

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 1 General information

**Oman Telecommunications Company SAOG** (the “Parent Company” or the “Company”) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The Company’s principal place of business is located at Al Mawaleh, Sultanate of Oman.

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

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

	Percentage shareholding			Principal activities	Place of incorporation
	2011	2010			
	%	%			
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	56.8	56.8	Subsidiary	Engaged in the provision of Wireless Local Loop, Long Distance International Services (LDI), Payphones and cable television services	Pakistan
Wordcall Telecommunications Lanka (Private Ltd.) (note 5)	70.65	70.65	Subsidiary	Engaged in the operations and maintenance of pay phone network	Sri Lanka
Oman Fiber Optic Company SAOG	40.96	40.96	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	49	49	Associate	Engaged in the provision of e-commerce services	Sultanate of Oman

### 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

- (a) The interim unaudited financial statements are prepared on the historical cost basis except as disclosed in the accounting policies below. The interim unaudited financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and the disclosure requirements set out in the Rules for Disclosure and Proformas issued by the Capital Market Authority and comply, in all material respects with the requirements of the Commercial Companies Law of 1974, as amended. The accounting policies used in the preparation of the interim unaudited financial statements (“the financial statements”) are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2010.
- (b) The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 2 Summary of significant accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### (c) Adoption of new and revised IFRS

For the period ended 30 September 2011, 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 the period beginning on 1 January 2010. 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.

A number of relevant new standards, amendments to standards and interpretations are not yet effective for the period ended 30 September 2011, and have not been applied in preparing these financial statements. None of these are expected to have an effect on the financial statements of the Company and the Group with the exception of:

- IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, which deals with classification and measurement of financial assets.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship.

#### 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 Combinations 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 statement of income.

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.

##### 2.2.2 Transactions with non-controlling interests

The Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to the Group. Disposals to non-controlling interests result in gains and losses for the Group that are recorded in the statement of income. 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 non-controlling 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

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating decisions of the investee but is not control or joint control over these policies. Investments in associates are initially recognised at cost and subsequently accounted for using the equity method of accounting in the Group's financial statements.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 2 Summary of significant accounting policies (continued)

#### 2.2 Consolidation (continued)

##### 2.2.3 Associated companies (continued)

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of income, 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. The Group's investment in associates includes goodwill identified on acquisition which is included within the carrying amount of the investment and is assessed for impairment as part of that 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.

##### 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 and 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.

### 2.3 Segment reporting

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

### 2.4 Service revenue

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

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

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

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

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 2 Summary of significant accounting policies (continued)

#### 2.4 Service revenue (continued)

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

#### 2.5 Leases

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

##### *The Group as lessor*

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

Revenues from the sale of transmission capacity on terrestrial and submarine cables are recognised on a straight-line basis over the life of the contract in case of operating lease.

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

##### *The Group as lessee*

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

#### 2.6 Finance income / costs

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 and expense are recognised using the effective interest rate method.

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

#### 2.7 Factoring, collection and distribution fees

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

#### 2.8 Foreign currency

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 reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting 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 statement of income in the period in which they arise.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 2 Summary of significant accounting policies (continued)

#### 2.8 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 reporting 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 a separate component of equity and recognised in the Group's foreign currency translation reserve. Such exchange differences are recognised in the statement of income in the period in which a 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.

#### 2.9 Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses, if any. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. All other expenditure is recognised in the statement of income as an expense 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	3 - 20
Cables and transmission equipment	3 - 30
Telephone exchanges, power equipment and related software	2 - 20
Telephone, telex and related equipment	1 - 5
Satellite communication equipment	5 - 14
Furniture and office equipment	3 - 5
Motor vehicles and equipment	3 - 5

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

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

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

Capital work-in-progress 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.

#### 2.10 Intangible assets

##### *Intangible assets acquired separately*

Intangible assets acquired separately by the Group and have finite useful life is measured at cost less accumulated amortisation and accumulated impairment losses. Licences acquired from the Telecommunication Regulators are recognised at fair value less any subsequent amortisation and impairment losses. They are amortised over their estimated useful lives on a straight line basis.

##### *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 definitions of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the date of acquisition.

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

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 2 Summary of significant accounting policies (continued)

#### 2.11 Impairment of tangible and intangible assets excluding goodwill

At each reporting 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 impaired. 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 statement of income.

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, net of depreciation / amortisation, 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 statement of income. 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 statement of income 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. Gains and losses arising from changes in the fair value of trading investments are included in the statement of income 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

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 less impairment losses, if any. Changes in carrying value are recognised in other comprehensive income until the investment is sold or determined to be impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the statement of income.

##### Held-to-maturity investments

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

#### 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, if any. 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.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 2 Summary of significant accounting policies (continued)

#### 2.15 Cash and cash equivalents

For the purpose of the statement of cash flows, all bank balances, including short term deposits with a maturity of three months or less from the date of placement and cash on hand 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 reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while those relating to end of service benefits are disclosed as non-current liabilities.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the statement of income as incurred.

#### 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, at amortised cost.

#### 2.19 Provisions

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

#### 2.20 Taxation

Tax expenses comprise current and deferred tax. Current tax and deferred tax are recognised in the statement of income except to the extent it relates to items recognised directly in equity or other comprehensive income. Tax expense represents the sum of the income tax and deferred tax expenses.

##### Current tax

The current tax payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are not taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting 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.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 2 Summary of significant accounting policies (continued)

#### 2.20 Taxation (continued)

##### Deferred tax (continued)

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

The carrying amount of deferred tax assets is reviewed at each reporting 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 of 1974, as amended and the requirements of the Capital Market Authority in Oman and in case of subsidiaries, in accordance with the relevant laws and regulations.

#### 2.22 Dividend distribution

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

#### 2.23 Derivative financial instruments

The Group entered into a interest rate swap to manage its exposure to interest rate risk. The details of derivative instrument are disclosed in Note 21.

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

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

##### Hedge accounting

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

Note 21 sets out details of the fair value of the interest rate swap used for hedging purposes. Movements in the hedging reserve in equity are detailed in the statement of changes in equity.

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

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

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

#### 2.24 Investment property

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

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 2 Summary of significant accounting policies (continued)

#### 2.24 Investment property (continued)

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

#### 2.25 Voluntary end of service benefits

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

### 3 Financial risk management

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

#### 3.1 Financial risk factors

##### Overview

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

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

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

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

- Credit risk
- Liquidity risk
- Market risk

##### Credit risk

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

##### Trade and other receivables

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

The Group has established credit policies and procedures that are considered appropriate for a licensed service provider commensurate with the nature and size of receivables. Credit limits for customers are established based on the amount of receivables and age of debts.

In monitoring customer credit risk, customers are segmented according to their credit characteristics in the following categories:

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

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### Credit risk (continued)

##### Trade and other receivables (continued)

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 factoring agent has recourse to the Company based on certain agreed credit control norms. Credit risk on other trade debtors is limited to their carrying values as Management regularly reviews these balances whose recoverability is in doubt.

At the reporting date amounts receivable from the factoring agent approximate to 38.97% (31 December 2010 - 35.20%) of the Group's total debtors. The bank guarantee provided by the factoring agent represents 26.96% (31 December 2010 - 29.58%) of the amounts due from them at the reporting date.

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.

##### Liquidity risk

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

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

##### Market risk

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

##### Foreign currency risk

The Group's main exposure to foreign exchange volatility within shareholder's equity arises from its investment in a company based in Pakistan. These investments are not hedged as these currency positions are considered to be long term in nature.

The subsidiary foreign currency risk arises mainly from receivables, payables and borrowings. The foreign currency payables are substantially hedged against receivables. Foreign currency risk on borrowing is not hedged.

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. The US Dollar and Omani Rial exchange rate have remained unchanged since 1986. There are no significant financial instruments denominated in foreign currency other than US Dollars and consequently Management believes that foreign currency risk on other monetary assets and liabilities is not significant.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 3 Financial risk management (continued)

#### 3.1 Financial risk factors (continued)

##### Market risk (continued)

###### *Interest rate risk*

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

###### *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 surplus cash available. Management is assisted by external advisors in this regard. In accordance with this strategy certain investments are designated at fair value through profit or loss because their performance is actively monitored and they are managed on a fair value basis.

###### *Capital management*

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors both the demographic spread of shareholders as well as return on shareholders' equity.

Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. Neither the Company nor its subsidiary is subject to externally imposed capital requirements, other than the requirements of the Commercial Companies Law of 1974, as amended.

#### 3.2 Fair value estimation

##### **Investments**

The fair value of investments is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets.

##### **Derivatives**

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

##### **Financial assets and liabilities**

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

### 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 reporting date and the resultant provisions and changes in fair value. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty. Actual results may differ from Management's estimates resulting in future changes in estimated liabilities and assets.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

###### *Impairment of accounts receivable*

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

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

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

#### *Impairment of accounts receivable (continued)*

At the reporting date, trade accounts receivable amounted to RO 99.961 million (31 December 2010: RO 100.838 million), and the provision for doubtful debts is RO 44.302 million (31 December 2010: RO 44.144 million). Any difference between the amounts actually collected in future periods and the amounts expected to be collected will be recognised in the statement of income.

#### *Impairment of goodwill*

For impairment of goodwill, refer note 9.

#### *Impairment of inventories*

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

At the reporting date, inventories amounted to RO 12.869 million (31 December 2010: RO 11.781 million) with provision for old and obsolete inventories of RO 7.535 million (31 December 2010: RO 7.512 million). Any difference between the amounts actually realised in future periods and the amounts recognised are dealt with in the statement of income.

#### *Useful lives of property, plant and equipment*

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

### 5 Assets classified as held for sale

Worldcall Telecom Limited also holds 70.65% of voting securities in Worldcall Telecommunications Lanka (Private) Limited, incorporated in Sri Lanka.

The Group's foreign subsidiary namely Worldcall Telecommunications Lanka (Private) Limited has been suffering from losses since last many years as the demand for payphones in Sri Lanka has greatly diminished. Keeping in view the Sri Lankan market conditions and negative equity of the subsidiary, the management has decided and approved the winding up of the subsidiary. The investment is now classified as discontinued operations. This does not have any material impact on the Group's results.

### 6 Segment reporting

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

#### **Products and services from which reportable segments derive their revenues**

At 30 September 2011, 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). This segment also includes the operations of Worldcall Telecom Limited which is engaged in the provision of Wireless Local loop, 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).

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 6 Segment reporting

#### Segment revenues and results

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

Inter-segment sales are charged at prevailing market prices. The segment results for the period ended 30 September 2011 are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
<b>Revenue</b>				
External sales	129,553	203,598	-	333,151
Inter-segment sales	46,092	9,882	(55,974)	-
<b>Total revenue</b>	<u>175,645</u>	<u>213,480</u>	<u>(55,974)</u>	<u>333,151</u>
<b>Segment result</b>	35,711	53,278	-	88,989
Finance costs - net				(374)
Other non operating income				4,715
<b>Profit before taxation</b>				<u>93,330</u>
Taxation				(10,609)
<b>Profit for the period</b>				<u><u>82,721</u></u>

The segment results for the period ended 30 September 2010 were as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
<b>Revenue</b>				
External sales	128,929	186,851	-	315,780
Inter-segment sales	40,773	9,799	(50,572)	-
<b>Total revenue</b>	<u>169,702</u>	<u>196,650</u>	<u>(50,572)</u>	<u>315,780</u>
<b>Segment result</b>	38,665	53,093	-	91,758
Finance cost – net				(1,394)
Other non operating income				2,305
<b>Profit before taxation</b>				<u>92,669</u>
Taxation				(9,675)
<b>Profit for the period</b>				<u><u>82,994</u></u>

Other segment items for the period ended 30 September 2011 included in the statement of income are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
<b>Depreciation</b>	26,718	31,950	58,668
<b>Amortisation</b>	1,938	3,052	4,990

Other segment items for the period ended 30 September 2010 included in the statement of income are as follows:

	Fixed line and other RO'000	Mobile RO'000	Total RO'000
Depreciation	23,326	29,135	52,461
Amortisation	1,595	2,832	4,427

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 6 Segment reporting (continued)

The segment assets and liabilities at 30 September 2011 and capital expenditures for the period ended are as follows:

	Fixed line and other RO'000	Mobile RO'000	Consolidation adjustments RO'000	Total RO'000
Assets	488,357	162,908	5,788	657,053
Liabilities	126,032	66,182	(15,557)	176,657
Capital expenditures	51,133	15,268	-	66,401

The segment assets and liabilities at 31 December 2010 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	484,113	190,965	11,335	686,413
Liabilities	139,263	74,719	(2,566)	211,416
Capital expenditures	51,961	38,003	-	89,964

### 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
30 September 2011				
Total gross segment revenues	309,013	25,271	(1,133)	333,151
Assets	543,185	108,080	5,788	657,053
Capital expenditure	62,231	4,170	-	66,401
30 September 2010				
Total gross segment revenues	291,793	27,254	(3,267)	315,780
Assets	547,931	104,076	10,065	662,072
Capital expenditure	56,842	5,225	-	62,067

### 7 Property, plant and equipment

(a) The Board of Directors considers that leasehold lands made available by the Government for its operations in the Sultanate of Oman will continue to be made available for the Group's use over the useful economic life of the assets that are situated on such leasehold lands.

#### (b) Assets pledged as security

Property, plant and equipment of a subsidiary with a carrying amount of RO 53.3 million (2010: RO 55.5 million) have been pledged to secure borrowings of the Group.

In addition, the Group's obligations under finance leases (see note 23) are secured by the lessor's title to the leased assets, which have a carrying amount of RO 0.759 million (2010: RO 0.177 million).

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 7 Property, plant and equipment (continued)

	Freehold land RO'000	Buildings RO'000	Network infrastructure and equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work- in- progress RO'000	Total RO'000
<b>Cost</b>							
1 January 2011	1,216	58,004	780,762	28,186	3,917	45,737	917,822
Additions	-	233	762	725	741	63,940	66,401
Transfers	-	6,241	55,434	1,308	-	(62,983)	-
Transfers to other assets	-	-	-	-	-	(712)	(712)
Net foreign currency exchange difference	(2)	(14)	(1,352)	(16)	(6)	(72)	(1,462)
Disposals (7.1)	-	(16)	(372)	(171)	(1,317)	(7,280)	(9,156)
<b>30 September 2011</b>	<b>1,214</b>	<b>64,448</b>	<b>835,234</b>	<b>30,032</b>	<b>3,335</b>	<b>38,630</b>	<b>972,893</b>
<b>Depreciation</b>							
1 January 2011	-	31,346	471,707	20,854	2,609	-	526,516
Charge for the period	-	2,700	53,493	2,128	347	-	58,668
Net foreign currency exchange difference	-	(5)	(274)	(6)	10	-	(275)
Disposals	-	(16)	(347)	(168)	(1,244)	-	(1,775)
<b>30 September 2011</b>	<b>-</b>	<b>34,025</b>	<b>524,579</b>	<b>22,808</b>	<b>1,722</b>	<b>-</b>	<b>583,134</b>
<b>Net book value at 30 September 2011</b>	<b>1,214</b>	<b>30,423</b>	<b>310,655</b>	<b>7,224</b>	<b>1,613</b>	<b>38,630</b>	<b>389,759</b>

7.2 Includes sale of IRU capacity amounting to RO 7.1 million (2010: NIL)

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 7 Property, plant and equipment (continued)

	Freehold land RO'000	Buildings RO'000	Network infrastructure and equipment RO'000	Furniture and office equipment RO'000	Motor vehicles and equipment RO'000	Capital work- in- progress RO'000	Total RO'000
<b>Cost</b>							
1 January 2010	1,215	51,453	724,835	31,935	3,620	30,993	844,051
Reclassification to Intangible assets	-	-	(3,564)	(6,727)	-	-	(10,291)
Additions	-	99	1,180	808	588	87,289	89,964
Transfers	-	7,302	60,184	3,352	47	(70,885)	-
Transfers to Intangible assets	-	-	-	-	-	(1,623)	(1,623)
Adjustment	-	-	(188)	(11)	(2)	(88)	(289)
Net foreign currency exchange difference	1	1	120	-	(120)	51	53
Disposals	-	(851)	(1,805)	(1,171)	(216)	-	(4,043)
31 December 2010	1,216	58,004	780,762	28,186	3,917	45,737	917,822
<b>Depreciation</b>							
1 January 2010	-	29,087	409,317	23,256	2,425	-	464,085
Reclassification to Intangible assets	-	-	(2,724)	(3,857)	-	-	(6,581)
Charge for the period	-	2,903	66,396	2,551	511	-	72,361
Net foreign currency exchange difference	-	(1)	(26)	-	1	-	(26)
Disposals	-	(643)	(1,256)	(1,096)	(328)	-	(3,323)
31 December 2010	-	31,346	471,707	20,854	2,609	-	526,516
<b>Net book value</b>							
31 December 2010	1,216	26,658	309,055	7,332	1,308	45,737	391,306

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 8 Investment property

	<b>Unaudited 30 September 2011</b>	Audited 31 December 2010
Opening balance	407	344
Addition during the period/year	89	56
Fair value adjustment	-	6
Net foreign currency exchange difference	(8)	1
	<u>488</u>	<u>407</u>

Investment property comprises of land and commercial properties. During the period the subsidiary acquired land under barter arrangement against the advertisement services.

The carrying value of the commercial property was the fair value of the property as determined by approved independent valuer in Pakistan as at 31 December 2010. There is no significant change in fair value as at 30 September 2011.

### 9 Goodwill

Opening balance	17,355	17,302
Effect of foreign currency exchange difference	(338)	53
	<u>17,017</u>	<u>17,355</u>

#### Test for impairment of investment in Worldcall Telecom Limited

At the end of 30 September 2011, the Group assessed the recoverable amount of goodwill and determined that the recoverable amount is more than the carrying amount.

The recoverable amount of the investment in WTL was assessed by reference to the value in use calculation which uses cash flow projections based on financial forecasts covering a five year period and a discount rate of 19.5% per annum (2010: 19.5% per annum). Cash flow projections beyond the five year period have been extrapolated using a steady growth rate of 3% per annum (2010: 3% per annum) which is the projected long term average growth rate for the business. Management believes that the value in use calculation is highly sensitive to the cash flow projections and the cost of capital. An increase in the cost of capital to 21% would have resulted in an impairment loss at 30 September 2011 of RO 1.1 million assuming all other variables remain constant. The achievement of projections is dependent on WTL's ability to secure additional funding as envisaged in the business plan.

During the period, additional funding through a long term loan facility of USD 35 million was obtained by WTL and the Group is working with an independent consultant to determine options to secure additional funding for WTL of USD 35 million.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 10 Other intangible assets

	Licenses RO'000	Patents and copyrights RO'000	Software RO'000	Indefeasible right to use	Total RO'000
<b>Cost</b>					
At 1 January 2010	55,202	10	14	-	55,226
Reclassification from Property, plant and equipment	-	-	10,291	-	10,291
Addition during the year	10,000	-	2,257	-	12,257
Net foreign currency exchange differences	34	-	-	-	34
<b>At 31 December 2010 (audited)</b>	<b>65,236</b>	<b>10</b>	<b>12,562</b>	<b>-</b>	<b>77,808</b>
<b>At 1 January 2011</b>	<b>65,236</b>	<b>10</b>	<b>12,562</b>	<b>-</b>	<b>77,808</b>
Addition during the period	-	-	753	3,481	4,234
Net foreign currency exchange difference	(168)	(1)	-	-	(169)
<b>At 30 September 2011 (unaudited)</b>	<b>65,068</b>	<b>9</b>	<b>13,315</b>	<b>3,481</b>	<b>81,873</b>
<b>Amortisation</b>					
At 1 January 2010	16,800	1	4	-	16,805
Reclassification from Property, plant and equipment	-	-	6,581	-	6,581
Charge for the year	4,059	4	2,526	-	6,589
<b>At 31 December 2010 (audited)</b>	<b>20,859</b>	<b>5</b>	<b>9,111</b>	<b>-</b>	<b>29,975</b>
<b>At 1 January 2011</b>	<b>20,859</b>	<b>5</b>	<b>9,111</b>	<b>-</b>	<b>29,975</b>
Charge for the period	3,135	4	1,871	158	5,168
Net foreign currency exchange difference	(8)	-	-	-	(8)
<b>At 30 September 2011 (unaudited)</b>	<b>23,986</b>	<b>9</b>	<b>10,982</b>	<b>158</b>	<b>35,135</b>
<b>Net book value</b>					
<b>At 30 September 2011 (unaudited)</b>	<b>41,082</b>	<b>-</b>	<b>2,333</b>	<b>3,323</b>	<b>46,738</b>
31 December 2010 (audited)	44,377	5	3,451	-	47,833

The charge for the period includes an amount of RO 178 thousand (Sep 2010: RO 207 thousand) capitalized during the period.

Licenses of the subsidiary are assigned to IGI Investment Bank limited, trustee of Term Finance Certificate III (refer note 23). The carrying amount of licences is RO 8.6 million (2010: RO9.3 million)

During the period a subsidiary has acquired an indefeasible right of use in respect of capacity procured from Multinet Pakistan (Pvt) Limited for the period of 15 years.

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

Licences	15 to 25 years
Patents and Copyrights	10 years
Software	3-5 years
Indefeasible right to use	15 years

### 11 Investment in associated companies

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

	30 September 2011 RO'000	31 December 2010 RO'000
Brought forward balance	5,955	3,045
Addition during the period/year (note below)	294	2,481
Share of profit – net	496	711
Dividend received	(448)	(282)
Carried forward balance	<b>6,297</b>	<b>5,955</b>

- (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 4,932,919 (31 December 2010: RO 4,932,919).

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 11 Investment in associated companies (continued)

(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
<b>30 September 2011</b>					
Oman Fiber Optic Co. SAOG	16,011	6,648	10,183	1,394	40.96
Infoline LLC	1,892	457	1,607	47	45
Omania e-Commerce LLC	4,454	3,628	2,813	(197)	49
<b>31 December 2010</b>					
Oman Fiber Optic Co. SAOG	12,467	3,292	11,043	2,122	40.96
Infoline LLC	1,755	333	2,035	140	45
Omania e-Commerce LLC	3,520	3,118	3,358	(76)	49

During the period, Omania e commerce increased its share capital and distributed among the existing shareholders in the ratio of their existing shareholdings and as such, this did not result in an increase in percentage of shareholding. The investment was made for a consideration of RO 0.294 mn. (2010 -The Parent Company has acquired additional 15% and 9% shares of Oman Fiber Optic Co.SAOG and Omania e-Commerce LLC, respectively, for consideration of RO 2.412 million and RO 0.068 million, increasing its percentage of shareholding to 40.96% and 49%, respectively.)

### 12 Other financial assets

	Current		Non-current	
	Unaudited 30 September 2011 RO'000	Audited 31 December 2010 RO'000	Unaudited 30 September 2011 RO'000	Audited 31 December 2010 RO'000
<b>Investments at fair value through profit or loss</b>				
Financial assets designated as at fair value through profit or loss (a)	-	-	7,892	6,851
Held for trading investments (b)	8,041	7,247	-	-
<b>Available for sale investment carried at cost</b>				
Mutual fund (c)	-	-	570	444
<b>Available for sale investment carried at fair value</b>				
Quoted investments	507	1,405	189	219
<b>Held to maturity investments</b>				
Bonds (d)	-	-	5,771	5,771
<b>Long term deposits at cost</b>				
Deposits with financial institutions	-	6	100	21
Margin deposits (e)	327	310	-	-
Fixed deposits with banks (f)	66,522	60,522	7,000	33,550
Others	42	94	324	266
<b>Long term receivables</b>				
Trade receivables	-	-	130	212
<b>Loans carried at amortised cost</b>				
Loans and advances to employees (g)	403	196	-	-
	<u>75,842</u>	<u>69,780</u>	<u>21,976</u>	<u>47,334</u>

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 12 Other financial assets (continued)

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

	Carrying amount as at 31 December 2010 RO'000	Additions during the period RO'000	Fair value adjustment RO'000	Carrying amount as at 30 September 2011 RO'000
<b>Non-current and unquoted</b>				
Thuraya Telecommunication Company	1,850	-	-	1,850
Investment in mutual funds	1,933	1,010	31	2,974
Arab Satellite Communications Organisation	3,068	-	-	3,068
	<u>6,851</u>	<u>1,010</u>	<u>31</u>	<u>7,892</u>

#### (b) Held for trading investments

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

#### (c) Available for sale investment carried at cost

Available for sale investment represents investment in a mutual fund. The investment is carried at cost.

#### (d) Held to maturity investment

Held to maturity investment represents investment in bonds issued by Bank Muscat. The bonds return interest at 8% per annum and will mature in May 2016.

#### (e) Margin deposits

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

#### (f) Fixed deposits

Fixed deposits are placed with commercial banks. The weighted average interest rate on these deposits is 3% per annum (2010 - 4% per annum).

#### (g) 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 120 thousand (2010:RO 109 thousand).

### 13 Inventories

	Unaudited 30 September 2011 RO'000	Audited 31 December 2010 RO'000
Stores and spares	10,972	10,007
Prepaid cards and handsets	1,897	1,774
	<u>12,869</u>	<u>11,781</u>
Provision for inventory obsolescence	(7,535)	(7,512)
	<u>5,334</u>	<u>4,269</u>

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

Brought forward balance	7,512	8,068
Charge for the period/year	23	957
Released during the period/year	-	(1,513)
	<u>7,535</u>	<u>7,512</u>

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 14 Trade and other receivables

	Unaudited 30 September 2011 RO'000	Audited 31 December 2010 RO'000
Amounts due from customers	44,507	43,863
Amounts due from Oman Investment Finance Company SAOG (OIFC)	38,950	35,500
Amounts due from other operators	15,647	20,612
Other receivables	857	863
	<u>99,961</u>	<u>100,838</u>
Provision for impairment of receivables	(44,302)	(44,144)
	<u>55,659</u>	<u>56,694</u>
Deposit with tax authorities (note 41(d))	493	493
Advances	6,963	5,199
	<u>63,115</u>	<u>62,386</u>

OIFC has given the Group bank guarantee in the amount of RO 10.5 million.

The movement in provision for impairment of receivables is disclosed in note 46 (b) (ii).

### 15 Cash and bank balances

Cash at bank and on hand	20,506	28,016
	<u>20,506</u>	<u>28,016</u>

### 16 Share capital and dividends

The share capital comprises 750,000,000 (31 December 2010 - 750,000,000) ordinary shares of RO 0.100 (31 December 2010 : RO 0.100) each fully paid. In accordance with the Ministerial decision at their council 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 reporting date are as follows:

	30 September 2011		31 December 2010	
	Shares held	%	Shares held	%
Government of the Sultanate of Oman	525,000,000	70	525,000,000	70

For the year 2010, a cash dividend of RO 0.100 per share (2009: RO 0.100 per share) amounting to RO 75 million (2009: RO 75 million) was approved by the shareholders at the annual general meeting held on 29<sup>th</sup> March 2011.

### 17 Legal reserve

In accordance with the Oman Commercial Companies Law of 1974, as amended, annual appropriations of 10% of the profit for the year of the Company and Oman subsidiary are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the respective entity's paid-up share capital. This reserve is not available for distribution. The balance at 30 September 2011 represents amounts relating to the Company and its share of the legal reserve of a subsidiary. As the reserve equals one-third of paid up share capital, the Company has discontinued the transfer.

### 18 Voluntary reserve

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

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 19 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 as being in the amount of approximately RO 44.881 million.

The basis of the valuation was on an assessed open market value of the licences under their current terms as they would apply to a new company obtaining the licences. The reason for adopting the assumption of a 'new company' was in order to differentiate the value of the licences from the other intangible assets that the Group owns. Accordingly the value attached to the licences is not a 'special value' to the Group of the licences and Management consider 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.

### 20 Foreign currency translation reserve

Exchange differences relating to the translation of assets and liabilities on consolidation from the functional currency of the Group's foreign subsidiary into Rials Omani are recorded directly in the foreign currency translation reserve.

### 21 Hedging reserve

The hedging reserve represents hedging instrument gains or losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss in the hedge is recognised in the statement of income when the hedged transaction impacts the statement of income.

The fair value of the interest rate swap is measured at the present value of future cash flows estimated as the difference between the contractual interest rate and the applicable US\$ LIBOR curve for the residual maturity of the contract and discounted based on the spot rates derived from the yield curve. The loss on the cash flow hedge is accounted for as a liability (Note 28).

#### Interest rates used for determining fair value

The interest rates used to discount the estimated cash flows where applicable are based on the LIBOR yield curve at the reporting date and is in the range of NIL. (2010: 0.3028% per annum to 0.3797% per annum).

### 22 Fair value reserve

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

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 23 Borrowings

Consolidated	Currency	Nominal interest rate	Year of maturity	Current		Non current		
				30 September 2011 RO'000	31 December 2010 RO'000	30 September 2011 RO'000	31 December 2010 RO'000	
<b>Unsecured- at amortised cost</b>								
Syndicated bank loan	USD	3 month LIBOR+0.875%	2011 (Note (a))	-	19,739	-	-	
<b>Secured-at amortised cost</b>								
Long Term loan	USD	3 month LIBOR+2.95%	2018 (Note (b))	-	-	13,200	-	
Term finance certificates-2	PKR	6 month KIBOR+ 2.75%	2011	258	522	-	-	
Term finance certificates-3	PKR	6 month KIBOR+1.60%	2013(Note (c))	4,861	4,958	7,215	9,799	
Short term borrowings	PKR	3 month KIBOR+3.00%	2011	-	905	-	-	
Bank overdraft	PKR	15.03% to 16.03%	-	3,520	5,298	-	-	
Finance lease liabilities	PKR	15.81% to 17.15%	-	259	60	438	73	
				<b>8,898</b>	<b>31,482</b>	<b>20,853</b>	<b>9,872</b>	

#### (a) Syndicated bank loan

On 25 June 2008 the Company signed a syndicated loan facility with a consortium of banks for USD 205 million for the purpose of financing the acquisition of shares in Worldcall Telecom Limited. The syndicated bank loan is repayable in 8 equal quarterly instalments of US\$ 25.625 million 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. During the period, the parent company repaid the loan.

#### (b) Long term Loan

The subsidiary in Pakistan signed a foreign currency syndicated loan facility with Askari Bank Limited Off-Shore Banking Unit, Bahrain, with the lead arranger being Askari Bank Limited in the amount of USD 35 million. As at 30 September 2011, USD 34.5 million has been drawn from this facility. This loan is re-payable in 20 equal quarterly instalments commencing 6 June 2013. Interest is charged at three months average LIBOR plus 1.75% per annum and a monitoring fee is payable in the rate of 1.2% per annum of the outstanding balance. To secure the facility an unconditional, irrevocable, first demand stand-by letter of credit has been issued by National Bank of Oman favoring Askari Bank Limited against the corporate guarantee of the Parent Company. The arrangement shall remain effective until all the obligations under the facility are settled.

#### (c) Term finance certificates-3

Subsequent to the statement of financial position date, the subsidiary repaid the interest related to the third instalment of TFC-III which was due on 7 October 2011. In case of principal amount an extension of 60 days upto 6 December 2011 was obtained through consent of majority of TFC holders.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 24 Deferred tax

#### Consolidation

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

#### Deferred tax liability / (asset)

	1 January 2011 RO'000	Charged / (credited) to statement of income RO '000	Exchange differences RO '000	30 September 2011 RO '000	1 January 2010 RO'000	Charged / (credited) to statement of income RO '000	Exchange differences RO '000	31 December 2010 RO '000
<b>Temporary differences</b>								
Provision for impaired receivables	(5,711)	832	2	(4,877)	(5,462)	(246)	(3)	(5,711)
Provision for inventory obsolescence	(474)	(10)	-	(484)	(562)	88	-	(474)
Retirement benefit obligation	(359)	(77)	-	(436)	(278)	(81)	-	(359)
Depreciation and amortisation	20,603	(1,125)	14	19,492	20,408	166	29	20,603
	<u>14,059</u>	<u>(380)</u>	<u>16</u>	<u>13,695</u>	<u>14,106</u>	<u>(73)</u>	<u>26</u>	<u>14,059</u>
<b>Unused tax losses and credits</b>	<u>(14,020)</u>	<u>(2,550)</u>	<u>12</u>	<u>(16,558)</u>	<u>(10,643)</u>	<u>(3,365)</u>	<u>(12)</u>	<u>(14,020)</u>
	<u><u>39</u></u>	<u><u>(2,930)</u></u>	<u><u>28</u></u>	<u><u>(2,863)</u></u>	<u><u>3,463</u></u>	<u><u>(3,438)</u></u>	<u><u>14</u></u>	<u><u>39</u></u>

Deferred tax balances are shown as below in the statement of financial position:

	Unaudited 30 September 2011 RO'000	Audited 31 December 2010 RO'000
Deferred tax asset relating to subsidiary in Pakistan	1,155	86
Deferred tax asset/ (liability) relating to Parent Company and a local subsidiary	1,708	(125)
	<u><u>2,863</u></u>	<u><u>(39)</u></u>

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 25 Retirement benefit obligation

The movement in retirement benefit obligation is as follows:

	Unaudited 30 September 2011 RO'000	Audited 31 December 2010 RO'000
Brought forward balance	4,082	3,380
Charge for the period / year (Note 35)	1,124	1,078
Payments during the period / year	(150)	(377)
Foreign exchange difference	(25)	1
	<u>5,031</u>	<u>4,082</u>

### 26 Other liabilities – non current

Long term payables (refer note below)	6,862	2,519
Long term deposits	190	195
Others	955	1,573
	<u>8,007</u>	<u>4,287</u>

#### a) Long term payables

Payable to Pakistan Telecommunication Authority	2,667	-
Suppliers	4,195	2,519
	<u>6,862</u>	<u>2,519</u>

#### Payable to Pakistan Telecommunication Authority (PTA)

Payable to PTA represents interest free access promotion charges (APC) for USF payable to PTA. PTA has allowed payment of outstanding amount in 36 equal installments commencing from 1 September 2011. The liability is discounted using effective interest rate of 16% per annum.

#### Suppliers

Amounts payable to suppliers are unsecured and interest free.

### 27 Amount payable to the Government

Brought forward	11,701	2,574
Addition during the period/year	220	10,338
Payment during the period/year	(9,000)	(1,211)
	<u>2,921</u>	<u>11,701</u>

The Parent Company has entered into an agreement with the Government that any write back of provision relating to receivables, concessions received from TRA, in respect of royalty and frequency fee, established at 31 December 2004 and subsequently recovered, will be transferred to the Government.

### 28 Trade and other payables

Trade payables	19,531	13,273
Amounts due to other telecommunication administrators	4,747	6,787
Retentions payable	19,106	19,027
Licence fees payable (refer note (a))	4,531	4,621
Accruals	24,911	37,117
Deferred income	6,792	8,568
Billings in advance	8,008	6,510
Accrued interest	1,072	791
Derivative liability-interest rate swap (Note 21)	-	136
Other payables	5,210	7,693
	<u>93,908</u>	<u>104,523</u>

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 28 Trade and other payables (continued)

#### (a) Licence fees payable

This represents interest free licence fee payable to PTA for Wireless Local Loop Licence. As per the agreement with Pakistan Telecommunication Authority, the amount was payable by March 2010.

### 29 Royalty payable

In accordance with Article 4(1) of the fixed and mobile licence and as permitted by the TRA, the licensee is required to pay royalty to the TRA at the rate of 7% of its gross revenue excluding sale of terminal equipment and interconnection expenses.

### 30 Net assets per share

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

	Unaudited 30 September 2011 RO'000	Audited 31 December 2010 RO'000
Net assets attributable to the owners of the parent (RO'000)	465,297	458,959
Number of shares outstanding (thousands)	750,000	750,000
Net assets per share (RO)	0.620	0.612

### 31 Wholesale Revenue

	9-months ended 30 September 2011 RO'000	3-months ended 30 September 2011 RO'000	9-months ended 30 September 2010 RO'000	3-months ended 30 September 2010 RO'000
External Administration revenue ( note a)	19,055	6,812	32,890	8,100
Interconnection income ( note b)	20,177	5,941	22,291	6,126
Sale of IRU	9,045	-	-	-
Others	11,005	4,138	9,916	3,133
	<u>59,282</u>	<u>16,891</u>	<u>65,097</u>	<u>17,359</u>

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

b) Interconnection income represents the revenue derived from licensed local operators for the use of transmission equipment, facilities and the charges for the termination of the operator's traffic on the group's network.

### 32 Interconnection expense

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

## OMAN TELECOMMUNICATIONS COMPANY SAOG

### Notes to the consolidated financial statements

for the period ended 30 September 2011

#### 33 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.

#### 34 External administration expense

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

#### 35 Staff costs

	9-months ended 30 September 2011 RO'000	3-months ended 30 September 2011 RO'000	9-months ended 30 September 2010 RO'000	3-months ended 30 September 2010 RO'000
Salaries and allowances	38,154	13,650	33,448	10,465
Social security costs	2,914	1,049	1,898	658
Retirement benefits (Note 25)	1,124	207	876	236
Other employee benefits	1,308	541	1,187	425
	<u>43,500</u>	<u>15,447</u>	<u>37,409</u>	<u>11,784</u>

#### 36 Operating and maintenance expenses

Asset maintenance	14,569	4,583	16,561	5,029
Cost of sale of prepaid products	3,346	1,160	3,372	947
Satellite channels and frequency charges	7,233	2,741	5,716	2,322
Rent, rates and taxes	4,580	1,436	4,072	1,573
Electricity and water	2,899	1,192	2,627	854
Maintenance and hire charges	2,374	790	1,713	543
Petrol, oil and lubricants	629	202	692	235
Insurance	861	285	911	312
Others	1,507	516	1,091	260
	<u>37,998</u>	<u>12,905</u>	<u>36,755</u>	<u>12,075</u>

#### 37 Administrative expenses

Training costs	1,794	596	1371	514
Professional consultancy fees	1,656	530	1,981	738
Administrative services	2,169	361	1,448	855
Business travel	1,613	595	1,458	489
Office supplies and services	610	206	742	282
	<u>7,842</u>	<u>2,288</u>	<u>7,000</u>	<u>2,878</u>

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 38 Factoring, collection and distribution fees

The Group has awarded an agreement to OIFC whereby all amounts due from certain category of customers in Sultanate of Oman are assigned and factored to OIFC.

Amounts due from such customers are also collected by the Group through its own facilities and through its other collection agents. Factoring fees for such collections are deducted from the charges payable to OIFC.

The Group pays factoring fees under the above agreements based on the customer category and the amounts assigned.

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

Distribution fees are also paid to agents selling prepaid cards and other services of the Group.

### 39 Finance income/(costs)- net

	9-months ended 30 September 2011 RO'000	3-months ended 30 September 2011 RO'000	9-months ended 30 September 2010 RO'000	3-months ended 30 September 2010 RO'000
<b><u>Finance income</u></b>				
Interest income	1,892	561	2,739	781
Dividend income	260	25	283	121
Fair value gain on held for trading investments	-	-	130	351
Fair value gain on investments at fair value through profit and loss	31	-	88	143
Exchange gain	-	-	42	-
Realised gain on held for trading investments – net	-	156	23	-
Gain on remeasurement of financial liabilities	1,636	1,636	-	-
	<u>3,819</u>	<u>2,378</u>	<u>3,305</u>	<u>1,396</u>
<b><u>Finance cost</u></b>				
Exchange loss	(218)	(274)	-	(3)
Fair value loss on investments at fair value through profit and loss	-	(55)	-	-
Fair value loss on held for trading investments	(1,022)	(413)	-	-
Realised loss on held for trading investments – net	(43)	-	-	(7)
Impairment losses on available for sale financial assets	(70)	(23)	(301)	(42)
Interest on borrowings	(2,840)	(828)	(4,398)	(1,348)
	<u>(4,193)</u>	<u>(1,593)</u>	<u>(4,699)</u>	<u>(1,400)</u>
	<u>(374)</u>	<u>785</u>	<u>(1,394)</u>	<u>(4)</u>
<b>40 Other income</b>				
Miscellaneous income	1,510	437	671	321
Liability no longer required written back	2,709	358	1,044	-
	<u>4,219</u>	<u>795</u>	<u>1,715</u>	<u>321</u>

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 41 Taxation

(a) The tax charge for the period comprises:

	9-months ended 30 September 2011 RO'000	3-months ended 30 September 2011 RO'000	9-months ended 30 September 2010 RO'000	3-months ended 30 September 2010 RO'000
Current taxation	13,539	4,039	13,262	3,507
Deferred taxation (Note 24)	(2,930)	(615)	(2,535)	(1,032)
Tax refund relating to earlier years	-	-	(1,052)	(1,052)
	<u>10,609</u>	<u>3,424</u>	<u>9,675</u>	<u>1,423</u>

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

Tax on accounting profit	10,900	3,915	10,081	2,386
Add / (less) tax effect of:				
Tax refund relating to previous years	-	-	(1,052)	(1,052)
Expenses not deductible	574	153	1,106	221
Income not subject to tax	(865)	(644)	(460)	(132)
<b>Tax charge as per statement of income</b>	<u>10,609</u>	<u>3,424</u>	<u>9,675</u>	<u>1,423</u>

(c) Status of tax assessments

Assessments have been completed for tax years up to the taxable year 2007 for the Parent Company and Oman Mobile (subsidiary). In case of the Parent Company for the tax year 2005 to 2007, the Parent Company has preferred an appeal against certain disallowances of expenses made by the tax authority. Based on legal advice, Management is confident that the matter will be decided in favour of the Parent Company.

(d) Withholding tax

During 2008, the Parent Company received a notice of demand for RO 0.5 million for non-deduction of withholding tax on payments made relating to Satellite transponder capacity for the years 1999 to 2001. The Parent Company has lodged an objection with the Secretary General of Taxation which was decided against the Parent Company. The Parent Company has preferred an appeal with the tax committee and deposited the amount demanded with the tax authorities pending disposal of the appeal. Based on legal advice, Management is confident that the matter will be decided in favour of the Parent Company.

### 42 Basic earnings per share

The earnings per share has been derived by dividing the profit for the period attributable to the owners of the Parent Company by the weighted average number of shares outstanding.

### 43 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 commercial transactions which are entered into at mutually agreed terms and conditions.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 43 Related parties (continued)

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

	<b>30 September 2011 RO'000</b>	30 September 2010 RO'000
(i) Purchase of goods and services		
Associates	<b>3,100</b>	2,248
Other related party	<b>213</b>	225
Total	<b>3,313</b>	2,473
(ii) Interest on advance	-	8
(iii) Provision for doubtful debts	-	249
(iv) Directors' sitting fees - non executive	<b>70</b>	70

### 43 Related parties

(v) Key management compensation

	<b>30 September 2011 RO'000</b>	30 September 2010 RO'000
Basic salaries and allowances	<b>1,058</b>	918
Other benefits and expenses	<b>510</b>	447
Social security costs	<b>51</b>	39
Retirement benefits	<b>62</b>	12
<b>Total</b>	<b>1,681</b>	1,416

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

	<b>Receivables</b>		<b>Payables</b>	
	<b>30 September 2011 RO'000</b>	31 December 2010 RO'000	<b>30 September 2011 RO'000</b>	31 December 2010 RO'000
Associates	-	-	<b>1,070</b>	685
Other Related Party	<b>1,028</b>	940	<b>86</b>	39
	<b>1,028</b>	940	<b>1,156</b>	724

### 44 Cash and cash equivalents

	<b>30 September 2011 RO'000</b>	30 September 2010 RO'000
Cash and bank balances (note 15)	<b>20,506</b>	31,044

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 45 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:

Commitment for fixed assets	<b>51,294</b>	44,817
	<u>          </u>	<u>          </u>
Investments	<b>5,756</b>	5,891
	<u>          </u>	<u>          </u>
<b>(b) Contingent liabilities</b>		
Letters of credit	<b>564</b>	1,356
	<u>          </u>	<u>          </u>
Bank guarantees	<b>4,157</b>	4,587
	<u>          </u>	<u>          </u>

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 low risk cases and at this stage, the outcome of the cases cannot be quantified or estimated.

### 46 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 reporting date was:

	<b>30 September 2011 RO'000</b>	31 December 2010 RO'000
Trade and other receivables	<b>100,091</b>	101,050
Other financial assets	<b>97,689</b>	116,902
Cash and bank balances	<b>20,506</b>	28,016
	<u>          </u>	<u>          </u>
	<b>218,286</b>	245,968
	<u>          </u>	<u>          </u>

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

Oman Investment Finance Company SAOG	<b>38,950</b>	35,500
Due from other operators	<b>15,647</b>	20,612
Government debts	<b>9,045</b>	10,775
Agents for prepaid card sales	<b>1,582</b>	819
Other customers	<b>34,867</b>	33,344
	<u>          </u>	<u>          </u>
	<b>100,091</b>	101,050
	<u>          </u>	<u>          </u>

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 46 Credit risk (continued)

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

	30 September 2011		31 December 2010	
	Gross RO'000	Impairment RO'000	Gross RO'000	Impairment RO'000
Not past due	25,560	-	20,385	-
Past due 0 - 365 days	28,425	5,532	33,054	4,699
1 - 2 years	6,186	2,220	6,332	2,894
More than 2 years	39,920	36,550	41,279	36,551
	<u>100,091</u>	<u>44,302</u>	<u>101,050</u>	<u>44,144</u>

(i) Included in the Group's trade receivable balance are debtors with a carrying amount of RO 27.24 million (31 December 2010: RO 36.52 million) which are past due at the reporting date for which the Group has not provided any amount as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days.

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

	30 September 2011 RO'000	31 December 2010 RO'000
Brought forward balance	44,144	44,000
Net foreign currency exchange difference	(6)	6
Charge for the period / year	3,769	2,428
Written off during the period/year	(2,786)	(15)
Written back during the period / year	(819)	(2,275)
Carried forward balance	<u>44,302</u>	<u>44,144</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 27) and the remaining balance has been credited to the statement of income.

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 47 Liquidity risk

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

#### 30 September 2011

	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	29,751	6,349	2,549	6,424	14,429
Accrued interest	1,072	1,072	-	-	-
Amounts payable to Government	2,921	2,921	-	-	-
Trade payables	23,727	19,321	211	3,285	910
Amount due to other telecommunication administrators	4,747	4,747	-	-	-
Retention payable	19,106	13,931	5,175	-	-
Accruals	24,911	24,911	-	-	-
Other payables	7,446	3,939	840	1,830	837
Royalty payable	22,226	22,226	-	-	-
Other long term liabilities	190	-	-	-	190
Licence fee payable	4,531	4,531	-	-	-
	<u>140,628</u>	<u>103,948</u>	<u>8,775</u>	<u>11,539</u>	<u>16,366</u>

#### 31 December 2010

	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	41,354	28,719	2,763	5,016	4,856
Accrued interest	1,125	1,125	-	-	-
Amounts payable to Government	11,701	11,701	-	-	-
Trade payables	12,518	7,997	511	4010	-
Amount due to other telecommunication administrator	6,787	6,787	-	-	-
Retention payable	19,027	14,478	4,549	-	-
Accruals	37,117	37,117	-	-	-
Other payables	6,839	5,900	939	-	-
Royalty payable	27,215	27,215	-	-	-
Other long term liabilities	195	-	-	-	195
Licence fee payable	4,621	4,621	-	-	-
Derivative liability-interest rate swap	136	136	-	-	-
	<u>168,635</u>	<u>145,796</u>	<u>8,762</u>	<u>9,026</u>	<u>5,051</u>

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 48 Interest rate risk

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

	<b>30 September 2011 RO'000</b>	31 December 2010 RO'000
<b>Floating rate instruments</b>		
Financial liabilities	<b>(25,534)</b>	(35,923)
<b>Fixed rate instruments</b>		
Financial assets	<b>79,293</b>	99,843
Financial liabilities	<b>(4,217)</b>	(5,431)
	<b>75,076</b>	94,412

#### Fair value sensitivity analysis for fixed rate instruments

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

### 49 Foreign currency risk

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

The net exposure to the currency risk as at Statement of financial position is as follows:

	<b>30 September 2011 Pakistani Rupees PKR '000</b>	31 December 2010 Pakistani Rupees PKR '000
Total assets	<b>21,810,810</b>	19,452,922
Goodwill	<b>3,836,094</b>	3,836,094
Total liabilities	<b>(14,417,527)</b>	(11,788,627)
Non-controlling interest	<b>(3,192,883)</b>	(3,308,707)
	<b>8,036,494</b>	8,191,682

The following significant exchange rates were applied during the year:

	<b>Pakistani Rupees</b>
Average exchange rate from 1 January 2011 to 30 September 2011	<b>220.20</b>
Exchange rate as at 30 September 2011	<b>225.43</b>

A 5% strengthening of Rials Omani against the above currency would have decreased equity by RO 1.697 million (2010: RO 1.7 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 an equal but opposite effect.

### 50 Fair value of assets and liabilities

#### Fair value versus carrying amounts

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

# OMAN TELECOMMUNICATIONS COMPANY SAOG

## Notes to the consolidated financial statements

for the period ended 30 September 2011

### 50 Fair value of assets and liabilities (continued)

#### Fair value measurements recognised in the statement of financial position

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total 30 September 2011 RO'000
<b>Investments at fair value through profit or loss</b>				
Investment in mutual funds	-	2,976	-	2,976
Unquoted equity instruments	-	-	4,916	4,916
<b>Held for trading</b>				
Quoted equity instruments	8,041	-	-	8,041
<b>Available-for-sale investments at fair value</b>				
Mutual funds	-	189	-	189
Quoted equity instruments	507	-	-	507
	<u>8,548</u>	<u>3,165</u>	<u>4,916</u>	<u>16,629</u>

	Level 1 RO'000	Level 2 RO'000	Level 3 RO'000	Total 31 December 2010 RO'000
<b>Investments at fair value through profit or loss</b>				
Investment in structured deposit fund	-	1,933	-	1,933
Unquoted equity instruments	-	-	4,918	4,918
<b>Held for Trading</b>				
Quoted equity instruments	7,247	-	-	7,247
<b>Available-for-sale investments at fair value</b>				
Mutual funds	-	219	-	219
Quoted equity instruments	1,405	-	-	1,405
	<u>8,652</u>	<u>2,152</u>	<u>4,918</u>	<u>15,722</u>

There were no transfers between the levels during the year.

### 51 Subsequent event

On 12 October 2011 the shareholders of Oman Telecommunications Company (SAOG) (parent company) approved the merger of Oman Mobile Telecommunications LLC (subsidiary) with the parent company in accordance with the Commercial Companies Law No.4/1974. The merger is subject to legal approvals. The merger will not have any impact on the Group's financial results. On the date of merger the assets and liabilities of the Company will be transferred as their carrying values as at 31 December 2011 to the parent company as the company will be dissolved.

### 52 Comparative figures

Certain comparative figures have been reclassified to conform to current year presentation.