% of the Government's interest in the company to new investors. Consequently, the Government sold 30% of its existing shares in the company to the public. The shares were listed on the Muscat Securities Market through an initial public offer (the IPO) on 28 July 2005 and the company became a public joint stock company (SAOG).

The principal activities of the Company are the establishment, operation, maintenance and development of fixed telecommunication services in the Sultanate of Oman.

The principal activities of the subsidiaries and associated companies, are set out below.

	Percentage shareholding			Principal activities	Place of incorporation
	2008	2007			
	%	%			
Oman Mobile Telecommunications Company LLC	99	99	Subsidiary	Engaged in the establishment, operation, maintenance and development of mobile telecommunication services	Sultanate of Oman
Worldcall Telecom Limited (Note 5)	56.8	-	Subsidiary	Engaged in the provision of Wireless Local loop, Long Distance International Services (LDI), Payphones and cable television services	Pakistan
Worldcall Telecommunications Lanka (Private) Limited (Note 5)	70.65	-	Subsidiary	Engaged in the operation and maintenance of Payphone network	Sri Lanka
Oman Fiber Optic Company SAOG	25.96	25.96	Associate	Engaged in the manufacture and design of optical fibre and cables	Sultanate of Oman
Infoline LLC	45	45	Associate	Engaged in the provision of IT enabled services	Sultanate of Oman
Omania e-commerce LLC	40	40	Associate	Engaged in the provision of e-commerce services	Sultanate of Oman
Media Times Limited (Note 5)	4.18	-	Associate	Engaged in the business of printing, publishing and circulating newspaper in Pakistan	Pakistan

2 Summary of significant accounting policies

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

2.1 Basis of preparation

- The financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below and in accordance with International Financial Reporting Standards (IFRS) and comply with the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority of the Sultanate of Oman.
- The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)**

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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

For the period ended 30 June 2008, the group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2008. The adoption of these standards and interpretations has not resulted in changes to the group's accounting policies and has not affected the amounts reported for the current or prior periods.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

	Effective for annual periods beginning on or after
IFRIC 13 : Customer Loyalty Programs	1 July 2008
IFRIC 16 : Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRIC 15 : Agreements for the Construction of Real Estate	1 January 2009
IFRS 2 : (Revised) Shared-based Payment	1 January 2009
IFRS 8 : Operating Segments	1 January 2009
IAS 1 : (Revised) Presentation of Financial Statements	1 January 2009
IAS 23: (Revised) Borrowing Costs	1 January 2009
IAS 32: (Revised) Financial Instruments: Presentation	1 January 2009
IFRS 3: (Revised) Business Combinations	1 July 2009
IAS 27: (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28: (Revised) Investments in Associates	1 July 2009
IAS 31: (Revised) Interests in Joint Ventures	1 July 2009

The management anticipates that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the group.

2.2 Consolidation

2.2.1 Subsidiary companies

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

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination that meet the conditions of recognition under IFRS 3 Business Combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)****2 Summary of significant accounting policies (continued)****2.2 Consolidation (continued)****2.2.2 Transactions and minority interests**

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

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2.2.3 Associated companies

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

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

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

In the parent company financial statements the investments in associated companies are stated at cost.

2.2.4 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The group's policy for goodwill arising on the acquisition of an associate is described at 2.2.3 above.

2.3 Segment reporting

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)****2 Summary of significant accounting policies (continued)****2.4 Service revenue**

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

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

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

Sales relating to unutilised payphone and prepaid cards are accounted for as deferred income.

Interconnection income and expenses are recognised when services are performed.

Subscription revenue from Cable TV, Internet over cable and Channels subscription fee is recognised on provision of services.

2.5 Finance income / costs

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

Interest income is accounted for on the accrual basis.

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

2.6 Commission

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

2.7 Foreign currency

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Rials Omani (RO) which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currency are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the profit or loss in the period in which they arise.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)**

2 Summary of significant accounting policies (continued)

2.7 Foreign currency (continued)

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Rials Omani (RO) using exchange rates prevailing at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in profit or loss in the period in which foreign operation is disposed off.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

2.8 Property, plant and equipment

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

The cost of property, plant and equipment is written off in equal instalments over the expected useful lives of the assets. The estimated useful lives are:

	Years
Buildings	5 - 20
Cables and transmission equipment	5 - 30
Telephone exchanges, power equipment and related software	3 - 20
Telephone, telex and related equipment	1 - 14
Satellite communication equipment	5 - 14
Furniture and office equipment	3 - 10
Motor vehicles and equipment	3 - 5

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

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

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 is not depreciated until it is taken to fixed assets when the asset is available for use.

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.

2.9 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 the investment property are included in the profit or loss in the period in which they arise.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)****2 Summary of significant accounting policies (continued)****2.10 Intangible assets****Intangible assets acquired separately**

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

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

2.11 Impairment of tangible and intangible assets excluding goodwill

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

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

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

2.12 Investments**Assets at fair value through profit or loss**

A financial asset is held in this category if acquired principally for the purpose of short-term profit taking or if so designated by management. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. These assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise.

Investments held for trading

Investments held for trading comprise of marketable securities. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments. All purchases and sale of investments are recognised on the trade date, which is the date that the group commits to purchase or sell the asset. Trading investments are initially recognised at cost, which includes transaction costs, and are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. The fair values of quoted investments in active markets are based on current bid prices.

Available for sale investments

Investments such as unlisted shares and interest in mutual fund held by the Group that are not traded in an active market are classified as available for sale.

Available for sale investments are initially recognised at cost, being the fair value of the consideration given. Subsequent to initial recognition these are recognised at fair value unless fair value cannot be reliably measured. The investments for which quoted market price is not available are measured at cost.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)****2 Summary of significant accounting policies (continued)****2.13 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.

2.14 Trade and other receivables

Trade and other receivables are stated at their nominal value less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

2.15 Cash and cash equivalents

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

2.16 Borrowings

Borrowings are initially measured at fair value, net of transaction costs. Subsequent to the initial recognition borrowings are measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

2.17 Retirement and other benefits

End of service benefits are accrued in accordance with the terms of employment of the group's employees in Oman at the balance sheet 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 balance sheet 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 income statement as incurred.

The group operates an unfunded defined benefit gratuity plan for all permanent employees of its subsidiary in Pakistan having a service period of more than one year. The subsidiary accrues the obligation on the basis of actuarial valuation carried out annually under the projected unit credit method.

2.18 Trade and other payables

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)****2 Summary of significant accounting policies (continued)****2.19 Provisions**

Provisions are recognised when the Group has a 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 of the amount can be made to the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At subsequent reporting dates, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18, Revenue.

2.20 Taxation

Tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The current tax payable is based on taxable profit for the period / year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax asset is not recognised if the temporary difference arises from goodwill. Currently enacted or substantially enacted tax rates are used to determine deferred income tax.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

2.21 Directors' remuneration

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

2.22 Dividend distribution

The Board adopts a prudent dividend policy, which complies with regulatory requirements applicable in the Sultanate of Oman. Dividend shall be distributed in accordance with Company's Memorandum of Association and shall be subject to the approval of shareholders.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)****3 Financial risk management**

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

3.1 Financial risk factors**Overview**

The Board of Directors has overall responsibility for the establishment and oversight of 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 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.

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 limit 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 the operators

The potential risk in respect of amounts receivable from private customers and corporate customers in Sultanate of Oman are significantly mitigated by factoring these receivables to an external agent. Under the terms of the factoring agreement the agent provides adequate cover in the form of a bank guarantee for the receivables assigned. The assigned receivables are without recourse subject to any exceptions and deviation from the agreed credit control norms. Credit risk on the other trade debtors is limited to their carrying values as management regularly reviews these balances whose recoverability is in doubt.

At the balance sheet date amounts receivable from the factoring agent approximate to 32.6% (31 December 2007 – 34.5%) of the group's total debtors. The bank guarantee provided by the factoring agent represents 36% (31 December 2007 - 39%) of the amounts due from them at the balance sheet date.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)****3. Financial Risk management (continued)****3.1 Financial risk factors (continued)****(i) Credit risk (continued)****Trade and other receivables (continued)**

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 group 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.

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.

(ii) Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. 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.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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 within shareholder's equity arises from its investment in subsidiaries based in Pakistan and Sri Lanka. The Group's investment in these subsidiaries is not hedged as these currency positions are considered to be long term in nature.

Borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily Rials Omani and also US Dollars and Pakistan Rupees. This provides an economic hedge and no derivatives are entered into.

In respect of other transactions of the group, they are primarily in Rials Omani and the group's performance is substantially independent of changes in foreign currency rates as its foreign currency dealings are principally in US Dollars to which the Rials Omani is pegged. 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.

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 balance sheet or protecting the interest expense through different interest rate cycles.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)****3. Financial Risk management (continued)****3.1 Financial risk factors (continued)****(ii) Market risk (continued)****Other market price risk**

Equity price risk arises from investments held for trading and at fair value through profit or loss. The primary goal of the group's investment strategy is to maximise investment returns on the 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.

Since the investments amount is less than 3% of the group's total assets, the performance of the investments will not have any material impact on the group's performance.

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 company nor its subsidiaries are subject to externally imposed capital requirements.

3.2 Fair value estimation

Fair value of certain licences recognised as a result of business combination is based on discounted cash flows expected to be derived from the use in the eventual sale of the assets. The fair value of some of the licences was based on gross replacement cost amortised to reflect current market value.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of the assets based on gross estimated replacement cost is depreciated to reflect the residual service potential of the asset having regard to the age, condition and obsolescence.

Intangible assets

The fair value of certain Wireless Local Loop (WLL) licences recognised as a result of business combination is based on discounted cash flows expected to be derived from the use and the eventual sale of the assets. The fair value of the remaining licences was based on gross replacement cost amortised to reflect current market value.

Investment property

The fair value of investment property recognised as a result of business combination is based on market value being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction.

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.

Inventory

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of sale and a reasonable profit margin required to sell the inventories.

Financial assets and liabilities

The fair values of other financial assets and liabilities approximate their carrying amounts as stated in the balance sheet.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 June 2008 (continued)**

4 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements 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.

Loss due to exceptional climate disturbances

The group's properties are insured against damage. As part of the damage caused by the exceptional climate disturbances on 6 June 2007, some properties of the group were damaged. An insurance consultant has been engaged by the group to pursue insurance claims from the insurance company. The group has lodged a claim of RO 7.6 million. An interim payment of RO 2 million for the parent company has been received in April 2008. In case of a subsidiary, the net book value of the assets at 30 June 2007 of RO 459 thousand has been de-recognised and recognised as claims receivable. Management of the subsidiary is confident that the entire amount will be collected from the insurance company.

5 Acquisition of subsidiaries

(a) Subsidiaries acquired

	Principal activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition RO'000
Worldcall Telecom Limited	Engaged in the provision of Wireless Local loop, Long Distance International Services (LDI), Payphones and cable television services	2 May 2008	56.8	73,559

The Company also holds 70.65% of voting securities in Worldcall Telecommunications Lanka (Private) Limited, incorporated in Sri Lanka by virtue of its shareholding in Worldcall Telecom Limited.

The Company also has significant influence over Media Times Limited (an associate company) by virtue of its shareholding in Worldcall Telecom Limited.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 June 2008 (continued)

5 Acquisition of subsidiaries (continued)

(b) Analysis of assets and liabilities acquired

	Pre acquisition carrying amount RO'000	Fair value adjustment RO'000	Fair value on acquisition RO'000
Current assets:			
Inventories	894	-	894
Trade and other receivables	8,456	-	8,456
Other assets	4,809	-	4,809
Prepayments	359	-	359
Cash and bank balances	5,119	-	5,119
Non-current assets:			
Property, plant and equipment	67,097	(1,446)	65,651
Intangible assets	12,185	2,591	14,776
Investment properties	434	24	458
Investment in an associated company	249	-	249
Long term deposits	662	-	662
Current liabilities:			
Trade and other payables	(6,611)	-	(6,611)
Borrowings	(2,349)	-	(2,349)
Non-current liabilities			
Borrowings	(21,712)	-	(21,712)
Deferred tax liabilities	(3,877)	(400)	(4,277)
Retirement benefit obligation	(806)	-	(806)
Other liabilities	(6,684)	-	(6,684)
Contingent liabilities	(3,961)	-	(3,961)
	<u>54,264</u>	<u>769</u>	<u>55,033</u>
Less: Minority interest			(23,776)
Share of net assets acquired			<u>31,257</u>
Less: Cost of acquisition			(73,559)
Goodwill on acquisition			<u><u>42,302</u></u>

(c) Cost of acquisition

The cost of acquisition of Worldcall Telecom Limited was paid in cash.

Net cash outflow on acquisition

	30 June 2008 RO'000
Consideration paid in cash	73,559
Less: Cash and cash equivalents acquired	(4,716)
	<u><u>68,843</u></u>

(d) Goodwill arising on acquisition

Goodwill arose in the business combination because the cost of the combination included a control premium to acquire Worldcall Telecom Limited. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, and future market development. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot reliably be measured.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 June 2008 (continued)**

5 Acquisition of subsidiaries (continued)

(e) Impact of acquisition on the results of the Group

The result of the Group for the period does not include the results of Wordcall Telecom Limited. The results of Wordcall Telecom Limited will be consolidated with effect from 1 July 2008.

Had the business combination been effected at 1 January 2008, the revenue of the Group would have been RO 208.395 million and the profit for the period would have been RO 74.551 million. The directors of the Group consider these proforma numbers to represent an approximate measure of the performance of the combined group for the period and to provide a reference point for comparison in future periods.

(f) Determination of fair value

Pre-acquisition carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values (refer note 3.2 for methods used in determining fair value).

6 Segment reporting

Primary reporting format

At 30 June 2008, the group is organized into two main business segments:

1. Provision of international and national calls from fixed lines, including rentals and installations of fixed telephones and internet services (fixed lines and other). From 2 May 2008 this segment includes the operations of the Worldcall Telecom Limited which is engaged in the provision of Wireless Local loop, Long Distance International Services (LDI), Payphones and cable television services in Pakistan and Sri Lanka.

2. 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). From 1 March 2004 this segment has operated separately under the subsidiary.

The segment results for the period ended 30 June 2008 are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Total gross segment revenues	108,992	132,914	(40,826)	201,080
Profit before taxation	97,711	39,313	(51,921)	85,103

The segment results for the period ended 30 June 2007 are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Total gross segment revenues	98,428	122,502	(45,012)	175,918
Profit before taxation	62,490	27,247	(33,808)	55,929

Other segment items for the period ended 30 June 2008 included in the income statement are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	10,810	14,691	25,501
Amortisation	150	1,248	1,398

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 June 2008 (continued)

6 Segment reporting (continued)

Other segment items for the period ended 30 June 2007 included in the income statement are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	13,739	16,341	30,080
Amortisation	150	1,248	1,398

The segment assets and liabilities at 30 June 2008 and capital expenditures for the period then ended are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Assets	452,461	195,345	(43,863)	603,943
Liabilities	201,412	114,821	(70,771)	245,462
Capital expenditures	9,445	15,648	-	25,093

The segment assets and liabilities at 31 December 2007 and capital expenditures for the year then ended are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Assets	328,093	245,481	(84,955)	488,619
Liabilities	84,397	147,260	(84,986)	146,671
Capital expenditures	16,555	13,386	-	29,941

Secondary reporting format

Secondary reporting is provided on the basis of geographic regions. Revenue is determined by location of assets which is not different from revenue by location of customer.

	Sultanate of Oman RO'000	Pakistan and Sri Lanka RO'000	Consolidation adjustments RO'000	Total RO'000
Total gross segment revenues	201,080	-	-	201,080
Assets	541,011	106,795	(43,863)	603,943
Capital expenditure	25,093	-	-	25,093

For the year ended 31 December 2007, the operations of the Group were only in Sultanate of Oman.

7 Property, plant and equipment

(a) The Board of Directors considers that leasehold lands from the Government for its operations in 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.

(b) Assets pledged as security

Property, plant and equipment of a subsidiary with a carrying amount of RO 49.5 million have been pledged to secure borrowings of the Group.

In addition, the Group's obligations under finance leases (see note 25) are secured by the lessor's title to the leased assets, which have a carrying amount of RO 2.025 million.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

7 Property, plant and equipment (continued)

Consolidated - Movement in property, plant and equipment

	Freehold Land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges, power equipment and related software RO'000	Telephone, telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work- in- progress RO'000	Total RO'000
Cost										
1 January 2008	713	45,762	217,384	305,114	7,808	7,584	20,471	2,888	16,250	623,974
Additions	-	80	348	100	130	25	1,199	364	22,847	25,093
Acquisition through business combination	119	675	22,657	22,642	6,397	192	550	522	11,897	65,651
Disposals	-	(1)	(44)	(39)	(30)	(167)	(8)	(68)	-	(357)
Net foreign currency exchange differences	(8)	(46)	(1,545)	(1,543)	(436)	(13)	(37)	(36)	(810)	(4,474)
Transfers	-	733	667	6,795	-	33	340	(1)	(8,567)	-
30 June 2008	824	47,203	239,467	333,069	13,869	7,654	22,515	3,669	41,617	709,887
Depreciation										
1 January 2008	-	24,291	98,678	193,329	7,385	5,517	17,222	2,237	-	348,659
Charge for the period	-	1,156	5,302	17,178	272	238	1,190	165	-	25,501
Disposals	-	-	(24)	(38)	(30)	(150)	(8)	(68)	-	(318)
30 June 2008	-	25,447	103,956	210,469	7,627	5,605	18,404	2,334	-	373,842
Net book value at 30 June 2008	824	21,756	135,511	122,600	6,242	2,049	4,111	1,335	41,617	336,045

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

7 Property, plant and equipment (continued)

Consolidated - Movement in property, plant and equipment (continued)

	Freehold Land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges, power equipment and related software RO'000	Telephone, Telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work- in- progress RO'000	Total RO'000
Cost										
1 January 2007	696	29,299	207,852	302,437	6,854	6,887	21,185	3,073	23,700	601,983
Additions	17	51	416	233	102	4	887	278	27,953	29,941
Transfers	-	2,345	9,261	21,971	135	24	1,676	-	(35,412)	-
Reclassification	-	14,116	5,712	(18,014)	717	669	(3,209)	-	9	-
Disposals / write off	-	(49)	(5,857)	(1,513)	-	-	(68)	(463)	-	(7,950)
31 December 2007	713	45,762	217,384	305,114	7,808	7,584	20,471	2,888	16,250	623,974
Depreciation										
1 January 2007	-	12,857	86,708	158,480	6,215	4,814	17,400	2,417	-	288,891
Charge for the year	-	2,400	12,615	46,209	453	385	2,891	257	-	65,210
Reclassification	-	9,044	3,344	(10,422)	717	318	(3,001)	-	-	-
Disposals / write off	-	(10)	(3,989)	(938)	-	-	(68)	(437)	-	(5,442)
31 December 2007	-	24,291	98,678	193,329	7,385	5,517	17,222	2,237	-	348,659
Net book value at 31 December 2007	713	21,471	118,706	111,785	423	2,067	3,249	651	16,250	275,315

Disposals include network assets of a subsidiary having net book value of RO 459 thousand derecognised in 2007 following damage from a cyclone (Note 4).

OMAN TELECOMMUNICATIONS COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

7 Property, plant and equipment (continued)

Parent - Movement in property, plant and equipment

	Freehold land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges, power equipment and related software RO'000	Telephone, telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work in progress RO'000	Total RO'000
Cost										
1 January 2008	665	20,914	206,531	86,742	7,137	6,460	17,963	2,021	9,647	358,080
Additions	-	80	314	77	130	-	703	216	7,925	9,445
Disposals	-	(1)	(44)	(39)	(30)	(167)	(8)	(68)	-	(357)
Transfers	-	306	3,414	5,025	-	-	651	-	(9,396)	-
30 June 2008	665	21,299	210,215	91,805	7,237	6,293	19,309	2,169	8,176	367,168
Depreciation										
1 January 2008	-	11,703	93,336	69,871	6,819	4,861	15,763	1,704	-	204,057
Charge for the period	-	513	4,922	4,113	258	147	767	90	-	10,810
Disposals	-	-	(24)	(38)	(30)	(150)	(8)	(68)	-	(318)
30 June 2008	-	12,216	98,234	73,946	7,047	4,858	16,522	1,726	-	214,549
Net book value										
At 30 June 2008	665	9,083	111,981	17,859	190	1,435	2,787	443	8,176	152,619

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

7 Property, plant and equipment (continued)

Parent - Movement in property, plant and equipment (continued)

	Freehold land RO'000	Buildings RO'000	Cables and transmission equipment RO'000	Telephone exchanges, power equipment and related software RO'000	Telephone, telex and related equipment RO'000	Satellite communication equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work in progress RO'000	Total RO'000
Cost										
1 January 2007	648	20,564	203,346	78,470	6,798	6,501	19,186	2,226	10,537	348,276
Additions	17	31	416	66	4	-	416	196	15,409	16,555
Transfers	-	322	8,550	6,108	135	(41)	1,225	-	(16,299)	-
Disposals / write off	-	(6)	(5,847)	(429)	-	-	(68)	(401)	-	(6,751)
Reclassification	-	3	66	2,527	200	-	(2,796)	-	-	-
31 December 2007	665	20,914	206,531	86,742	7,137	6,460	17,963	2,021	9,647	358,080
Depreciation										
1 January 2007	-	10,760	85,531	53,676	6,179	4,650	16,383	1,968	-	179,147
Charge for the year	-	949	11,782	14,083	440	211	2,036	116	-	29,617
Disposals / write off	-	(6)	(3,984)	(269)	-	-	(68)	(380)	-	(4,707)
Reclassification	-	-	7	2,381	200	-	(2,588)	-	-	-
31 December 2007	-	11,703	93,336	69,871	6,819	4,861	15,763	1,704	-	204,057
Net book value										
At 31 December 2007	665	9,211	113,195	16,871	318	1,599	2,200	317	9,647	154,023

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)**

8 Investment in subsidiaries

The investment in subsidiary companies are stated at cost less provision for impairment, if any.

	Parent Company	
	30 June 2008 RO'000	31 December 2007 RO'000
Oman Mobile Telecommunications Company LLC	24,750	24,750
Worldcall Telecom Limited (Note 5(a))	73,559	-
	98,309	24,750
	98,309	24,750

9 Investment property

	Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000
Acquisition through business combination (Note 5(b))	458	-
Net foreign currency exchange difference	(31)	-
	427	-
	427	-

Investment property comprises commercial property that is rented to Media Times Limited, an associated company in Pakistan.

The carrying value of investment property is the fair value of the property as determined by approved independent valuer in Pakistan M/s PEE DEE & Associates. Fair value was determined giving due regard to recent market transactions for similar properties in the same location and condition as the Group's investment property.

10 Goodwill

	Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000
Acquisition through business combination (Note 5(b))	42,302	-
Effect of foreign currency exchange difference	(3,092)	-
	39,210	-
	39,210	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

11 Other intangible assets

Consolidated - Movement in other intangible assets

	Licenses RO'000	Patents and Copyrights RO'000	Software RO'000	Total RO'000
Cost				
At 1 January 2007 & 31 December 2007	44,881	-	-	44,881
At 1 January 2008	44,881	-	-	44,881
Acquisition through business combination (Note 5(b))	14,729	17	30	14,776
Net foreign currency exchange differences	(1,002)	(1)	(2)	(1,005)
At 30 June 2008	58,608	16	28	58,652
Amortisation				
At 1 January 2007	8,066	-	-	8,066
Charge for the year	2,793	-	-	2,793
At 1 January 2008	10,859	-	-	10,859
Charge for the period	1,398	-	-	1,398
At 30 June 2008	12,257	-	-	12,257
Net book value				
At 30 June 2008	46,351	16	28	46,395
At 31 December 2007	34,022	-	-	34,022

Parent Company - Movement in other intangible assets

The movement in licences is as follows:

	Parent Company	
	30 June 2008 RO'000	31 December 2007 RO'000
Brought forward balance	6,321	6,621
Charge for the period / year	(150)	(300)
	6,171	6,321

The following useful lives are used in the calculation of amortisation:

Licences	15 to 25 years
Patents and Copyrights	10 years
Software	5 years

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

12 Investments in associated companies

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

	Parent Company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Brought forward balance	2,095	2,095	2,488	2,318
Acquisition through business combination	-	-	249	-
Net foreign currency exchange difference	-	-	(17)	-
Share of profit – net	-	-	142	302
Dividend received	-	-	(199)	(132)
Carried forward balance	<u>2,095</u>	<u>2,095</u>	<u>2,663</u>	<u>2,488</u>

- (b) The fair value of the parent company's investment in Oman Fiber Optic Company SAOG, which is listed on the Muscat Securities Market, is RO 3,126,025 (31 December 2007 – RO 2,595,019).

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

	Assets RO'000	Liabilities RO'000	Revenues RO'000	Profit / (loss) RO'000	Percentage shareholding
30 June 2008					
Oman Fiber Optic Co. SAOG	9,730	3,787	2,152	585	25.96%
Infoline LLC	1,397	249	872	36	45%
Omania e-Commerce LLC	832	67	133	(66)	40%
Media Times Limited	3,652	1,433	-	-	4.18%
31 December 2007					
Oman Fiber Optic Co. SAOG	8,970	2,798	5,287	1,133	25.96%
Infoline LLC	1,459	347	1,631	188	45%
Omania e-Commerce LLC	912	79	172	(193)	40%

13 Other financial assets

	Consolidated			
	Current		Non current	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Investments at fair value through profit or loss				
Financial assets designated as at fair value through profit or loss (a)	-	-	5,320	5,320
Held for trading investments (b)	9,476	4,594	-	-
Available for sale investment carried at cost				
Mutual fund (c)	-	-	192	-
Long term deposits at cost				
Deposits with financial institutions	11	-	182	-
Margin deposits (d)	914	-	-	-
Fixed deposit with bank (e)	36,381	-	-	-
Others	55	-	435	-
Loans carried at amortised cost				
Loans and advances to employees (f)	115	-	-	-
Loans to related parties (g)	162	-	-	-
	<u>47,114</u>	<u>4,594</u>	<u>6,129</u>	<u>5,320</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

13 Other financial assets (continued)

	Parent Company			
	Current		Non current	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Investments at fair value through profit or loss				
Financial assets designated as at fair value through profit or loss (a)	-	-	5,320	5,320
Held for trading investments (b)	6,252	4,594	-	-
Available for sale investment carried at cost				
Mutual fund (c)	-	-	192	-
Long term deposits at cost				
Fixed deposit with bank (e)	21,381	-	-	-
	<u>27,633</u>	<u>4,594</u>	<u>5,512</u>	<u>5,320</u>

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

	Carrying amount as at 31 December 2007 RO'000	Fair value adjustment RO'000	Carrying amount as at 30 June 2008 RO'000
Non-current and unquoted			
Thuraya Telecommunication Company	2,169	-	2,169
Arab Satellite Communications Organisation	3,151	-	3,151
	<u>5,320</u>	<u>-</u>	<u>5,320</u>

The financial assets designated at fair value through profit or loss are equity securities that otherwise would have been classified as available for sale.

(b) Investments held for trading

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

(c) Available for sale investment carried at cost

Available for sale investment represents investment in Oman Tourism Integrated Fund. The investment is carried at cost.

(d) Margin deposits

Margin deposits include deposits placed with banks against various guarantees and letters of credit.

(e) Fixed deposits

Fixed deposits are placed with commercial banks at interest rates ranging from 2.95% to 3.55% per annum and mature within three to six months from the date of deposit.

(f) Loans and advances to employees

Loans and advances to employees are unsecured and interest free and include advances given to key management personnel of a subsidiary of RO 29 thousand.

(g) Loan to related parties

A subsidiary has provided loans to an associate company and other related parties at rates comparable to average commercial rate of interest. The loan carries an interest rate of 14 % per annum.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

14 Loans to a subsidiary

	30 June 2008 RO'000	31 December 2007 RO'000
Repayable within one year	11,766	23,717
Repayable after one year	-	10,367
Total loans	11,766	34,084

Loans to Oman Mobile Telecommunications Company LLC, a subsidiary company, comprise:

- An unsecured loan balance of RO 11.766 million (including accrued interest of RO 1.399 million) (31 December 2007 : RO 21.786 million (including accrued interest of RO 1.052 million)) which is repayable in equal annual instalments of RO 10.367 million and carries an interest rate of 4.5% per annum.

15 Inventories

	Parent Company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Stores and spares	6,438	5,322	9,104	7,438
Prepaid cards and handsets	946	1,010	1,868	1,510
	7,384	6,332	10,972	8,948
Provision for inventory obsolescence	(4,672)	(4,362)	(5,630)	(5,191)
	2,712	1,970	5,342	3,757

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

Brought forward balance	4,362	4,362	5,191	5,191
Charge for the period / year	310	-	439	-
Carried forward balance	4,672	4,362	5,630	5,191

16 Trade and other receivables

Amounts due from customers	27,461	26,965	33,872	29,437
Amounts due from Oman Investment Finance Company SAOG (OIFC)	15,371	13,611	34,433	31,668
Amounts due from other operators	27,810	20,470	34,354	27,129
Insurance claim receivable (Note 4)	-	2,000	459	2,459
Other receivables	897	892	2,527	892
	71,539	63,938	105,645	91,585
Provision for impairment of receivables	(28,811)	(29,151)	(41,364)	(39,992)
	42,728	34,787	64,281	51,593
Advances	1,294	710	3,130	1,658
	44,022	35,497	67,411	53,251

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

17 Cash and bank balances

	Parent Company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Short term bank deposits	20,096	21,225	21,169	57,555
Cash at bank and on hand	17,659	11,931	27,510	48,828
	37,755	33,156	48,679	106,383

Short term deposits are placed with commercial banks at interest rates ranging from 2.5% to 3.4% (31 December 2007 – 2.3% to 5.3%) per annum and mature between one and three months from the date of deposit.

18 Receivable from a subsidiary

Amounts receivable from Oman Mobile Telecommunications Company LLC, a subsidiary company, are unsecured, interest free and are repayable within a period of one year.

19 Share capital and dividends

The share capital comprises 750,000,000 (31 December 2007 - 750,000,000) ordinary shares of RO 0.100 (31 December 2007 - RO 0.100) each fully paid. In accordance with the Ministerial decision at their counsel meeting No. 3/2005 dated 18 January 2005, the par value of each share was reduced from RO 1.000 to RO 0.100. Shareholders of the parent company who own not less than 10% of the parent company's shares at balance sheet date are as follows:

	30 June 2008		31 December 2007	
	Shares held	%	Shares held	%
Government of the Sultanate of Oman	525,000,000	70	525,000,000	70

For the year 2007, cash dividend of RO 75 million was approved by the shareholders at the Annual General Meeting held on 26 March 2008.

20 Legal reserve

In accordance with the Commercial Companies Law of Oman, No. 4, 1974, as amended, annual appropriations of 10% of the profit for the year of the company and its subsidiary in Oman are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the respective entity's paid-up share capital. This reserve is not available for distribution. The balance at the end of the year represents amounts relating to the company and its share of the legal reserve of a subsidiary.

21 Voluntary reserve

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)**

22 Capital contribution

On 11 February 2004 the TRA issued licences to the group for mobile and fixed line telecommunication services at a cost of RO 500,000 and RO 200,000 and for 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 on an open market basis at 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.

23 Foreign currency translation reserve

Exchange differences relating to the translation from the functional currency of the Group's foreign subsidiary into Rials Omani are brought into account by entries made directly to the foreign currency translation reserve.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

24 Borrowings

Consolidated	Currency	Nominal interest rate	Year of maturity	Current		Non current	
				30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Unsecured- at amortised cost							
Bridge loan	AED	EIBOR+0.875%	Note (a)	79,363	-	-	-
Government loans	RO	3%	2008	13,139	13,139	-	-
Secured-at amortised cost							
Term finance certificates-1	PKR	6 months KIBOR+ 2.75%	2011	327	-	1,607	-
Term finance certificates-2	PKR	6 months KIBOR+1.6%	2013	7	-	16,551	-
Secured bank loan	PKR	3 months KIBOR+1.4%	2010	-	-	835	-
Secured bank loan	PKR	3 months KIBOR+1.4%	2009	822	-	617	-
Bank overdraft	PKR	5.3% to 16.64%	-	375	-	-	-
Finance lease liabilities (Note 25)	PKR	7.5% to 16.5%	Note 25	658	-	622	-
				<u>94,691</u>	<u>13,139</u>	<u>20,232</u>	<u>-</u>
Parent Company							
Parent Company	Currency	Nominal interest rate	Year of maturity	Current		Non current	
				30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Unsecured- at amortised cost							
Bridge loan	AED	EIBOR+0.875%	Note (a)	79,363	-	-	-
Government loans	RO	3%	2008	13,139	13,139	-	-
				<u>92,502</u>	<u>13,139</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

24 Borrowings (continued)

(a) **Bridge Loan**

In April 2008, the Company obtained a bridge loan from Mashreq Bank P.S.C for the purpose of financing the acquisition of shares in Worldcall Telecom Limited (subsidiary). On 25 June 2008 the Company signed a syndicated loan facility with a consortium of banks for USD 205 million. The bridge loan was repaid from the proceeds of syndicated loan on 8 July 2008. The syndicated loan is repayable in 8 equal quarterly instalments commencing from 25 September 2009. Interest is charged at a rate of three months LIBOR plus 0.875% and is payable on a quarterly basis.

25 Obligations under finance leases

Leasing arrangements

Finance leases related to plant and machinery with lease terms of 5 years. The Group has options to purchase the equipment at the end of the respective lease terms by adjusting the deposit against the residual value of the assets.

Finance lease liabilities

Consolidated	Minimum lease payments		Present value of minimum lease payments	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
	RO'000	RO'000	RO'000	RO'000
No later than 1 year	768	-	658	-
Later than 1 year and not later than 5 years	657	-	622	-
Less : future finance charges	(145)	-	-	-
	<u>1,280</u>	<u>-</u>	<u>1,280</u>	<u>-</u>
Included in the financial statements as:				
Current borrowings (Note 24)			658	-
Non-current borrowings (Note 24)			622	-
			<u>1,280</u>	<u>-</u>

Fair value

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

26 Provisions

Consolidated	Universal Service Fund (a)	Sales tax refund (b)	Total
	RO'000	RO'000	RO'000
Contingent liabilities recognised on acquisition of Worldcall Telecom Limited	2,955	1,006	3,961
Net foreign currency exchange difference	(201)	(69)	(270)
	<u>2,754</u>	<u>937</u>	<u>3,691</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)**

26 Provisions (continued)

Contingent liabilities recognised on acquisition of Worldcall Telecom Limited

- (a) There is a dispute of RO 2.754 million with Pakistan Telecommunication Authority (PTA) on account of Universal Service Fund (USF) representing contribution to USF for period prior to the formation of the USF by the Federal Government of Pakistan. Out of this amount RO 1.25 million relating to prior periods has been deposited with the PTA. Based on the legal advice, the group is confident that the matter will be decided in favour of the subsidiary.
- (b) In 2007, the sales tax authorities served show cause notices to various payphone companies in Pakistan including the subsidiary on account of alleged wrong claim of refund of RO 0.937 million under the Sales Tax Act. Additional Collector (Adjudication) Sales Tax, Lahore has given a decision against the subsidiary and imposed a penalty on the subsidiary and Chief Executive, equivalent to the amount of original alleged claim. The subsidiary has filed an appeal to the Collector Sales Tax (Appeals) and Federal Tax Ombudsman. The group believes based on legal grounds that the matter will be decided in favour of the subsidiary.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

27 Deferred tax

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

Consolidated

	1 January 2008 RO'000	Acquisition through business combination RO '000	Charged / (credited) to income statement RO '000	Exchange differences RO '000	30 June 2008 RO '000	1 January 2007 RO'000	Reclassific ation (note below) RO'000	Charged / (credited) to income statement RO'000	31 December 2007 RO'000
Temporary differences									
Provision for impaired receivables	(4,009)	(479)	6	32	(4,450)	(4,138)	-	129	(4,009)
Provision for inventory obsolescence	(226)	-	(52)	-	(278)	(226)	-	-	(226)
Retirement benefit obligation	-	(281)	-	20	(261)	-	-	-	-
Depreciation and amortisation	10,211	13,223	1,867	(900)	24,401	9,499	(1,918)	2,630	10,211
	<u>5,976</u>	<u>12,463</u>	<u>1,821</u>	<u>(848)</u>	<u>19,412</u>	<u>5,135</u>	<u>(1,918)</u>	<u>2,759</u>	<u>5,976</u>
Unused tax losses and credits	-	(8,186)	-	557	(7,629)	-	-	-	-
	<u>5,976</u>	<u>4,277</u>	<u>1,821</u>	<u>(291)</u>	<u>11,783</u>	<u>5,135</u>	<u>(1,918)</u>	<u>2,759</u>	<u>5,976</u>

A subsidiary company claimed excess depreciation for tax purposes for the years 2004, 2005 and 2006, resulting in a deferred tax asset of RO 1.918 million being classified in provision for taxation in the year 2007.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

27 Deferred tax (continued)

Parent Company	1 January	Charged /	30 June	1 January	Charged /	31 December
	2008	(credited) to	2008	2007	(credited) to	2007
	RO'000	income	RO'000	RO'000	income	RO'000
		statement			statement	
		RO'000			RO'000	
Temporary differences						
Provision for impaired receivables	(2,692)	40	(2,652)	(2,773)	81	(2,692)
Provision for inventory obsolescence	(126)	(37)	(163)	(126)	-	(126)
Depreciation	10,695	1,655	12,350	7,868	2,827	10,695
Amortisation	60	-	60	60	-	60
	<u>7,937</u>	<u>1,658</u>	<u>9,595</u>	<u>5,029</u>	<u>2,908</u>	<u>7,937</u>

28 Retirement benefit obligation

The movement in retirement benefit obligation is as follows:

	Parent Company		Consolidated	
	30 June	31 December	30 June	31 December
	2008	2007	2008	2007
	RO'000	RO'000	RO'000	RO'000
Brought forward balance	1,714	1,573	2,050	1,797
Acquisition through business combination	-	-	806	-
Charge for the period / year	249	346	305	479
Foreign currency exchange differences	-	-	(55)	-
Payments during the period / year	(122)	(205)	(133)	(226)
	<u>1,841</u>	<u>1,714</u>	<u>2,973</u>	<u>2,050</u>

29 Other liabilities – non current

Consolidated	30 June	31 December
	2008	2007
	RO'000	RO'000
Licence fees payable (a)	5,124	-
Long term payables	801	-
Long term deposits	303	-
	<u>6,228</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

29 Other liabilities – non current (continued)

(a) Licence fees payable	30 June 2008 RO'000	31 December 2007 RO'000
Carrying value of licence fee payable to Pakistan Telecommunication Authority (PTA)	6,764	-
Less: Present value adjustment	(2,541)	-
	4,223	-
Accumulated interest charged to pre-acquisition profits	1,299	-
Less: Payments	(398)	-
	5,124	-

This represents interest free licence fee payable to PTA for Wireless Local Loop Licence. As per the agreement with PTA, RO 6.366 million is payable after two years by March 2010. The long term portion has been discounted using the effective interest of 12.5%.

30 Amount payable to the Government

	Parent Company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Brought forward balance	1,455	853	2,190	853
Payments made	(92)	(494)	(92)	(494)
Write back of impaired debt provision (Note 49(b)(ii))	-	1,096	475	1,831
	1,363	1,455	2,573	2,190

As disclosed in note 32, TRA has permitted the deduction of interconnection expenses in relation to local licensed operators. Any concessions granted by the TRA, in respect of royalty paid for the period 11 February 2004 to 31 December 2004, will be transferred to the Government.

31 Trade and other payables

	Parent Company		Consolidated	
	30 June 2008 RO '000	31 December 2007 RO '000	30 June 2008 RO '000	31 December 2007 RO '000
Trade payables	950	4,995	6,469	8,670
Amounts due to other telecommunication administrators	4,404	6,681	9,910	13,955
Retentions payable	7,568	7,117	9,992	11,151
Accruals	11,795	12,609	24,393	24,799
Deferred income	375	435	13,776	10,958
Billings in advance	9,200	2,844	4,949	3,574
Accrued interest	196	240	616	240
Other payables	391	436	2,976	1,125
	34,879	35,357	73,081	74,472

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)**

32 Royalty payable

In accordance with Article 4(1) of the fixed and mobile licence and as permitted by the TRA, the licencees are required to pay royalty to the TRA at the rate of 10% and 12% respectively of its gross revenue excluding sale of terminal equipment and interconnection expense. Commencing 2005, TRA permitted the group to deduct interconnection expenses in respect of local licensed operations. In October 2007, the licensees were permitted to pay with effect from 1 January 2007, royalty at the rate of 7% of their gross revenue excluding sale of terminal equipments and interconnection expenses. Royalty for the period ended 30 June 2007 was computed at the old rates as reported in the second quarter of 2007. Had the new rate been reflected with effect from 1 January 2007, the royalty for the parent would have been lower by RO 2.5 million and for the group by RO 7.15 million for the period ended 30 June 2007.

33 Net assets per share

Net assets per share attributable to equity holders of the company are calculated by dividing the net assets at the balance sheet date by the number of shares outstanding:

	Parent Company		Consolidated	
	30 June 2008	31 December 2007	30 June 2008	31 December 2007
Net assets attributable to the equity holders of the company (RO'000)	285,800	268,446	335,522	340,968
Number of shares outstanding (thousands)	750,000	750,000	750,000	750,000
Net assets per share (RO)	0.381	0.358	0.447	0.454

34 External administration revenue

	Parent Company		Consolidated	
	30 June 2008 RO'000	30 June 2007 RO'000	30 June 2008 RO'000	30 June 2007 RO'000
Telephones and GSM	17,558	12,502	17,558	12,502

35 Interconnection income and expense

- (a) Interconnection income represents the revenue derived from a licensed local mobile operator in Sultanate of Oman for the use of transmission equipment, facilities and the charges for the termination of the operator's traffic on the group's network.
- (b) Interconnection expense represents the charges paid by the group to a licensed local mobile operator in Sultanate of Oman for the termination of the traffic on the network of the operator.

36 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

37 External administration expenses

	Parent Company		Consolidated	
	30 June 2008 RO'000	30 June 2007 RO'000	30 June 2008 RO'000	30 June 2007 RO'000
Telephones and GSM	<u>8,964</u>	<u>8,753</u>	<u>8,964</u>	<u>8,753</u>

38 Staff costs

Salaries and allowances	<u>14,629</u>	12,255	<u>20,081</u>	15,999
Social security costs	<u>911</u>	773	<u>1,151</u>	967
Retirement benefits	<u>249</u>	206	<u>305</u>	306
Other employee benefits	<u>164</u>	306	<u>228</u>	346
	<u>15,953</u>	<u>13,540</u>	<u>21,765</u>	<u>17,618</u>

39 Operating and maintenance expenses

Asset maintenance	<u>3,489</u>	2,807	<u>4,964</u>	4,194
Cost of sale of prepaid products	<u>135</u>	225	<u>1,241</u>	1,217
Satellite channels and frequency rent	<u>1,399</u>	1,406	<u>2,082</u>	1,748
Rent, rates and taxes	<u>508</u>	524	<u>1,076</u>	1,382
Electricity and water	<u>532</u>	531	<u>786</u>	748
Maintenance and hire charges	<u>306</u>	183	<u>842</u>	824
Petrol, oil and lubricants	<u>134</u>	167	<u>214</u>	404
Insurance	<u>277</u>	157	<u>525</u>	236
Others	<u>323</u>	299	<u>351</u>	335
	<u>7,103</u>	<u>6,299</u>	<u>12,081</u>	<u>11,088</u>

40 Administrative expenses

Training costs	<u>581</u>	597	<u>811</u>	872
Professional fees for group reorganization	<u>1,409</u>	107	<u>1,409</u>	107
Professional consultancy fees	<u>892</u>	532	<u>1,469</u>	712
Administrative services	<u>403</u>	370	<u>548</u>	434
Business travel	<u>495</u>	303	<u>694</u>	465
Office supplies and services	<u>234</u>	174	<u>286</u>	271
	<u>4,014</u>	<u>2,083</u>	<u>5,217</u>	<u>2,861</u>

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

41 Commission

The group has entered into an agreement with Oman Investment and Finance Company SAOG (OIFC) whereby all amounts due from private customers in Sultanate of Oman are assigned and factored to OIFC. The present contract is effective from 1 July 2007 and is valid for a period of three years ending 30 June 2010.

Amounts due from private customers are also collected by the group through its own facilities and through its other collection agents. Commission for such collections are deducted from the commission payable to OIFC.

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

In addition, OIFC collects, on behalf of the group, amounts due in respect of customer bills issued prior to the present assignment, for which commission is paid at rates varying in accordance with the age of the amounts collected.

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

42 Finance income – net

	Parent company		Consolidated	
	30 June	30 June	30 June	30 June
	2008	2007	2008	2007
	RO'000	RO'000	RO'000	RO'000
Interest income	1,015	1,030	1,184	712
Exchange (loss) / gain	(689)	46	(689)	46
Dividend income	332	-	133	-
Fair value gain on investments at fair value through profit and loss	-	921	-	921
Fair value gain on investments held for trading	713	226	713	226
Realised gain on investments held for trading (net)	229	-	229	-
Interest on borrowings	(659)	(887)	(659)	(887)
	<u>941</u>	<u>1,336</u>	<u>911</u>	<u>1,018</u>

43 Other income

Liabilities no longer required written back	43	-	715	-
Miscellaneous income	550	196	646	256
	<u>593</u>	<u>196</u>	<u>1,361</u>	<u>256</u>

44 Taxation

(a) The tax charge for the period comprises:

Current taxation	3,699	2,510	8,158	5,780
Deferred taxation	1,658	1,434	1,821	1,434
	<u>5,357</u>	<u>3,944</u>	<u>9,979</u>	<u>7,214</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

44 Taxation (continued)

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

	Parent company		Consolidated	
	30 June 2008 RO'000	30 June 2007 RO'000	30 June 2008 RO'000	30 June 2007 RO'000
Tax on accounting profit	11,722	7,495	10,205	6,708
Add / (less) tax effect of:				
Expenses not deductible	18	18	(74)	128
Income not subject to tax (see note below*)	(6,383)	(3,947)	(152)	-
Deferred tax relating to prior years	-	378	-	378
Tax charge as per income statement	5,357	3,944	9,979	7,214

* Includes tax effect of RO 6.223 million (30 June 2007 - RO 3.933 million) on dividend from the subsidiary.

(c) For all years up to 31 December 2007 taxation returns have been filed but have yet to be agreed with the Oman Taxation Authorities. Assessments have been completed up to the taxable year 2001 and a refund has been determined.

(d) The income tax assessments of Worldcall Telecom Limited (subsidiary) have been finalised up to taxable year 2007 with the exception of the following issue:

The tax officer reassessed the Income for the tax year 2006 by making additions on account of brought forward losses, gratuity and goodwill of RO 4.335 million. The reassessment has only reduced the loss declared by the subsidiary for the year and it has not made any impact on the tax liability. The subsidiary has filed an appeal before Commissioner of Income tax (Appeals) against the order of Taxation officer.

45 Basic earnings per share

The earnings per share has been derived by dividing the profit for the period attributable to the equity holders of the parent company by the weighted average number of shares outstanding.

46 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 terms and conditions which the management consider to be comparable with those adopted for arm's length transactions with third parties.

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

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

	30 June 2008 RO'000	30 June 2007 RO'000
Entities under significant influence of the parent company	1,168	623
Entities with significant influence over the parent company	14,075	8,457
Entity under the control of the parent company	7,559	11,868
	22,802	20,948

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

46 Related parties (continued)

(ii) Sale of goods and services

	30 June 2008 RO'000	30 June 2007 RO'000
Entity under the control of the parent company	33,268	33,144

(iii) Remuneration to directors

Parent company

Directors' sitting fees - non executive	31	20
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Subsidiary companies

Directors' sitting fees - executive	-	10
Directors' sitting fees - non executive	17	3
Director's basic salaries, allowances, other benefits and social security cost	23	-

Consolidated

40	13
71	33

(iv) Key management compensation

Parent company

Basic salaries and allowances	143	170
Other benefits and expenses	22	24
Social security costs	16	13
	181	207

Subsidiary companies

Basic salaries and allowances	187	109
Other benefits and expenses	9	3
Social security costs	6	9
Retirement benefits	23	5

Consolidated

225	126
406	333

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

	30 June 2008 RO'000	31 December 2007 RO'000
Receivable from related parties	3,592	3,163
Payable to related parties	229	84

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

47 Cash and cash equivalents

	Parent company		Consolidated	
	30 June 2008 RO'000	30 June 2007 RO'000	30 June 2008 RO'000	30 June 2007 RO'000
Cash and bank balances (Note 17)	37,755	29,268	48,679	59,455
Bank overdraft (Note 24)	-	-	(375)	-
	<u>37,755</u>	<u>29,268</u>	<u>48,304</u>	<u>59,455</u>

48 Commitments

(a) Commitments

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

	Parent company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Commitment for fixed capital expenditure	24,845	12,187	43,858	50,931
Investment	1,737	-	1,737	-

At 30 June 2008, the aggregate capital commitment made by the group on behalf of the Government of Sultanate of Oman amounted to RO 1.588 million (31 December 2007 - RO 1.680 million). The group is entitled to recover these amounts from the Government when they fall due for payment.

(b) Contingent liabilities

	Parent Company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Letters of credit	-	-	11,983	3,700
Bank guarantees	325	371	2,089	376

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

(c) Claims

Certain regulatory non-compliance items, due to operational and budgetary constraints, may pose a risk of penalty being imposed by the TRA. However, neither the amount of penalty nor whether the TRA will actually impose a penalty can be determined at present. The legal and regulatory department of the group considers these as a low risk cases and at this stage, the outcome of the cases can not be quantified or estimated.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

49 Credit risk

a) Exposure to credit risk

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

	Parent company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Loans to a subsidiary	11,766	34,084	-	-
Trade and other receivables	71,539	63,938	105,645	91,585
Other financial assets	33,145	9,914	53,243	9,914
Cash and bank balances	37,755	33,156	48,679	106,383
Dividend receivable from a subsidiary	10,000	-	-	-
Receivable from a subsidiary	43,313	49,303	-	-
	<u>207,518</u>	<u>190,395</u>	<u>207,567</u>	<u>207,882</u>

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

	Parent company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Oman Investment Finance Company SAOG	15,371	13,611	34,433	31,668
Due from other operators	27,810	20,470	34,354	27,129
Insurance claim receivable	-	2,000	459	2,459
Government debts	5,561	5,224	5,728	5,371
Agents for prepaid card sales	-	-	117	2,325
Other customers	22,797	22,633	30,554	22,633
	<u>71,539</u>	<u>63,938</u>	<u>105,645</u>	<u>91,585</u>

b) The age of trade receivables and related impairment loss at the balance sheet date was:

Consolidated

	30 June 2008		31 December 2007	
	Gross RO'000	Impairment RO'000	Gross RO'000	Impairment RO'000
Not past due	28,347	-	32,819	-
Past due 0 - 180 days	26,257	1,619	15,362	2,018
Past due 181 - 365 days	5,322	2,399	4,931	1,970
1 - 2 years	7,423	5,807	9,522	7,517
More than 2 years	38,296	31,539	28,951	28,487
	<u>105,645</u>	<u>41,364</u>	<u>91,585</u>	<u>39,992</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

49 Credit risk (continued)

Parent company

	30 June 2008		31 December 2007	
	Gross RO'000	Impairment RO'000	Gross RO'000	Impairment RO'000
Not past due	16,771	-	18,969	-
Past due 0 - 180 days	20,353	1,012	12,426	1,222
Past due 181 - 365 days	2,267	1,603	4,653	1,970
1 - 2 years	5,222	4,552	6,215	4,627
More than 2 years	26,926	21,644	21,675	21,332
	<u>71,539</u>	<u>28,811</u>	<u>63,938</u>	<u>29,151</u>

(i) Included in the group's trade receivable balance are debtors with a carrying amount of RO 35.93 million (31 December 2007: RO 18.774 million) which are past due at the balance sheet date for which the group has not provided any amount as there has not been a significant change in credit quality and the amounts are still considered recoverable. The group does not hold any collateral over these balances. The average age of these receivables is 170 days.

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

	Parent Company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Brought forward balance	29,151	29,831	39,992	40,434
Acquired through business combination	-	-	1,390	-
Net foreign currency exchange difference	-	-	(95)	-
Charge for the period / year	702	4,077	1,594	5,811
Written back during the period / year payable to government (note below)	-	(1,096)	(476)	(1,831)
Written back during the period / year	(1,042)	(3,661)	(1,042)	(4,422)
Carried forward balance	<u>28,811</u>	<u>29,151</u>	<u>41,364</u>	<u>39,992</u>

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

In the event of subsequent recovery of the receivables in respect of which provisions had been established at 31 December 2004, the write back of such bad debt provision will be credited and paid to the Government. The write back in respect of provisions established as at 31 December 2004 has been credited to the Government (Note 30) and the remaining balance has been credited to the income statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

50 Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments:

30 June 2008

a) Consolidated

	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	114,923	93,691	1,000	10,542	9,690
Accrued interest	616	616	-	-	-
Amounts payable to Government	2,573	2,573	-	-	-
Trade payables	6,469	6,469	-	-	-
Amount due to other telecommunication administrators	9,910	8,362	1,548	-	-
Retention payable	9,992	7,810	2,182	-	-
Accruals	24,393	24,393	-	-	-
Other payables	2,976	2,976	-	-	-
Royalty payable	20,967	6,920	14,047	-	-
Other liabilities	6,228	-	-	6,228	-
	<u>199,047</u>	<u>153,810</u>	<u>18,777</u>	<u>16,770</u>	<u>9,690</u>

b) Parent company

Borrowings	92,502	92,502	-	-	-
Accrued interest	196	196	-	-	-
Amounts payable to Government	1,363	1,363	-	-	-
Trade payables	950	950	-	-	-
Amount due to other telecommunication administrators	4,404	4,404	-	-	-
Retention payable	7,568	6,484	1,084	-	-
Accruals	11,795	11,795	-	-	-
Other payables	391	391	-	-	-
Royalty payable	13,344	6,515	6,829	-	-
	<u>132,513</u>	<u>124,600</u>	<u>7,913</u>	<u>-</u>	<u>-</u>

31 December 2007

a) Consolidated

Borrowings	13,139	-	13,139	-	-
Accrued interest	240	240	-	-	-
Amounts payable to Government	2,190	2,190	-	-	-
Trade payables	8,670	8,063	607	-	-
Amount due to other telecommunication administrators	13,955	9,221	4,734	-	-
Retention payable	11,151	6,860	4,291	-	-
Accruals	24,799	24,799	-	-	-
Other payables	1,125	1,125	-	-	-
Royalty payable	32,296	32,296	-	-	-
	<u>107,565</u>	<u>84,794</u>	<u>22,771</u>	<u>-</u>	<u>-</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)

50 Liquidity risk (continued)

b) Parent company	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	13,139	-	13,139	-	-
Accrued interest	240	240			
Amounts payable to Government	1,455	1,455	-	-	-
Trade payables	4,995	4,995	-	-	-
Amount due to other telecommunication administrators	6,681	6,681	-	-	-
Retention payable	7,117	6,109	1,008	-	-
Accruals	12,609	12,609	-	-	-
Other payables	436	436	-	-	-
Royalty payable	18,357	18,357	-	-	-
	<u>65,029</u>	<u>50,882</u>	<u>14,147</u>	<u>-</u>	<u>-</u>

51 Interest rate risk

At the balance sheet date the interest rate profile of the group's interest bearing financial instruments was:

	Parent Company		Consolidated	
	30 June 2008 RO'000	31 December 2007 RO'000	30 June 2008 RO'000	31 December 2007 RO'000
Floating rate instruments				
Financial liabilities	<u>79,363</u>	<u>-</u>	<u>100,129</u>	<u>-</u>
Fixed rate instruments				
Financial assets	<u>41,477</u>	<u>21,225</u>	<u>57,550</u>	<u>57,555</u>
Financial liabilities	<u>(13,139)</u>	<u>(13,139)</u>	<u>(14,794)</u>	<u>(13,139)</u>
	<u>28,338</u>	<u>8,086</u>	<u>42,756</u>	<u>44,416</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 balance sheet date would not affect profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008 (continued)**

52 Foreign currency risk

The Group's main exposure to foreign exchange volatility within shareholder's equity arises from its investment in subsidiary based in Pakistan.

The net balance sheet exposure to the currency risk as at 30 June 2008 is as follows:

	Pakistani Rupees PKR '000
Total assets	16,851,498
Goodwill	7,028,095
Less: Total liabilities	(7,708,602)
Less: Minority interest	(3,950,099)
	<hr/>
	12,220,892
	<hr/> <hr/>

The following significant exchange rates were applied during the period :

	Pakistani Rupees
Average rate from date of acquisition	166.136
Exchange rate as at 30 June 2008	178.285

A 5% strengthening of Rials Omani against the above currency would have decreased equity by RO 3.054 million attributable to equity holders of parent company by the amounts shown above. The analysis assumes that all other variables, in particular interest rates remain constant.

A 5% weakening of Rials Omani would have had the equal but would have had opposite effect on the above currencies.

53 Comparative amounts

Certain comparative amounts have been reclassified to conform to current period presentation.