

Notes to the interim condensed 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 Qtel MENA Investcom S.P.C. whose registered address is Building no. 247, Road 1704, Block 317, Manama, Kingdom of Bahrain. The ultimate parent of the Company is Ooredoo Q.S.C. whose registered address is P.O. Box 217, Doha, Qatar.

In accordance with the requirements of the Company’s mobile license, the 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.

During 2015, the Company subscribed 51% shareholding in Duqm Data Centre SAOC. Duqm Data Centre SAOC is registered in the Sultanate of Oman. The subsidiary’s principal activities are data collection, management and operation of data preparation of other agencies on permanent basis. The subsidiary has not started commercial operations at 30 September 2016. The results, assets and liabilities of the subsidiary were not material and hence were not consolidated with the parent company on the grounds that the same had no material effect on the assets, liabilities and results of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim condensed financial statements of the Omani Qatari Telecommunications Company SAOG (the Company) are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2015.

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 2015. In addition, results for the nine months period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

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

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

Notes to the interim condensed financial statements

3 REVENUE

	<i>Three months ended</i>		<i>Nine months ended</i>	
	Unaudited 30 September 2016 RO'000	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2016 RO'000	Unaudited 30 September 2015 RO'000
Traffic	64,569	60,654	187,392	172,568
One time and recurring charges	807	522	2,486	1,488
Interconnection revenue	4,425	4,739	13,238	14,275
Inbound roaming	1,389	1,565	4,550	5,159
Site sharing revenue	121	62	708	186
	71,311	67,542	208,374	193,676
Less : Distributor discounts	(2,228)	(2,568)	(6,519)	(6,829)
	69,083	64,974	201,855	186,847

4 INCOME TAX

	<i>Three months ended</i>		<i>Nine months ended</i>	
	Unaudited 30 September 2016 RO'000	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2016 RO'000	Unaudited 30 September 2015 RO'000
Statement of profit or loss				
Current period	2,138	1,839	6,226	5,452
Prior period	-	113	-	1,025
Deferred tax relating to origination and reversal of temporary differences	(341)	(372)	(948)	(949)
	1,797	1,580	5,278	5,528
			Unaudited 30 September 2016 RO'000	Audited 31 December 2015 RO'000
Current liability				
Current period / year			6,226	6,473
Prior period / year			593	940
			6,819	7,413
Deferred tax asset / (liability)				
Beginning of the period / year			(363)	(915)
Movement for the period / year through statement of profit or loss			948	545
Movement for the period / year through statement of other comprehensive Income			2	7
At the end of the period / year			587	(363)

Notes to the interim condensed financial statements

4 INCOME TAX (continued)

The tax rate applied by the company is 12% (2015: 12%). Deferred tax asset / liability is recorded at 12% (2015: 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 expects the tax rate in the foreseeable future to be increased to 15%.

The Company's tax assessments up to 2014 have been completed. The company has objected to certain tax authority adjustments for the years 2010 to 2014. The objection was submitted on 18 August 2016. The tax amount involved is not material to the financial statements.

5 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:

	<i>Three months ended</i>		<i>Nine months ended</i>	
	Unaudited 30 September 2016	Unaudited 30 September 2015	Unaudited 30 September 2016	Unaudited 30 September 2015
Profit for the period (RO'000)	12,712	10,169	37,609	32,337
Weighted average number of shares outstanding for the period (number in thousand)	650,944	650,944	650,944	650,944
Basic earning per share (RO)	0.020	0.016	0.058	0.050

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.

Notes to the interim condensed financial statements

6 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
<i>Cost</i>					
1 January 2016	485,626	49,030	9,850	3,058	547,564
Additions	21,233	5,209	217	11,121	37,780
Capitalised during the period	6,661	-	-	(6,661)	-
Provided for	(818)	-	-	-	(818)
30 September 2016 (unaudited)	512,702	54,239	10,067	7,518	584,526
<i>Depreciation</i>					
1 January 2016	203,926	36,132	3,287	-	243,345
Charge for the period	39,331	4,102	758	-	44,191
30 September 2016 (unaudited)	243,257	40,234	4,045	-	287,536
<i>Net book value</i>					
30 September 2016 (unaudited)	269,445	14,005	6,022	7,518	296,990
31 December 2015 (Audited)	281,700	12,898	6,563	3,058	304,219

Notes to the interim condensed financial statements

7 LICENSE FEE

	Mobile license RO'000	Fixed line license RO'000	Total RO'000
Cost			
Balance at 1 January and 30 September 2016	52,537	21,403	73,940
Amortisation			
Balance at 1 January 2016	31,090	5,568	36,658
Amortisation during the period	3,593	640	4,233
Balance at 30 September 2016 (unaudited)	34,683	6,208	40,891
Net book value			
At 30 September 2016(unaudited)	17,854	15,195	33,049
At 31 December 2015 (audited)	21,447	15,835	37,282

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 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.

8 INVESTMENT IN A SUBSIDIARY

	Unaudited 30 September 2016 RO'000	Audited 31 December 2015 RO'000
Duqm Data Centre SAOC	255	255
	255	255

During 2015, the Company subscribed 51% shareholding in Duqm Data Centre SAOC in the amount of RO 255,000. Duqm Data Centre SAOC is registered in the Sultanate of Oman. The subsidiary's principal activities are data collection, management and operation of data preparation of other agencies on permanent basis. The subsidiary has not started commercial operations at 30 September 2016. The investment is carried at cost.

Notes to the interim condensed financial statements

9 DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered into four interest rate swap arrangements to mitigate the risk of the fluctuating interest rates on its term loan (Note 10) and one of the arrangements has expired in 2014. The key terms of the arrangements are as below:

SN	Notional Amount	Effective Date	Termination Date	Pay Fixed	Receive Floating
1	USD 12,000,000	27 Dec 2012	29 Dec 2016	0.555%	1 month USD LIBOR
2	USD 20,000,000	07 May 2013	24 Apr 2017	0.790%	1 month USD LIBOR
3	USD 25,000,000	07 May 2013	24 Apr 2017	0.790%	1 month USD LIBOR

The swap arrangement qualifies for hedge accounting under IAS 39 and as at 30 September 2016, the unrealised loss of RO 17,000 relating to measuring the financial instruments at fair value is included in equity in respect of these contracts (31 December 2015: RO 4,000 gain).

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.

	Positive / (Negative) Fair value RO'000	Notional amount RO'000	Notional amount by term to maturity		
			1 - 12 months RO'000	More than 1 upto 5 years RO'000	Over 5 years RO'000
30 September 2016 (unaudited)					
Positive Value	-	-	-	-	-
Negative Value	(17)	-	-	-	-
Interest rate swaps	(17)*	21,950	21,950	-	-
31 December 2015 (audited)					
Positive Value	18	-	-	-	-
Negative Value	(14)	-	-	-	-
Interest rate swaps	4*	21,950	4,621	17,329	-

*Fair value shown under equity in the statement of financial position is net of deferred tax of RO 2,086 (2015: RO 557).

Notes to the interim condensed financial statements

10 INTEREST BEARING BORROWINGS

	Unaudited 30 September 2016 RO'000	Audited 31 December 2015 RO'000
Total interest bearing borrowings	37,389	53,433
Less: deferred financing costs	(832)	(792)
	<u>36,557</u>	<u>52,641</u>
Less: payable within one year – Term loan	(23,376)	(26,726)
Payable within one year – RCF	(4,000)	-
	<u>9,181</u>	<u>25,915</u>
Non-current portion	<u>9,181</u>	<u>25,915</u>

The Company entered into a syndicated loan facility agreement in February 2012 by repaying its original facility of USD 143 million fully. The facility consists of a long-term five year amortizing loan facility of USD 87 million (RO 33.5 million) and a 5 year Revolving Credit Facility of RO 24 million. The term loan of USD 87 million is repayable in twenty quarterly installments commencing from May 2012. The RCF facility of OMR 24 Million due to expire in February 2017 has been cancelled by the company.

In 2013, the Company signed new loan agreements worth USD 234 million (RO 90 million) for capital expenditure and working capital requirements with a consortium of banks. The loans consist of a term loan worth USD 182 million (RO 70 million) with a five-year tenure and a revolving credit facility of USD 52 million (RO 20 million) with a three year tenure. As on 30 September 2016, the Company has utilized full USD 182 million (RO 70 million). Out of this term loan, USD 104 million is repayable in sixteen quarterly instalments commencing from April 2014 and USD 78 million is repayable in twelve quarterly instalments commencing from April 2015. The tenure for the revolving credit facility has reached an end and is no longer available.

In 2016, the Company has entered into new financing facilities amounting to RO 68.1 million with multiple banks consisting of both local and international banks. The loans consist of a term loan worth USD 60 million (RO 23.1 million) with a five year tenure and revolving credit facility of RO 45 million with a five year tenure. As on 30 September 2016, the Company has utilized RO 4 million of the revolving credit facility.

As of 30 September 2016, the Company has available funds for drawdown of RO 64 million.

The Facilities are either based on USD Libor plus margin or linked to margin plus bank deposit rate or CBO Private deposit rate and the loan agreement contains two financial covenants being a maximum leverage ratio and a minimum interest cover ratio.

11 EMPLOYEE BENEFITS

	Unaudited 30 September 2016 RO'000	Audited 31 December 2015 RO'000
Non-current		
Employees' end of service benefits	1,680	1,454
Employee retention – Long term incentive	1,149	1,253
	<u>2,829</u>	<u>2,707</u>
Non-current liability as at the end of the period / year	<u>2,829</u>	<u>2,707</u>

12 DIVIDEND

Company's shareholders at the annual general meeting held on 29 March 2016 approved a payment of baiza 40 per share as dividend for the financial year ended 31 December 2015 and this was paid in March 2016.

Notes to the interim condensed financial statements

13 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:

	<i>Three months ended</i>			
	Unaudited 30 September 2016 (RO'000)		Unaudited 30 September 2015 (RO'000)	
	Other related parties	Directors and key management	Other related parties	Directors and key management
Director's and key management remuneration	-	662	-	456
Service fee	2,072	-	1,949	-
Other expenses	130	-	153	-
	<u>2,202</u>	<u>662</u>	<u>2,102</u>	<u>456</u>

	<i>Nine months ended</i>			
	Unaudited 30 September 2016 (RO'000)		Unaudited 30 September 2015 (RO'000)	
	Other related parties	Directors and key management	Other related parties	Directors and key management
Director's and key management remuneration	-	2,253	-	1,470
Service fee	6,056	-	5,605	-
Other expenses	470	-	620	-
	<u>6,526</u>	<u>2,253</u>	<u>6,225</u>	<u>1,470</u>

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.

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

	Unaudited 30 September 2016 RO'000	Audited 31 December 2015 RO'000
Trade payable		
Major shareholders	2	-
Other related parties	2,518	1,965
	<u>2,520</u>	<u>1,965</u>

Notes to the interim condensed financial statements

13 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

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

	<i>Three months ended</i>		<i>Nine months ended</i>	
	Unaudited 30 September 2016 RO'000	Unaudited 30 September 2015 RO'000	Unaudited 30 September 2016 RO'000	Unaudited 30 September 2015 RO'000
Salaries / remuneration and benefits	596	395	2,020	1,284
Director's remuneration	50	50	150	150
Employees' end of service benefits	16	11	83	36
	<u>662</u>	<u>456</u>	<u>2,253</u>	<u>1,470</u>

14 EXPENDITURE COMMITMENTS

	Unaudited 30 September 2016 RO'000	Audited 31 December 2015 RO'000
Capital expenditure commitments		
Estimated future capital expenditure contracted for at the reporting date:		
Property, plant and equipment	<u>33,471</u>	<u>20,245</u>
Operating lease commitments		
Future minimum lease payments:		
Within one year	3,858	3,623
After one year but not more than five years	7,022	7,902
More than five years	-	-
	<u>10,880</u>	<u>11,525</u>

15 CONTINGENT LIABILITIES

Guarantees

At 30 September 2016, the Company had contingent liabilities in respect of guarantees of RO 271,756 (31 December 2015: RO 1.15 million). It is anticipated that no material liabilities are expected to arise from these.

Notes to the interim condensed financial statements

16 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.

Segmental results for the three months period ended 30 September 2016 are as follows:

	Mobile RO’000	Fixed line RO’000	Adjustments RO’000	Unaudited Total RO’000
Revenue				
External sales	59,073	10,010	-	69,083
Inter-segment sales	312	2,953	(3,265)	-
Total revenue	<u>59,385</u>	<u>12,963</u>	<u>(3,265)</u>	<u>69,083</u>
Results				
Depreciation	13,787	1,929	-	15,716
Amortisation	1,206	215	-	1,421
Segment results – Profit	<u>12,296</u>	<u>2,819</u>	<u>-</u>	<u>15,115</u>
Finance expense				(606)
Profit before taxation				<u>14,509</u>
Taxation				(1,797)
Profit for the period				<u>12,712</u>

Notes to the interim condensed financial statements

16 SEGMENT INFORMATION (continued)

Segmental results for the three months period ended 30 September 2015 are as follows:

	Mobile RO'000	Fixed line RO'000	Adjustments RO'000	Unaudited Total RO'000
Revenue				
External sales	56,634	8,340	-	64,974
Inter-segment sales	529	5,847	(6,376)	-
Total revenue	57,163	14,187	(6,376)	64,974
Results				
Depreciation	10,675	2,048	-	12,723
Amortisation	727	215	-	942
Segment results – Profit	8,503	3,859	-	12,362
Finance expense				(613)
Profit before taxation				11,749
Taxation				(1,580)
Profit for the period				10,169

Segmental results for the nine months period ended 30 September 2016 are as follows:

	Mobile RO'000	Fixed line RO'000	Adjustments RO'000	Unaudited Total RO'000
Revenue				
External sales	173,300	28,555	-	201,855
Inter-segment sales	1,131	10,457	(11,588)	-
Total revenue	174,431	39,012	(11,588)	201,855
Results				
Depreciation	38,670	5,521	-	44,191
Amortisation	3,593	640	-	4,233
Segment results – Profit	35,838	8,942	-	44,780
Finance expense				(1,893)
Profit before taxation				42,887
Taxation				(5,278)
Profit for the period				37,609

Notes to the interim condensed financial statements

16 SEGMENT INFORMATION (continued)

Segmental results for the nine months period ended 30 September 2015 are as follows:

	Mobile RO'000	Fixed line RO'000	Adjustments RO'000	Unaudited Total RO'000
Revenue				
External sales	163,906	22,941	-	186,847
Inter-segment sales	1,542	17,506	(19,048)	-
Total revenue	<u>165,448</u>	<u>40,447</u>	<u>(19,048)</u>	<u>186,847</u>
Results				
Depreciation	<u>33,245</u>	<u>5,846</u>	<u>-</u>	<u>39,091</u>
Amortisation	<u>2,147</u>	<u>640</u>	<u>-</u>	<u>2,787</u>
Segment results – Profit	<u>30,453</u>	<u>9,312</u>	<u>-</u>	<u>39,765</u>
Finance expense				<u>1,900</u>
Profit before taxation				<u>37,865</u>
Taxation				<u>(5,528)</u>
Profit for the period				<u>32,337</u>

Capital expenditure incurred for different segments are as follows:

	Unaudited Nine months ended 30 September 2016 RO'000	Unaudited Nine months ended 30 September 2015 RO'000	Audited Year ended 31 December 2015 RO'000
Property, plant and equipment			
- Mobile	<u>28,553</u>	<u>34,568</u>	<u>59,555</u>
- Fixed	<u>9,227</u>	<u>4,491</u>	<u>7,863</u>
	<u>37,780</u>	<u>39,059</u>	<u>67,418</u>

17 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to current period presentation. The reclassifications do not affect the reported profit during the period ended 30 September 2016.