

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN TELECOMMUNICATIONS COMPANY SAOG**

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements (the "financial statements") of Oman Telecommunications Company SAOG (the "Company") and its subsidiaries (the "Group"), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Group and separate financial position of the Company as at 31 December 2016 and their respective financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN TELECOMMUNICATIONS COMPANY SAOG (CONTINUED)

Key audit matters (continued)

1. Revenue recognition

The accuracy and completeness of revenue amounts recorded is an inherent industry risk. The Group's revenue is categorised broadly into service and wholesale revenue. Service revenue mainly consists of income from mobile, broadband, fixed line, rentals and installations. Wholesale revenue comprises revenue from interconnection, external administration, capacity sales and from resellers.

We considered revenue recognition as a key audit matter as the amount involved is material to the financial statements and due to the complexity of the Group's systems and processes used to record revenue. The Group's accounting policy and relevant disclosures relating to revenue are set out in notes 2.4 and 30 respectively, to the financial statements.

Our audit procedures included, amongst others, the following:

- Testing of controls, assisted by our IT specialists including those over set-up of customer accounts, pricing data, segregation of duties, and the linkage to usage data that results in revenue recognition;
- Testing the IT environment relating to billing, rating and other relevant support systems, including the change control procedures in place around systems that bill significant revenue streams;
- Testing the end-to-end reconciliation from business support systems to billing and rating systems to the general ledger;
- Performing tests on the accuracy of customer bill generation process on a sample basis and testing of a sample of the credits and discounts applied to such customer bills;
- Performed substantive analytical procedures over the significant revenue streams by developing an expectation based on rates, disconnections and installations;
- Assessed transactions taking place before and after year-end to ensure that revenue was recognised in the appropriate period;
- Assessed the appropriateness of the Group's revenue recognition accounting policies including compliance with the relevant IFRS.

2. Discontinued operations and held for sale treatment for Worldcall Telecom Limited (WTL)

The Group has evaluated its option to divest its holding in WTL and has signed a Share Purchase Agreement (SPA) on 11 October 2016 with WorldCall Services (Pvt.) Limited and Ferret Consulting (FZC) ("buyers") for sale of its ordinary and convertible preference shares of WTL. The buyers are in the progress of completing the transaction, which is subject to the approval of the regulators in Pakistan including the Public Offer to non-controlling shareholders of WTL. In accordance with the requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, WTL qualifies as discontinued operation and its assets and liabilities are disclosed as 'Assets held for sale' and 'Liabilities held for sale' respectively. The Parent Company continues to consolidate the results and the financial position of WTL as it controls WTL.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN TELECOMMUNICATIONS COMPANY SAOG (CONTINUED)

Key audit matters (continued)

2. Discontinued operations and held for sale treatment for Worldcall Telecom Limited (WTL) (continued)

We considered this as a key audit matter as WTL is exposed to various legal, regulatory, tax and governmental proceedings. The potential significance of these commitments and contingencies cannot be ascertained reliably, and the assessment as to whether or not a liability should be recognised and whether amounts can be reliably estimated requires, to a certain extent, judgment from management. Also, as WTL is a material component, we have identified a risk in appropriately consolidating the results and the financial position of WTL and the disclosure requirements in line with the relevant requirements of IFRS.

The related accounting policies and disclosures are set out in notes 2.14 and 5 respectively, to the financial statements.

In responding to this area of focus, our procedures, amongst others, included the following:

- Read the SPA entered by the Parent Company for divestment in WTL and discussed the clauses associated with the sale transaction of WTL.
- Checked the related computation for disclosures of discontinued operation and held for sale.
- Circulated group audit instructions to the WTL auditors and evaluated the responses received from them.
- Reviewed working papers relating to key audit areas including commitments and contingencies, including contingencies associated with regulatory and taxation matters. Also held discussion with the component auditors and the Parent Company's management to understand the risk associated with such contingencies and commitments.
- Assessed whether the financial statement disclosures appropriately reflect the requirements of IFRS.

3. Provision for impairment of trade receivables

We focused on this area as the provision for impairment of trade receivables requires the application of judgment and the use of subjective assumptions as described in critical accounting estimates and judgments in note 4. The related details are set out in notes 14 and 45 respectively, to the financial statements.

We have obtained an assurance over the appropriateness of management's assumptions and methods applied in the calculating the provision for impairment of trade receivables by carrying out the following procedures, amongst others:

- Obtained an update of the understanding of the process relating to the provision for impairment of trade receivables and performed tests of a sample of transaction to confirm our understanding;
- Obtained an ageing report of trade receivables and tested the accuracy by checking the ageing of individual invoices on a sample basis;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMAN TELECOMMUNICATIONS COMPANY SAOG (CONTINUED)

Key audit matters (continued)

3. Provision for impairment of trade receivables (continued)

- Obtained the management's calculation of the provision for various age categories made in accordance with the Parent Company's impairment policy and checked these in line with the assumptions made by the management. We have also considered the appropriateness of the policy based on the Parent Company's historical experience.
- Ensured appropriateness of the disclosures in the financial statements in accordance with the relevant requirements of IFRSs.

4. Capitalisation of property, plant and equipment and related depreciation charge

There are several areas where management judgement impacts the carrying value of property, plant and equipment and its respective depreciation profiles. These include:

- The amounts being capitalised do not meet capitalisation criteria;
- The timeliness of the transfer from assets in capital work in progress; and
- The assessment of useful lives to compute the related depreciation charge.

The related accounting policies, critical accounting estimates and judgements and disclosures are set out in notes 2.9, 4 and 7 respectively, to the financial statements.

In responding to this area of focus, our procedures, among others, included the following:

- Assessed the design and implementation and tested the operating effectiveness of key controls over the property, plant and equipment cycle;
- Assessed the nature of costs incurred in network infrastructure and capital projects through testing, on a sample basis, of amounts recorded and assessing whether the description of the expenditure met capitalisation criteria;
- Ensured, on a sample basis, the assets are transferred from capital work in progress and are considered as put to use by the management upon the issuance of provisional acceptance certificate;
- Assessed the appropriateness of asset lives applied in the calculation of depreciation and performed analytical procedures on depreciation charge to assess the reasonability of depreciation charge for the year; and
- Ensured appropriateness of the disclosures in the financial statements in accordance with the relevant requirements of IFRSs.

Other information included in the Group's 2016 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2016 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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Other information included in the Group's 2016 Annual Report (continued)

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
OMAN TELECOMMUNICATIONS COMPANY SAOG (CONTINUED)**

Auditor's responsibilities for the audit of the financial statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Sanjay Kawatra
Muscat
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