Omani Qatari Telecommunications Company SAOG

Interim condensed financial statements

31 MARCH 2011

<u>Registered office and principal place of business:</u>

Nawras Building
PO Box 874
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Sultanate of Oman

Omani Qatari Telecommunications Company SAOG

Independent auditor's review report
and interim condensed financial statements
for the period ended 31 March 2011

Independent auditor's review report
to the Directors of
Omani Qatari Telecommunications Company SAOG

Introduction

We have reviewed the accompanying interim condensed financial statements of Omani Qatari Telecommunications Company SAOG ("the company") as at 31 March 2011, comprising of the interim statement of financial position as at 31 March 2011 and the related interim condensed statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and explanatory notes. The management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte & Touche (M.E.) & Co. LLC
Muscat, Sultanate of Oman
20 April 2011

INTERIM CONDENSED STATEMENT OF INCOME

Period ended 31 March 2011 (Unaudited)

		Three months ended 31 March	
		2011	*2010*
	Note	***RO'000***	*RO'000*
Revenue	2	**48,137**	45,644
Other income		**211**	32
		48,348	45,676
Operating expenses		**(7,114)**	(7,014)
General and administrative expenses		**(16,895)**	(13,028)
Depreciation and amortisation		**(6,460)**	(5,949)
Royalty		**(3,043)**	(2,617)
Financing costs		**(948)**	(1,120)
PROFIT BEFORE TAX		**13,888**	15,948
Income tax expense	3	**(1,793)**	(1,935)
PROFIT FOR THE PERIOD		**12,095**	14,013
Basic and diluted earnings per share (RO)	4	**0.019**	0.022

The attached notes 1 to 15 form part of these financial statements

INTERIM CONDENSED STATEMENT OF COMPREHENSIVE INCOME

Period ended 31 March 2011 (Unaudited)

	Three months ended 31 March	
	2011	*2010*
	RO'000	*RO'000*
Profit for the period	**12,095**	14,013
Other comprehensive income		
Net unrealised gain on cash flow hedges	**458**	208
Income tax effect	**(55)**	-
Other comprehensive income for the period	**403**	208
Total comprehensive income for the period	**12,498**	14,221

The attached notes 1 to 15 form part of these financial statements.

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

At 31 March 2011 (Unaudited)

	Notes	***31 March 2011 RO'000***	*Audited 31 December 2010 RO'000*
ASSETS			
Non current assets			
Property, plant and equipment	5	**165,253**	165,621
License fee	6	**45,209**	46,119
		210,462	211,740
Current assets			
Inventories		**621**	382
Receivables and prepayments		**32,110**	29,648
Bank balances and cash		**31,030**	49,343
		63,761	79,373
TOTAL ASSETS		**274,223**	291,113
EQUITY AND LIABILITIES			
Equity			
Share capital		**65,094**	65,094
Statutory reserve		**11,929**	11,929
Cumulative changes in fair values	7	**(1,329)**	(1,732)
Retained earnings		**55,376**	68,017
Total equity		**131,070**	143,308
Non current liabilities			
Interest bearing borrowings	8	**24,609**	55,050
Site restoration provision		**3,299**	3,232
Negative fair value of derivatives	7	**-**	324
Employee benefits	9	**2,362**	2,246
Deferred tax liability		**157**	153
		30,427	61,005
Current liabilities			
Payables and accruals		**39,246**	56,366
Interest bearing borrowings	8	**38,414**	15,885
Negative fair value of derivatives	7	**1,509**	1,644
Deferred revenue		**6,803**	6,282
Income tax payable		**2,018**	6,623
Dividends payable	10	**24,736**	-
		112,726	86,800
Total liabilities		**143,153**	147,805
TOTAL EQUITY AND LIABILITIES		**274,223**	291,113

These interim condensed financial statements were approved and authorised for issue by the Audit Committee on 20 April 2011.

___________________ Director ________________Director __________________CEO

The attached notes 1 to 15 form part of these financial statements.

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

Period ended 31 March 2011 (Unaudited)

	Share capital RO'000	*Statutory reserve RO'000*	*Cumulative changes in fair values RO'000*	*Retained earnings RO'000*	*Total RO'000*
At 1 January 2010	65,094	6,931	(3,340)	23,035	91,720
Profit for the period	-	-	-	14,013	14,013
Other comprehensive income for the period	-	-	208	-	208
Total comprehensive income for the period	-	-	208	14,013	14,221
At 31 March 2010	**65,094**	**6,931**	**(3,132)**	**37,048**	**105,941**
At 1 January 2011	65,094	11,929	(1,732)	68,017	143,308
Profit for the period	-	-	-	12,095	12,095
Other comprehensive income for the period	-	-	403	-	403
Total comprehensive income for the period	-	-	403	12,095	12,498
Dividends	-	-	-	(24,736)	(24,736)
At 31 March 2011	**65,094**	**11,929**	**(1,329)**	**55,376**	**131,070**

Transfer to statutory reserve is made on annual basis.

The attached notes 1 to 15 form part of these financial statements.

INTERIM CONDENSED STATEMENT OF CASH FLOWS
Period ended 31 March 2011 (Unaudited)

	Notes	*Three months ended 31 March* 2011 RO'000	2010 RO'000
OPERATING ACTIVITIES			
Profit before tax		**13,888**	15,948
Adjustments for:			
Depreciation	5	**5,550**	5,039
Amortisation	6	**910**	910
Interest income		**(52)**	(28)
Accrual for employees' end of service benefits		**69**	57
IPO incentive – shadow shares		**(156)**	-
Employee retention – Long term incentive		**258**	-
Financing costs		**881**	1,031
Profit on disposal of property, plant and equipment		**(8)**	-
Unwinding of discount of site restoration provision		**67**	88
Operating profit before working capital changes		**21,407**	23,045
Working capital changes:			
Inventories		**(239)**	113
Receivables, prepayments		**(2,462)**	(684)
Payables, accruals and deferred revenue		**(16,599)**	(2,195)
Cash from the operations		**2,107**	20,279
Interest paid		**(881)**	(1,031)
Income tax paid		**(6,450)**	(4,299)
Employees' end of service benefits paid		**(55)**	(17)
Net cash (used in) / from operating activities		**(5,279)**	14,932
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	**(5,182)**	(19,171)
Interest income		**52**	28
Proceeds on disposal of property, plant and equipment		**8**	-
Net cash used in investing activities		**(5,122)**	(19,143)
FINANCING ACTIVITIES			
Repayment of term loan		**(7,912)**	(5,159)
Long term loan draw down		**-**	11,553
Net cash (used in) / from financing activities		**(7,912)**	6,394
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(18,313)**	2,183
Cash and cash equivalents at the beginning of the period		**49,343**	20,520
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		**31,030**	22,703

The attached notes 1 to 15 form part of these financial statements.

1 ACCOUNTING POLICIES

The condensed interim financial statements of the company are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the condensed interim financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2010.

The interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards and should be read in conjunction with the company's annual financial statements as at 31 December 2010. In addition, results for the three months ended 31 March 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

The interim condensed financial statements are prepared in Rial Omani (RO), rounded to the nearest thousand except when otherwise indicated.

2 REVENUE

	Three months ended 31 March	
	2011	*2010*
	RO'000	*RO'000*
Traffic	**39,725**	36,752
One time and recurring charges	**3,649**	5,403
Interconnection revenue	**6,217**	4,950
Others	**376**	550
	49,967	47,655
Less : Distributor discounts	**(1,830)**	(2,011)
	48,137	45,644

3 INCOME TAX

	Three months ended 31 March	
	2011	*2010*
	RO'000	*RO'000*
Statement of income		
Current period	**1,845**	2,037
Deferred tax relating to origination and reversal of temporary differences	**(52)**	(102)
	1,793	1,935

3 INCOME TAX (Continued)

	31 March 2011 RO'000	*Audited 31 December 2010 RO'000*
Current liability		
Current period	**1,845**	6,470
Prior period/year	**173**	153
	2,018	6,623

	Three months ended 31 March ***2011 RO'000***	*2010 RO'000*
Deferred tax asset / (liability)		
Beginning of the period	**(153)**	64
Movement for the period through statement of income	**52**	102
Movement for the period through statement of other comprehensive income	**(56)**	-
At the end of the period	**(157)**	166

The tax rate applicable to the company is 12% (2010: 12%). Deferred tax asset/liability is recorded at 12% (2010: 12%). For the purpose of determining the taxable results for the period, 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.

4 EARNINGS PER SHARE

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

	Three months ended 31 March ***2011***	*2010*
Profit for the period (*RO'000*)	**12,095**	14,013
Weighted average number of shares outstanding for the period (number in thousand)*	**650,944**	650,944
Basic earning per share (RO)	**0.019**	0.022

* At the Extraordinary General Meeting held on 7 March 2010, the company's authorised share capital of 70,000,000 ordinary shares of RO 1 each was split into 700,000,000 ordinary shares of 100 baisa each. Accordingly, the issued share capital as at 31 March 2011 comprise of 650,944,230 shares.

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

4 EARNINGS PER SHARE (Continued)

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.

5 PROPERTY, PLANT AND EQUIPMENT

	Mobile/fixed exchange and network equipment RO '000	*Subscriber apparatus and other equipment RO '000*	*Buildings RO '000*	*Capital work in progress RO '000*	*Total RO '000*
Cost					
1 January 2011	175,293	24,762	363	36,181	236,599
Additions	1,322	1,073	84	2,703	5,182
Capitalised during the period	3,094	-	431	(3,525)	-
Disposals	-	(22)	-	-	(22)
31 March 2011	**179,709**	**25,813**	**878**	**35,359**	**241,759**
Depreciation					
1 January 2011	52,544	18,368	66	-	70,978
Charge for the period	4,882	651	17	-	5,550
Disposals	-	(22)	-	-	(22)
31 March 2011	**57,426**	**18,997**	**83**	**-**	**76,506**
Net book value					
31 March 2011	**122,283**	**6,816**	**795**	**35,359**	**165,253**
31 December 2010	122,749	6,394	297	36,181	165,621

6 LICENSE FEE

	Mobile license RO'000	*Fixed line license RO'000*	*Total RO'000*
Cost			
Balance at 1 January 2011	42,331	21,403	63,734
Amortisation			
Balance at 1 January 2011	16,327	1,288	17,615
Amortisation during the period	700	210	910
Balance at 31 March 2011	**17,027**	**1,498**	**18,525**
Net book value			
At 31 March 2011	**25,304**	**19,905**	**45,209**
At 31 December 2010	26,004	20,115	46,119

6 LICENSE FEE (Continued)

License fee represents the amount paid to the Telecommunication Regulatory Authority of the Sultanate of Oman for obtaining the license to operate as fixed and mobile telecommunication service provider. License 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.

7 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 8). The loan amount covered under the swap agreement as at the reporting date was RO 32,926,000. 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 3 month US $ LIBOR.

The swap arrangement qualifies for hedge accounting under IAS 39 and as at 31 March 2011, the unrealised loss of RO 1,509,000 relating to measuring the financial instruments at fair value is included in equity in respect of these contracts (31 December 2010:RO 1,968,000). There was no significant ineffectiveness noted for 2011 and 2010.

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 RO'000	*Notional amount total RO'000*	*1 - 12 months RO'000*	*More than 1 upto 5 years RO'000*	*Over 5 years RO'000*
31 March 2011					
Interest rate swaps	1,509*	32,926	32,926	-	-
31 December 2010					
Interest rate swaps	1,968*	38,125	10,398	27,727	-

*Negative fair value shown under equity in the statement of financial position is net of deferred tax of RO 180,000 (2010: RO 236,000).

8 INTEREST BEARING BORROWINGS

	31 March 2011 RO'000	Audited 31 December 2010 RO'000
Non-current liabilities		
Term loan	**63,109**	71,050
Less: Deferred financing costs	**(86)**	(115)
	63,023	70,935
Less: current portion classified under current liabilities	**(38,414)**	(15,885)
Non-current portion	**24,609**	55,050

The Company has availed a syndicated long-term loan facility from certain financial institutions aggregating to approximately RO 104 million (2010 - RO 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 Mina Investcom BSC, disposal of property, plant and equipment and incurrence of additional debt.

During 2007, the Company renegotiated the terms of its existing borrowings and availed additional facilities amounting RO 35 million. The revised agreement was signed on 23 October 2007.

The loan facilities bear interest at US LIBOR plus applicable margins. Current margin percentages on the RO 104 million and RO 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 RO 104 million loan will be based on LIBOR plus an additional margin. The average annual additional interest paid in relation to this during the period amounted to 1% (2010: 1.18%).

9 EMPLOYEE BENEFITS

	31 March 2011 RO'000	*Audited 31 December 2010 RO'000*
Employees' end of service benefits	**628**	614
IPO incentive – Shadow Shares	**1,476**	1,632
Employee retention – Long term incentive	**258**	-
Liability as at the end of the period	**2,362**	2,246

Shadow Shares have been revalued using the share price as of 31 March 2011.

As disclosed in the Company's IPO prospectus a long term incentive plan has been implemented for senior employees. This plan is linked to achieving Return on Capital Employed targets of the company and is effective from 1Jan 2011. Eligible employees will be offered shadow shares and vesting of these shares will happen over three years, with the first vesting to occur in 2012 in respect of the 2011 financial year.

10 DIVIDEND PAYABLE

Company's shareholders at the annual general meeting held on 26 March 2011approved a payment of baisa 38 per share as dividend for the financial year ended 31st December 2010.

11 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:

	Three months ended 31 March			
	2011 (RO'000)		*2010 (RO'000)*	
	Other related parties	***Directors and key management***	*Other related parties*	*Directors and key management*
Director's and key management remuneration	**-**	**334**	-	353
Service fee	**1,444**	**-**	1,369	-
Other expenses	**500**	**-**	547	-
	1,944	**334**	1,916	353

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 three percent of the Company's gross revenue.

11 RELATED PARTY TRANSACTIONS (Continued)

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

	31 March 2011 (RO'000)		*Audited 31 December 2010 (RO'000)*	
	Receivable and prepayments	***Trade payable***	*Receivable and prepayments*	*Trade payable*
Major shareholders – IPO expenses	-	-	-	319
Major shareholders	-	45	-	147
Other related parties	-	2,766	-	1,596
	-	2,811	-	2,062

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

	Three months ended 31 March	
	2011 RO'000	*2010 RO'000*
Salaries / remuneration and benefits	**276**	292
Director's remuneration	**50**	50
Employees' end of service benefits	**8**	11
	334	353

12 EXPENDITURE COMMITMENTS

	31 March 2011 RO'000	*Audited 31 December 2010 RO'000*
Capital expenditure commitments		
Estimated capital expenditure contracted for at the reporting date but not provided for:		
Property, plant and equipment	**22,287**	30,211
Operating lease commitments		
Future minimum lease payments:		
Within one year	**9,375**	8,625
After one year but not more than five years	**14,671**	16,054
More than five years	**16,396**	17,080
Total operating lease expenditure contracted for at the reporting date	**40,442**	41,759

13 CONTINGENT LIABILITIES

Guarantees
At 31 March 2011, the Company had contingent liabilities in respect of performance bond guarantee of RO 6.6 million (2010: OMR 6.6 million) in the ordinary course of business from which it is anticipated that no material liabilities will arise.

Claims

a) On 30 June 2010, an international operator has raised debit notes on the Company claiming RO 9,420,000. Out of RO 9,420,000, the international operator had already paid RO 8,558,000 to the Company and the balance amount of RO 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.

b) Telecommunication Regulatory Authority (TRA) has raised a concern regarding the calculation of certain fees payable by the Company under its mobile and fixed licences. Company considers that the approach it has adopted with respect to the relevant fees is correct and in line with regulatory requirements. The amount under consideration is approximately RO 2.3 Mn.

14 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 quarter ended 31 March 2010 the Company had only Global System for Mobile Communication (GSM) segment and the comparative statement of income show the results of such segment.

14 SEGMENT INFORMATION (continued)

Segmental results for the three months period ended 31 March 2011 are as follows:

	Mobile RO'000	***Fixed line RO'000***	***Adjustments RO'000***	***Total RO'000***
Revenue				
External sales	**45,299**	**2,838**	**-**	**48,137**
Inter-segment sales	**698**	**4,338**	**(5,036)**	**-**
Total revenue	**45,997**	**7,176**	**(5,036)**	**48,137**
Results				
Depreciation	**4,680**	**870**	**-**	**5,550**
Amortisation	**700**	**210**	**-**	**910**
`				
Segment results – Profit	**13,635**	**1,201**	**-**	**14,836**
Finance expense				**(948)**
Profit before taxation				**13,888**
Taxation				**(1,793)**
Profit for the period				**12,095**

Capital expenditure incurred for different segments are as follows:

	Three months ended 31 March 2011 **RO'000**	*Three months ended 31March 2010* RO'000	*Year ended 31 December 2010* RO'000
Property, plant and equipment			
- Mobile	**4,547**	14,114	**24,521**
- Fixed	**635**	5,452	**49,548**
	5,182	19,566	**74,069**

15 COMPARATIVE AMOUNTS

Following corresponding figures for 2010 have been reclassified in order to conform with the presentation for the current period:

	2010 RO'000	*As previously reported*	*As reclassified*
Statement of cash flows			
Purchase of property plant and equipment (PPE)	19,566	Site restoration provision of RO 395,000 was included as part of purchase of PPE.	Purchase of PPE is shown net of site restoration provision.

These reclassifications have been to improve the quality of information presented. The reclassifications do not affect the reported profit for the year 2010.