Omani Qatari Telecommunications Company SAOG

FINANCIAL STATEMENTS

31 DECEMBER 2010

Registered office and principal place of business:

Nawras Building
PO Box 874
PC 111 Central Post office
Sultanate of Oman

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF OMANI QATARI TELECOMMUNICATIONS COMPANY SAOG

We have audited the accompanying financial statements of Omani Qatari Telecommunications Company SAOG ('the Company'), which comprise the statement of financial position as at 31 December 2010 and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the Rules and Guidelines on disclosure issued by the Capital Market Authority, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

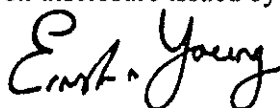
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.



23 February 2011
Muscat

Philip D Stanton
Partner

A member firm of Ernst & Young Global Limited

STATEMENT OF INCOME
Year ended 31 December 2010

	Notes	***2010 OMR'000***	*2009 OMR'000*
Revenue	4	**188,856**	171,623
Other income		**276**	375
		189,132	171,998
Operating expenses	5	**(27,828)**	(37,551)
General and administrative expenses	6	**(64,458)**	(51,901)
Depreciation and amortisation		**(24,247)**	(20,549)
Royalty		**(11,719)**	(10,173)
Financing costs	7	**(3,977)**	(4,894)
PROFIT BEFORE TAX		**56,903**	46,930
Income tax expense	8	**(6,923)**	(5,399)
PROFIT FOR THE YEAR		**49,980**	41,531
Basic and diluted earnings per share (OMR)	9	**0.077**	0.064

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

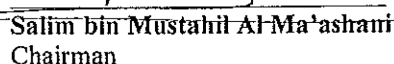
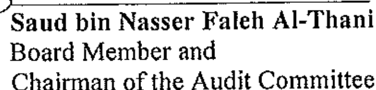
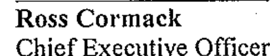
	2010 *OMR'000*	*2009* *OMR'000*
Profit for the year	**49,980**	41,531
Other comprehensive income:		
Transfer of proposed initial public offering costs from equity to receivables	-	238
Net unrealised gain on cash flow hedges	**1,372**	672
Income tax effect	**236**	-
Other comprehensive income for the year	**1,608**	910
Total comprehensive income for the year	**51,588**	42,441

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
At 31 December 2010

	Notes	2010 OMR'000	2009 OMR'000
ASSETS			
Non current assets			
Property, plant and equipment	10	**165,621**	112,171
License fee	11	**46,119**	49,810
Deferred tax asset	8	**-**	64
		211,740	162,045
Current assets			
Inventories		**382**	593
Receivables and prepayments	12	**29,648**	24,420
Bank balances and cash	13	**49,343**	20,520
		79,373	45,533
TOTAL ASSETS		**291,113**	207,578
EQUITY AND LIABILITIES			
Equity			
Share capital	14	**65,094**	65,094
Statutory reserve	15	**11,929**	6,931
Cumulative changes in fair values	16	**(1,732)**	(3,340)
Retained earnings		**68,017**	23,035
Total equity		**143,308**	91,720
Non current liabilities			
Interest bearing borrowings	17	**55,050**	48,551
Site restoration provision	18	**3,232**	2,366
Negative fair value of derivatives	16	**324**	1,252
Employee benefits	19	**2,246**	448
Deferred tax liability	8	**153**	-
		61,005	52,617
Current liabilities			
Payables and accruals	20	**56,366**	39,730
Interest bearing borrowings	17	**15,885**	11,264
Negative fair value of derivatives	16	**1,644**	2,088
Deferred revenue		**6,282**	5,707
Income tax payable	8	**6,623**	4,452
		86,800	63,241
Total liabilities		**147,805**	115,858
TOTAL EQUITY AND LIABILITIES		**291,113**	207,578

These financial statements were approved and authorised for issue by the Board of Directors on 23 February 2011 and were signed on their behalf by:

Salim bin Mustahil Al Ma'ashani Chairman	**Saud bin Nasser Faleh Al-Thani** Board Member and Chairman of the Audit Committee	**Ross Cormack** Chief Executive Officer

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2010

	Share capital OMR'000	*Direct costs relating to proposed initial public offering OMR'000*	*Statutory Reserve OMR'000*	*Cumulative changes in fair value OMR'000*	*(Accumulated losses) retained earnings OMR'000*	*Total OMR'000*
At 1 January 2009	65,094	(238)	2,778	(4,012)	(14,343)	49,279
Profit for the year	-	-	-	-	41,531	41,531
Other comprehensive income for the year	-	238	-	672	-	910
Total comprehensive income	-	238	-	672	41,531	42,441
Transfer to statutory reserve (note 15)	-	-	4,153	-	(4,153)	-
At 31 December 2009	**65,094**	**-**	**6,931**	**(3,340)**	**23,035**	**91,720**
At 1 January 2010	**65,094**	**-**	**6,931**	**(3,340)**	**23,035**	**91,720**
Profit for the year	-	-	-	-	**49,980**	**49,980**
Other comprehensive income for the year	-	-	-	**1,608**	-	**1,608**
Total comprehensive income	-	-	-	**1,608**	**49,980**	**51,588**
Transfer to statutory reserve (note 15)	-	-	**4,998**	-	**(4,998)**	-
At 31 December 2010	**65,094**	**-**	**11,929**	**(1,732)**	**68,017**	**143,308**

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	***2010*** ***OMR'000***	*2009* *OMR'000*
OPERATING ACTIVITIES			
Profit before tax for the year		**56,903**	46,930
Adjustments for:			
Depreciation	10	**20,556**	17,277
Amortisation of license fee	11	**3,691**	3,272
Interest income		**(32)**	(185)
Accrual for employees' end of service benefits	19	**253**	283
IPO incentive - shadow shares	19	**1,632**	-
Financing cost	7	**3,750**	4,763
Profit on disposal of property, plant and equipment		**(4)**	-
Unwinding of discount of site restoration provision	18	**227**	131
Operating profit before working capital changes		**86,976**	72,471
Working capital changes:			
Inventories		**211**	325
Receivables, prepayments and deferred costs		**(5,228)**	(2,768)
Payables, accruals and deferred revenue		**17,211**	(14,832)
Cash from operations		**99,170**	55,196
Interest paid		**(3,750)**	(4,763)
Income tax paid		**(4,299)**	-
Employees' end of service benefits paid	19	**(87)**	(23)
Net cash from operating activities		**91,034**	50,410
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	10	**(73,430)**	(30,275)
Payment of fixed line license fee and related borrowing costs	11	**-**	(21,403)
Interest income		**32**	185
Proceeds on disposal of property, plant and equipment		**67**	3
Net cash used in investing activities		**(73,331)**	(51,490)
FINANCING ACTIVITIES			
Repayment of term loan		**(11,986)**	(10,117)
Long term loan draw down		**23,106**	11,553
Repayment of finance lease		**-**	(229)
Net cash from financing activities		**11,120**	1,207
INCREASE IN CASH AND CASH EQUIVALENTS		**28,823**	127
Cash and cash equivalents at the beginning of the year		**20,520**	20,393
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	13	**49,343**	20,520

The attached notes 1 to 28 form part of these financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Omani Qatari Telecommunications Company SAOG ("the Company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. In accordance with Royal Decree 17/2005, effective 19 February 2005, the Company was granted a license to provide mobile telecommunication services in the Sultanate of Oman for a period of 15 years ending 18 February 2020.

In accordance with Royal Decree 34/2009, effective 6 June 2009, the Company was also awarded a license to provide fixed line telecommunication services in the Sultanate of Oman for a period of 25 years. The Company's activities under this license will be installation, operation, maintenance and exploitation of fixed public telecommunications systems in the Sultanate of Oman.

The Company's current principal activities are the operation, maintenance and development of mobile and fixed telecommunications services in the Sultanate of Oman.

The Company is a subsidiary of Qatar Telecom (Qtel) Q.S.C whose registered address is PO Box 217, Doha, Qatar.

In accordance with the requirements of the Company's mobile license, Company proceeded with initial public offering (IPO). The promoting shareholders at the Company's Extraordinary General Meeting held on 7 March 2010 approved the conversion of the Company from a Closed Joint Stock Company (SAOC) to a Public Joint Stock Company (SAOG) by offering their 260,377,690 shares for the public subscription. The Company closed its IPO on 21 October 2010 and its shares were listed on the Muscat Securities Market on 1 November 2010. The IPO proceeds and share issue expenses were recorded by the promoting shareholders.

2 BASIS OF PREPARATION

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). These financial statements also comply with the applicable requirements of the Commercial Companies Law of the Sultanate of Oman and the rules and guidelines on disclosure issued by the Capital Market Authority.

The accounting records are maintained in Omani Rial which is the functional and reporting currency for these financial statements. The financial statements numbers are rounded to the nearest thousand except when otherwise indicated.

The financial statements are prepared under the historical cost convention modified to include the measurement at fair value of derivative financial instruments.

3 SIGNIFICANT ACCOUNTING POLICIES

Changes in accounting policy and disclosures

The accounting policies are consistent with those used in the previous financial year, except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

IFRS 2 Share - based payment - Group Cash-settled Share-based payment transactions effective 1 January 2010
IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
IAS 39 Financial instruments: Recognition and Measurement - Eligible Hedged items effective 1 July 2009
Improvements to IFRSs (May 2008)
Improvements to IFRSs (April 2009)

These did not have any impact on the accounting policies, financial position or performance of the Company.

3 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

The following standards, amendments and interpretations are not yet effective:
Other IASB Standards and Interpretations that have been issued but are not yet mandatory, and have not been adopted by the Company, are not expected to have a material impact on the Company's financial statements.

IAS 24 Related Party Disclosures (Amendment)
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government related entities. The Company does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRS 9 Financial Instruments: Classification and Measurement
IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Company.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

Improvements to IFRSs (issued in May 2010)
The IASB issued Improvements to IFRSs, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments listed below, are considered to be relevant for the Company:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IFRIC 13 Customer Loyalty Programmes

The Company, however, expects no impact from the adoption of the amendments on its financial position or performance.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The significant accounting policies are as follows:

Revenue and deferred income
Revenue from rendering of services:
Revenue from rendering of services represents the value of telecommunication services provided to customers. Revenue is recognised over the period to which it relates.

Interconnection revenue:
Revenues from network interconnection with other domestic and international telecommunications operators are recognised based on the actual traffic.

Operating revenues for local and international interconnections is based on tariff as stipulated by Telecommunication Regulatory Authority of Sultanate of Oman or as agreed between the operators. Interconnection revenue and cost are reported on a gross basis in the statement of income.

Sales of prepaid cards:
Sale of prepaid cards is recognised as revenue based on the estimated utilisation of the prepaid cards sold. Sales relating to unutilised prepaid cards are accounted as deferred income. Deferred income related to unused prepaid cards is recognised as revenue when utilised by the customer or upon termination of the customer relationship. Revenue is recognised net of any upfront discount given.

Sales of equipment
Revenue from sales of equipment is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Reseller revenue
Revenue from reseller is recognised based on the traffic usage.

Interest revenue
Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Taxation
Current income tax
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxation is provided in accordance with Omani regulations.

Deferred tax
Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

Deferred income tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Directors' remuneration
The Company follows the Commercial Companies Law 1974 (as amended), and other latest relevant directives issued by Capital Market Authority, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the statement of income in the year to which they relate.

Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements only in the period in which the dividends are approved by the Company's shareholders.

Foreign currency transactions
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of income.

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Capital work-in-progress is not depreciated. The estimated useful lives are as follows:

Mobile exchange and network equipment	5 – 15 years
Subscriber apparatus and other equipment	2 – 10 years
Fixed line and network equipment	5 – 15 years
Building	10 years

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the statement of income as the expense is incurred.

When each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the period the asset is derecognised.

The assets' residual values, useful lives and methods are reviewed, and adjusted prospectively, if appropriate, at each financial year end.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed as incurred. Borrowing costs consist of interest and other costs that the Company incurs in connection with the borrowing of funds.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the statement of income in the period in which the expenditure is incurred.

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

A summary of the useful lives and amortisation methods of Company's intangible assets are as follows:

		Mobile license costs	*Fixed license costs*
Useful lives	:	Finite (15 years)	Finite (25 years)
Amortisation method used	:	Amortised on a straight line basis over the periods of availability.	Amortised on a straight line basis over the periods of availability.
Internally generated or acquired	:	Acquired	Acquired

Trade and other receivables

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventory is based on the weighted average principle and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition. Provision is made for obsolete, slow-moving and defective inventories, where appropriate.

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employees' benefits

End of service benefits
End of service benefits are accrued in accordance with the terms of employment of the Company for employees at the reporting date, having regard to the requirements of the Oman Labour Law. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability for annual leave as a result of services up to the reporting date.

Defined contribution plan
Contributions to a defined contribution retirement plan for Omani employees in accordance with the Omani Social Insurance Scheme are recognised as an expense in the statement of income as incurred.

IPO incentive – Shadow shares
The Company has granted to its employees certain number of shadow (virtual) shares as per the announcement made during its IPO and are to be settled in cash. The cost of the shadow shares are measured initially at the fair value at the grant date with reference to the market price of the Company's shares. The fair value is expensed immediately as there are no additional performance or service obligations. The liability is remeasured to fair value at each reporting date up to and including the settlement date, with changes in fair value recognised in the statement of income.

Interest-bearing borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Instalments due within one year at amortised cost are shown as a current liability.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process. Interest costs are recognised as an expense when incurred except those that qualify for capitalisation.

Provisions
General
A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, 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, where appropriate, the risks specific to the liability.

Site restoration provision
The provision for site restoration costs arose on construction of the networking sites. A corresponding asset is recognised in property, plant and equipment. Site restoration costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre tax rate that reflects the risks specific to the site restoration liability. The unwinding of the discount is expensed as incurred and recognised in the statement of income as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases
Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to statement of income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

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

Derecognition of financial assets and financial liabilities

Financial assets:
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities:
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in statement of income.

Derivative financial instruments
The Company makes use of derivative instruments to manage exposures to interest rate, including exposures arising from forecast transactions. In order to manage interest rate risks, the Company applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is regarded as highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Company assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the statement of comprehensive income.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments (continued)

Cash flow hedges
For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in the statement of comprehensive income in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the statement of income.

When the hedged cash flow affects the profit or loss, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the statement of income. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in other comprehensive income remains in equity until the forecasted transaction or firm commitment affects profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recorded in equity are transferred to the statement of income.

The fair value of unquoted derivatives is determined by the discounted cash flows method.

Significant accounting judgments, estimates and assumptions
The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are set out in note 25.

4 REVENUE

	2010 *OMR'000*	*2009* *OMR'000*
Traffic	**159,695**	143,538
One time and recurring charges	**11,847**	15,112
Interconnection revenue	**23,420**	17,944
Others	**1,941**	2,221
	196,903	178,815
Less : Distributor discounts	**(8,047)**	(7,192)
	188,856	171,623

5 OPERATING EXPENSES

	2010 *OMR'000*	*2009* *OMR'000*
Interconnection charges, net of volume rebate	**24,831**	36,832
Cost of equipment sold and other services	**2,836**	3,478
Commission on cards	**161**	203
Release of operating costs accruals, no longer payable	**-**	(2,962)
	27,828	37,551

During 2009, the Company entered into volume rebate agreements with an operator. The Company is entitled to different rebate categories based on its usage. After achieving a particular usage milestone, the rebate amount is adjusted retrospectively. The agreement was for one year period and it ended on 31 May 2010.

6 GENERAL AND ADMINISTRATIVE EXPENSES

	2010 *OMR'000*	*2009* *OMR'000*
Employees' salaries and associated costs	**24,633**	17,797
Repairs and maintenance	**10,375**	8,376
Lease lines and frequency fee	**7,581**	5,365
Service fees (note 21)	**5,666**	5,149
Rental and utilities	**4,902**	4,301
Sales and marketing	**3,500**	3,193
Legal and professional charges	**1,459**	1,301
Provision for impairment losses on trade receivables (note 12)	**1,395**	727
Provision for inventory	**186**	51
Others	**4,761**	5,641
	64,458	51,901

7 FINANCING COSTS

	2010 *OMR'000*	*2009* *OMR'000*
Interest on term loan	**3,758**	3,908
Interest on short term loan from a related party	**-**	846
Site restoration - unwinding of discount	**227**	131
Other interest	**(8)**	7
Finance lease interest	**-**	2
	3,977	4,894

Borrowing costs capitalised during the year ended 31 December 2010 amount to OMR 393,070 (2009: OMR 412,333). Borrowing costs are capitalised at an effective annual interest rate of 2.9% (2009: 3.3%).

8 INCOME TAX

	2010 OMR'000	2009 OMR'000
Statement of income		
Current year	6,470	4,452
Deferred tax relating to origination and reversal of temporary differences	453	947
	6,923	5,399

	2010 OMR'000	2009 OMR'000
Current liability		
Current year	6,470	4,452
Prior year	153	-
	6,623	4,452

	2010 OMR'000	2009 OMR'000
Deferred tax asset/(liability) (net)		
Beginning of the year	64	1,011
Movement for the year – through statement of income	(453)	(947)
Movement for the year through statement of comprehensive income	236	-
At end of the year	(153)	64

The deferred tax asset/(liability) comprises of the following types of temporary differences:

	2010 OMR'000	2009 OMR'000
Property, plant and equipment	(1,119)	(770)
Provisions	730	834
	(389)	64
Net unrealised gains on cash flow hedges	236	-
	(153)	64

Set out below is a reconciliation between income tax calculated on accounting profits with income tax expense for the year:

	2010 OMR'000	2009 OMR'000
Accounting profit	56,903	46,930
Tax at applicable rate	6,825	5,628
Non-deductible expenses and other permanent differences	98	(229)
At the effective income tax rate	6,923	5,399

The tax rate applicable to the Company is 12% (2009: 12%). Deferred tax asset/liability is recorded at 12% (2009: 12%). For the purpose of determining the taxable results for the year, the accounting profit of the Company has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. The adjustments are based on the current understanding of the existing laws, regulations and practices.

The Company's tax assessments up to 2006 have been completed.

9 EARNINGS AND NET ASSETS PER SHARE

Basic earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2010 *OMR'000*	*2009* *OMR'000*
Profit for the year	**49,980**	41,531
Weighted average number of shares outstanding for the year (number in thousands)*	**650,944**	650,944
Basic earning per share (OMR)	**0.077**	0.064

* At the Extraordinary General Meeting held on 7 March 2010, the Company's authorised share capital of 70,000,000 ordinary shares of OMR 1 each was split into 700,000,000 ordinary shares of 100 baisa each. Accordingly, the issued share capital as at 31 December 2010 comprise of 650,944,230 shares.

Earnings per share for prior year have been recalculated using the revised number of shares in issue.

No figure for diluted earnings per share has been presented as the Company has not issued any instruments which would have an impact on earnings per share when exercised.

Net assets per share, is calculated by dividing the equity attributable to the shareholders of the Company at the reporting date by the number of shares outstanding.

	2010 *OMR'000*	*2009* *OMR'000*
Net assets (in OMR)	**143,308**	91,720
Number of shares outstanding at the reporting date	**650,944**	650,944
Net assets per share (in OMR)	**0.220**	0.141

10 PROPERTY, PLANT AND EQUIPMENT

	Mobile / fixed exchange and network equipment OMR '000	*Subscriber apparatus and other equipment OMR '000*	*Buildings OMR '000*	*Capital work in progress OMR '000*	*Total OMR '000*
Cost					
1 January 2010	127,710	21,811	349	12,739	162,609
Additions	24,207	2,953	14	46,895	74,069
Capitalised during the year	23,453	-	-	(23,453)	-
Disposals	(77)	(2)	-	-	(79)
31 December 2010	**175,293**	**24,762**	**363**	**36,181**	**236,599**
Depreciation					
1 January 2010	35,220	15,188	30	-	50,438
Charge for the year	17,338	3,182	36	-	20,556
Disposals	(14)	(2)	-	-	(16)
31 December 2010	**52,544**	**18,368**	**66**	-	**70,978**
Net book value					
31 December 2010	**122,749**	**6,394**	**297**	**36,181**	**165,621**
Cost					
1 January 2009	93,086	19,408	-	19,452	131,946
Additions	10,697	2,412	-	17,563	30,672
Capitalised during the year	23,927	-	349	(24,276)	-
Disposals	-	(9)	-	-	(9)
31 December 2009	127,710	21,811	349	12,739	162,609
Depreciation					
1 January 2009	21,869	11,298	-	-	33,167
Charge for the year	13,351	3,896	30	-	17,277
Disposals	-	(6)	-	-	(6)
31 December 2009	35,220	15,188	30	-	50,438
Net book value					
31 December 2009	92,490	6,623	319	12,739	112,171

Addition for the year ended 31 December 2010 includes provision for site restoration cost of OMR 639,000 (year ended 31 December 2009: OMR 397,000). This has been excluded from the cash outflow on purchase of property, plant and equipment in the Statement of Cash Flows.

11 LICENSE FEE

	Mobile license	*Fixed line license*	*Total*
	OMR'000	*OMR'000*	*OMR'000*
Cost:			
Balance at 1 January 2010 and 31 December 2010	42,331	21,403	63,734
Amortisation:			
Balance at 1 January 2010	13,492	432	13,924
Amortisation during the year	2,835	856	3,691
Balance at 31 December 2010	16,327	1,288	17,615
Net book value:			
31 December 2010	**26,004**	**20,115**	**46,119**
Cost:			
Balance at 1 January 2009	42,331	-	42,331
Additions during the year – license fee and related costs	-	21,403	21,403
Balance at 31 December 2009	**42,331**	**21,403**	**63,734**
Amortisation:			
Balance at 1 January 2009	10,652	-	10,652
Amortisation during the year	2,840	432	3,272
Balance at 31 December 2009	**13,492**	**432**	**13,924**
Net book value:			
At 31 December 2009	**28,839**	**20,971**	**49,810**

Licence fee represents the amount paid to the Telecommunication Regulatory Authority of the Sultanate of Oman for obtaining the licence to operate as fixed and mobile telecommunication service provider. Licence fee is stated at cost less accumulated amortisation and impairment losses.

In accordance with the terms of a mobile and fixed line licenses granted to the Company, royalty is payable to the Government of the Sultanate of Oman. The royalty payable is calculated based on 7% of the net of predefined sources of revenue and interconnection expenses to local operators.

12 RECEIVABLES AND PREPAYMENTS

	2010	*2009*
	OMR'000	*OMR'000*
Post paid receivable	**3,750**	5,535
Amount due from distributors	**10,520**	7,328
Receivable from other operators	**6,942**	6,939
Unbilled receivables	**3,666**	3,106
	24,878	22,908
Less: allowance for impaired receivables	**(1,698)**	(3,700)
	23,180	19,208
Amounts due from related parties (note 21)	-	238
Prepaid expenses and other receivables	**6,074**	4,495
Deferred cost	**394**	479
	29,648	24,420

As at 31 December 2010, trade receivables at nominal value of OMR 1,674,196 (2009: OMR 3,487,229) were impaired. Movements in allowance for impairment of receivables were as follows:

	2010	*2009*
	OMR'000	*OMR '000*
At 1 January	**3,700**	3,391
Charge for the year (note 6)	**1,395**	727
Written off during the year	**(3,397)**	(418)
At 31 December	**1,698**	3,700

As at 31 December 2010, the ageing of unimpaired trade receivables is as follows:

			Past due but not impaired		
	Total	*Neither past due nor impaired*	*30-60 days*	*60-90 days*	*Over 90 days*
	OMR'000	*OMR'000*	*OMR'000*	*OMR'000*	*OMR'000*
2010	**23,203**	**17,635**	**2,791**	**694**	**2,083**
2009	19,421	15,538	2,280	978	625

Unimpaired receivables are expected, on the basis of past experience, to be substantially recoverable. It is not the practice of the Company to obtain collateral over receivables and virtually all are, therefore, unsecured. However sales made to distributors are backed with their corporate/bank guarantees and certain post paid customers balances are secured by deposits.

13 BANK BALANCES AND CASH

Included in bank balances and cash are bank deposits of OMR 1,019,535 (31 December 2009: OMR 5,025,000) with certain commercial banks in Oman. These are mainly denominated in Omani Rial and USD and are short term in nature and carry an effective annual interest rate of 0.05% (2009: 2%).

The Company is required to maintain certain service deposit balances to comply with the requirements of its term loan agreement. As of 31 December 2010, the balances in these service deposit account amounted to OMR 4,543,718 (31 December 2009: OMR 3,501,015). These are denominated in USD and are short term in nature and carry an effective annual interest rate of 0.2% (2009: 0.8%).

14 SHARE CAPITAL AND DIVIDEND

	Authorised		*Issued and fully paid*	
	2010	*2009*	***2010***	*2009*
	OMR'000	*OMR'000*	***OMR'000***	*OMR'000*
Ordinary shares	**70,000**	70,000	**65,094**	65,094

At the Extraordinary General Meeting held on 7 March 2010, the authorised share capital of 70,000,000 ordinary shares of OMR 1 each was split into 700,000,000 ordinary shares of 100 baisa each.

Major shareholders
Details of shareholders who hold 10% or more of the Company's shares are as follows:

	2010		2009	
	Number of shares	**%**	**Number of shares**	**%**
TDC-Qtel Mena Investcom BSC	358,019,310	55%	455,660,940	70%
Nawras Development LLC	-	-	91,132,190	14%

Proposed dividend
The Directors have proposed a dividend of baisas 38 per share for year ended 31 December 2010 amounting to OMR 24,735,881. This is subject to approval of the Company's shareholders at the Annual General Meeting to be held in March 2011.

15 STATUTORY RESERVE

Article 106 of the Commercial Companies Law of 1974 requires that 10% of Company's profit for the year be transferred to a non-distributable statutory reserve until the amount of statutory reserve becomes equal to one third of the Company's issued share capital. This reserve is not available for distribution.

16 DERIVATIVE FINANCIAL INSTRUMENTS

During 2006, the Company has entered into two interest rate swap arrangements with Qatar National Bank and BNP Paribas with a view to cap its exposure to fluctuating interest rates on its term loan (see note 17). The loan amount covered under the swap agreement as at the reporting date was OMR 38,124,900. Under the swap agreements, the Company will pay a fixed interest rate of 5.348% per annum and receive a floating interest rate based on three month US LIBOR.

The swap arrangement qualifies for hedge accounting under IAS 39 and as at 31 December 2010, the unrealised loss of OMR 1,968,000 relating to measuring the financial instruments at fair value is included in equity in respect of these contracts (31 December 2009: OMR 3,340,000). There was no significant ineffectiveness noted for 2010 and 2009.

The table below shows the negative fair value of the swaps, which is equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured.

			Notional amount by term to maturity		
	Negative fair value OMR'000	*Notional amount total OMR'000*	*1 - 12 months OMR'000*	*More than 1 upto 5 years OMR'000*	*Over 5 years OMR'000*
31 December 2010					
Interest rate swaps	1,968*	38,125	10,398	27,727	-
31 December 2009					
Interest rat swaps	3,340	48,523	10,398	38,125	-

*Negative fair value shown under equity in the statement of financial position is net of deferred tax of OMR 236,000.

17 INTEREST BEARING BORROWINGS

	2010 *OMR'000*	*2009* *OMR'000*
Non-current liabilities		
Term loan	**71,050**	60,076
Less: Deferred financing costs	**(115)**	(261)
	70,935	59,815
Less: current portion classified under current liabilities	**(15,885)**	(11,264)
Non-current portion	**55,050**	48,551

The Company has availed a syndicated long-term loan facility from certain financial institutions aggregating to approximately OMR 104 million (2009: OMR 104 million). Qatar National Bank SAQ, Gulf International Bank BSC, Arab Bank PLC and Bank Muscat SAOG are the arrangers of the facility and have collectively appointed Bank Muscat SAOG as the security agent for the secured finance parties. Qatar National Bank SAQ is the co-ordinating bank and also the facility agent.

The facilities are secured by a charge on the Company's dollar proceeds account and the insurance proceeds of property, plant and equipment and corporate guarantees of major shareholders of the Company through Qatar Telecom and Omani Pension Funds. The loan is denominated in United States Dollars and is repayable in nine semi-annual instalments, which commenced from 12 March 2008.

The loan agreement contains certain restrictive covenants which include, restrictions over debt service, debt equity, cash coverage, interest cover ratios, maintenance of a minimum tangible net worth, certain restrictions on the transfer of shares of TDC-Qtel Mena Investcom BSC, disposal of property, plant and equipment and incurrence of additional debt. Payment of dividends will be subject to meeting loan facility covenants and relevant ratios of the loan agreement.

During 2007, the Company renegotiated the terms of its existing borrowings and availed additional facilities amounting to OMR 35 million. The revised agreement was signed on 23 October 2007. At 31 December 2010, the Company utilized the facility in full.

The loan facilities bear interest at US LIBOR plus applicable margins. Current margin percentages on the OMR 104 million and OMR 35 million facilities are 0.80% and 2% respectively.

The Company has received a market disruption clause notice from some of its lenders which request that finance cost on the OMR 104 million loan be based on US LIBOR plus an additional margin from March 2009. The average annual additional interest paid in relation to this during the period amounted to 1.18% (2009: 1.61%).

18 SITE RESTORATION PROVISION

Site restoration provision as of the reporting date amounted to OMR 3,232,000 (31 December 2009: OMR 2,366,000). The Company is committed to restore each site as it is vacated. A movement schedule is set out below:

	2010 *OMR'000*	*2009* *OMR'000*
Balance at 1 January	**2,366**	1,838
Created during the year	**639**	397
Unwinding of discount	**227**	131
Balance at the end of the year	**3,232**	2,366

The provision is not expected to be utilised in next 12 months.

19 EMPLOYEE BENEFITS

	2010 *OMR'000*	*2009* *OMR'000*
Employees' end of service benefits		
Liability as at 1 January	**448**	188
Accrued during the year	**253**	283
Paid during the year	**(87)**	(23)
	614	448
IPO incentive – Shadow Shares	**1,632**	-
Liability as at the end of the year	**2,246**	448

IPO Incentive Shadow Shares

During the year ended 31 December 2010, the Company communicated a cash settled award to its employees employed at the time of the initial public offering ("IPO"). These employees were allocated 2,052,828 "virtual", or "shadow" shares in the Company based on the duration of their individual service with the Company and their monthly basic salary as on the IPO closing date. The shadow shares vested on the grant date and there are no additional performance or service obligations attached. The fair value of such virtual shares as at the reporting date amounts to OMR 1,632,000. These shadow shares will be paid out in cash during 2012 based on the average fair value of the Company's shares during March 2012.

20 PAYABLES AND ACCRUALS

	2010 *OMR'000*	*2009* *OMR'000*
Trade accounts payable	**9,147**	13,538
Accrued expenses – operating expenses	**22,685**	17,797
Accrued expenses – capital expenses	**22,111**	3,436
Amounts due to related parties (note 21)	**2,062**	4,549
Deposits from customers	**361**	410
	56,366	39,730

21 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Details regarding transactions with the related parties included in the financial statements are set out below:

	2010 (OMR'000)		*2009 (OMR'000)*	
	Other related parties	*Directors and key management*	*Other related parties*	*Directors and key management*
Directors and key management remuneration	-	**2,171**	-	1,318
Service fee	**5,666**	-	5,149	-
Interest	-	-	1,749	-
Other expenses	**1,308**	-	2,117	-
	6,974	**2,171**	9,015	1,318

Effective 1 January 2008, the Company has entered into a technical and service agreement with a related party (other related party). In consideration of services provided, the Company pays a service fee to the related party which is calculated annually in an amount equal to 3% of the Company's gross revenue.

Balances with related parties included in the statement of financial position are as follows:

	2010 (OMR'000)		*2009 (OMR'000)*	
	Receivable and prepayments	*Payable and accruals*	*Receivable and prepayments*	*Payable and accruals*
Major shareholders - IPO expenses	-	**319**	238	-
Major shareholders	-	**147**	-	-
Other related parties	-	**1,596**	-	4,549
	-	**2,062**	238	4,549

As of 31 December 2010, an amount of OMR 319,000 is payable to the Company's promoting shareholders being the excess amount received from the Issue Manager, Bank Muscat towards reimbursement of IPO related expenses incurred by the Company on behalf of its promoting shareholders.

Compensation of key management personnel
The remuneration of members of key management and directors during the year was as follows:

	2010 OMR'000	*2009 OMR'000*
Salaries / remuneration and benefits	**1,460**	1,074
Directors' remuneration	**200**	200
Employees' end of service benefits	**85**	44
Shadow shares and IPO incentive	**426**	-
	2,171	1,318

22 EXPENDITURE COMMITMENTS

	2010 *OMR'000*	*2009* *OMR'000*
Capital expenditure commitments		
Estimated capital expenditure contracted for at the reporting date but not provided for:		
Property, plant and equipment	**30,211**	54,624
Operating lease commitments		
Future minimum lease payments:		
Within one year	**8,625**	2,925
After one year but not more than five years	**16,054**	8,614
More than five years	**17,080**	8,453
Total operating lease expenditure contracted for at the reporting date	**41,759**	19,992

23 CONTINGENT LIABILITIES

Guarantees
At 31 December 2010, the Company had contingent liabilities in respect of performance bond guarantee of OMR 6.6 million (2009: OMR 8.7 million) in the ordinary course of business from which it is anticipated that no material liabilities will arise.

Claims
On 30 June 2010, an international operator has raised debit notes on the Company claiming OMR 9,420,000. Out of OMR 9,420,000, the international operator had already paid OMR 8,558,000 to the Company and the balance amount of OMR 862,000 is included in accounts receivable in these financial statements. The claim relates to certain transactions made by the international operator's roaming subscribers on the Company's network during 2009 and 2010. The Company's management is confident that the Company has complied with the required regulations and accordingly, the international operator has no right to claim these balances. Accordingly no liability is expected to ultimately arise.

24 RISK MANAGEMENT

The Company's principal financial liabilities, other than derivatives, comprise bank loans, and trade payables. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations. The Company also enters into derivative transactions, primarily interest rate swaps. The purpose is to manage the interest rate risks arising from the Company's operations and its sources of finance.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to its long-term debt obligations with floating interest rates. The Company's bank deposits carry fixed rate of interest and therefore are not exposed to interest rate risk.

The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. To manage this, the Company enters into interest rate swaps, in which the Company agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2010, after taking into account the effect of interest rate swaps, approximately 54% of the Company's borrowings are at a fixed rate of interest (2009: 80%). With all other variables constant, a 25 basis points change in interest rates on un hedged portion of loans and borrowings will have an impact of OMR 82,000 (2009: OMR 29,000) on the Company's profit. There is only an immaterial impact on the Company's equity.

Credit risk
Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company trades only with recognized, creditworthy dealers and operators. Its three largest dealers' balances account for 42% of outstanding unimpaired trade receivable at 31 December 2010 (2009: 41%). The Company obtains bank/corporate guarantees from its dealers in order to mitigate its credit risk. It is the Company's policy that certain credit verification is performed for all of the Company's post paid subscribers. In addition, receivable balances are monitored on an ongoing basis.

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

The Company's' credit risk with regard to bank deposits is limited as majority of funds are placed with a bank who has Moody's short-term deposit rating of Prime-1.

Currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's payable and accruals include amounts payable in US Dollars. As of the reporting date this USD denominated payable amount was approximately 45% (31 December 2009: 27%) of the Company's total payables and accruals. The Company's long term borrowings and certain bank deposits amounting to OMR 71,050,000 and OMR 7,398,000 respectively are denominated in US Dollars. The Omani Rial is pegged to the US Dollar. There are no other significant financial instruments in foreign currency other than US Dollars and consequently foreign currency risk is mitigated.

24 RISK MANAGEMENT (continued)

Liquidity risk

The Company limits its liquidity risk by ensuring bank facilities are available. The Company's terms of sales require amounts to be paid within 30 days of the date of sale. A major portion of the Company's sale is generated through sale of prepaid cards.

The table below summarises the maturities of the Company's undiscounted financial liabilities, based on contractual payment dates and current market interest rates.

As at 31 December 2010	*Less than 3 months OMR'000*	*3 to 12 months OMR'000*	*1 to 5 years OMR'000*	*> 5 years OMR'000*	*Total OMR'000*
Interest bearing borrowings	7,943	7,943	55,164	-	71,050
Payables and accruals	53,943	361	-	-	54,304
Due to related parties	2,062	-	-	-	2,062
Interest on term loan	940	2,383	2,315	-	5,638
Total	**64,888**	**10,687**	**57,479**	-	**133,054**

As at 31 December 2009	*Less than 3 months OMR'000*	*3 to 12 months OMR'000*	*1 to 5 years OMR'000*	*> 5 years OMR'000*	*Total OMR'000*
Interest bearing borrowings	5,199	6,065	48,812	-	60,076
Payables and accruals	34,771	410	-	-	35,181
Due to related parties	4,549	-	-	-	4,549
Interest on term loan	882	2,446	3,595	-	6,923
Total	45,401	8,921	52,407	-	106,729

Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, systems failure or from external events. The Company has a set of policies and procedures, which are approved by the Board of Directors and are applied to identify, assess and supervise operational risk. The management ensures compliance with policies and procedures and monitors operational risk as part of overall risk management. Internal audit function is also utlised by the Company in mitigating this risk.

Capital management

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2010 and year ended 31 December 2009. Capital comprises share capital and retained earnings, and is measured at OMR 133,111,000 as at 31 December 2010. (31 December 2009: OMR 88,129,000).

25 KEY SOURCES OF ESTIMATION UNCERTAINTY

Deferred tax assets
Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the asset can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are included in note eight.

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 probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade accounts receivable were OMR 24,878,000 (2009: OMR 22,908,000) and the provision for doubtful debts was OMR 1,698,000 (2009: OMR 3,700,000). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of income. The related details are set out in note 12.

Provision for site restoration
The Company has recognised a provision for site restoration associated with the sites leased by the Company. In determining the amount of the provision, assumptions and estimates are required in relation to discount rates and the expected cost to dismantle and remove equipment from the site and restore the land in its original condition. The carrying amount of the provision as at 31 December 2010 is OMR 3,232,000 (31 December 2009 – OMR 2,366,000). The related details are set out in note 18.

Impairment of inventories
Inventories are held 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 selling prices.

At the reporting date goods for resale were OMR 751,000 (31 December 2009: OMR 775,000) and the provision for obsolete inventory amounted to OMR 369,000 (2009: OMR 182,000). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of income.

Impairment of non-financial assets
The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. These assets are also tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Going concern
The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

26 SEGMENT INFORMATION

Information regarding the Company's operating segments is set out below in accordance with the IFRS 8 – Operating Segments.

For management purpose, the Company is organised into business units based on their product and services and has two reportable operating segments as follows:

1. Operation of Global System for Mobile Communication (GSM) for prepaid and post paid services, sale of telecommunication equipment and other associated services.

2. Provision of international and national voice and data services from fixed line, sale of telecommunication equipment and other associated services.

Management monitors the operating results of its business for the purpose of making decisions about resource allocation and performance assessment.

Transfer prices between operating segments are on an arms length basis in a manner similar to transactions with third parties.

Segment revenue and results
A segment result represents the profit earned by each segment without allocation of finance income or finance cost.

The Company commenced its fixed line services in May 2010 and its operations are mainly confined to the Sultanate of Oman. Hence, during 2009 the Company had only Global System for Mobile Communication (GSM) segment and the comparative statement of income show the results of such segment.

Segmental results for the year ended 31 December 2010 are as follows:

	Mobile *OMR'000*	*Fixed line* *OMR'000*	*Adjustments* *OMR'000*	*Total* *OMR'000*
Revenue				
External sales	182,581	6,275	-	188,856
Inter-segment sales	1,688	13,064	(14,752)	-
Total revenue	184,269	19,339	(14,752)	188,856
Results				
Depreciation	19,103	1,453	-	20,556
Amortisation	2,835	856	-	3,691
Segment results – Profit / (loss)	62,567	(1,687)	-	60,880
Finance expense				(3,977)
Profit before taxation				56,903
Taxation				(6,923)
Profit for the year				49,980

26 SEGMENT INFORMATION (continued)

Capital expenditure incurred for different segments are as follows:

	2010 *OMR'000*	*2009* *OMR'000*
Property, plant and equipment		
- Mobile	**24,521**	26,624
- Fixed	**49,548**	4,048
Intangible assets – fixed license	**-**	21,403
	74,069	52,075

27 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets, financial liabilities and derivatives.

Financial assets consist of cash and bank balances, and receivables. Financial liabilities consist of term loans, and payables. Derivatives consist of interest rate swap contracts.

The fair value of financial assets and liabilities are considered by the Company's Board of Directors not to be materially different from their carrying amounts.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at 31 December 2010, the Company held interest rate swap derivatives instruments measured at fair value. The fair values of the interest rate swaps arrangements are worked out using level 2 valuation technique and related details are included in note 16. The related fair value details are provided by the swap counter party.

28 COMPARATIVE AMOUNTS

Certain corresponding figures for 2009 have been reclassified in order to conform with the presentation for the current period. Such reclassifications were made within the same notes to the financial statements and do not affect previously reported profit or shareholder's equity.

The following reclassifications have been made in the comparative information:

	2009 OMR'000	As previously reported	As reclassified
Statement of income			
Bank charges			
– Year ended 31 December 2009	210	As part of finance cost	Disclosed as part of General and administrative expenses.
Statement of financial position			
Unbilled receivables from other operators			
– As at 31 December 2009	1,567	As part of receivable from other operators	Disclosed as part of unbilled receivables.
Statement of cash flows			
Purchase of property plant and equipment (PPE)	30,275	Site restoration provision of OMR 397,000 was included as part of purchase of PPE.	Purchase of PPE is shown net of site restoration provision.
Notes to the financial statements			
Related party transactions – Other expenses (Note 21)	2,117	Related party transactions were disclosed as OMR 1,723,000 and transactions amounting to OMR 394,000 were not included.	Related party transactions amounting to OMR 394,000 are added.
Risk management – Liquidity Risk (Note 24)	6,923	Interest on term loan reported as OMR 10,755,000.	Interest on term loan has been presented as OMR 6,932,000.

These reclassifications have been done to improve the quality of information presented.