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 licence 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 licence to provide fixed line telecommunication services in the Sultanate of Oman for a period of 25 years. The Company's activities under this licence 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 MENA Investcom S.P.C. (formerly known as 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. (formerly known as Qatar Telecom (Qtel) QSC) whose registered address is P.O. Box 217, Doha, Qatar.

In accordance with the requirements of the Company's mobile licence, 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 promoting shareholders recorded the IPO proceeds and share issue expenses.

During 2015, the Company acquired a 51 percent 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 31 March 2017. The results, assets and liabilities of the subsidiary are not material and hence are not consolidated with the Company as they do not have a material effect on the assets, liabilities and results of the Company.

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 2016.

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 2016. In addition, results for the three months period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017.

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

	Unaudited 31 March 2017 RO'000	Unaudited 31 March 2016 RO'000
Traffic	**62,989**	61,343
One time and recurring charges	**1,168**	637
Interconnection revenue	**4,145**	4,604
Inbound roaming	**1,209**	1,630
Site sharing revenue	**386**	72
	69,897	68,286
Less : Distributor discounts	**(2,128)**	(2,214)
	67,769	66,072

4 INCOME TAX

	Unaudited 31 March 2017 RO'000	Unaudited 31 March 2016 RO'000
Statement of profit or loss		
Current period	**1,966**	2,817
Deferred tax relating to origination and reversal of temporary differences	**(739)**	(429)
	1,227	2,388

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Current liability		
Current period / year	**1,966**	7,425
Prior period / year	**585**	593
	2,551	8,018

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Deferred tax asset		
Beginning of the period / year	**561**	(363)
Movement for the period / year through statement of profit or loss	**739**	924
At the end of the period / year	**1,300**	561

4 INCOME TAX *(continued)*

The tax rate applicable to the Company is 15 percent (2016: 12 percent). Deferred tax asset/liability is recorded at 15 percent (2016: 12 percent). 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. In March 2016 the provision of 15 percent was used which was changed later to reflect the tax rate of 12 percent for the entire 2016. The comparative figures for March 2016 and March 2017 are at 15 percent.

The Company's tax assessments up to 2014 have been completed. The Company had objected to certain tax authority adjustments for the years 2010 – 2014. The objection was submitted on 18 August 2016. The decision on the Objection was received on 22 March 2017. The objection was partially allowed and the tax amount involved for the remaining disallowance 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:

	Unaudited 31 March 2017	Unaudited 31 March 2016
Profit for the period (RO'000)	**6,955**	12,629
Weighted average number of shares outstanding for the period (number in thousand)	**650,944**	650,944
Basic earning per share (RO)	**0.011**	0.019

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.

6 PROPERTY 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 2017	500,885	17,231	10,067	7,676	535,859
Additions / transfers	6,143	157	-	(1,144)	5,156
Capitalised during the period	305	-	-	(305)	-
31 March 2017 (unaudited)	**507,333**	**17,388**	**10,067**	**6,227**	**541,015**
Depreciation					
1 January 2017	236,194	13,412	4,298	-	253,904
Charge for the period	11,849	237	247	-	12,333
31 March 2017 (unaudited)	**248,043**	**13,649**	**4,545**	**-**	**266,237**
Net book value					
31 March 2017 (unaudited)	**259,290**	**3,739**	**5,522**	**6,227**	**274,778**
31 December 2016 (audited)	264,691	3,819	5,769	7,676	281,955

7 LICENSE FEE

	Mobile license RO'000	Fixed line license RO'000	Total RO'000
Cost			
Balance at 1 January and 31 March 2017	52,537	21,403	73,940
Amortisation			
Balance at 1 January 2017	35,888	6,424	42,312
Amortisation during the period	1,181	213	1,394
Balance at 31 March 2017 (unaudited)	**37,069**	**6,637**	**43,706**
Net book value			
At 31 March 2017 (unaudited)	**15,468**	**14,766**	**30,234**
At 31 December 2016 (audited)	16,649	14,979	31,628

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 12% of the net of predefined sources of revenue less interconnection expenses to local operators.

7A Other Intangible assets - software

	Amount RO'000
Cost	
Balance at 1 January 2017	74,809
Additions during the period	6,489
Balance at 31 March 2017	**81,298**
Amortisation	
Balance at 1 January 2017	49,323
Amortisation during the period	3,359
Balance at 31 March 2017	**52,682**
Net book value	
At 31 March 2017	**28,616**
At 31 December 2016	25,486

The other intangible assets represent the various software installed on the Network and Information Technology hardware and platforms.

8 INVESTMENT IN A SUBSIDIARY

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Duqm Data Centre SAOC	**255**	255
	255	255

During 2015, the Company subscribed to a 51 percent shareholding in Duqm Data Centre SAOC for 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 31 March 2017 and is not considered material to these interim condensed financial statements. Accordingly, the investment is carried at cost.

9 DERIVATIVE FINANCIAL INSTRUMENTS

The Company had entered into four interest rate swap arrangements to mitigate the risk of the fluctuating interest rates on its term loan (Note 10). The key terms of the unexpired arrangements are as below:

SN	Notional Amount	Effective Date	Termination Date	Pay Fixed	Receive Floating
1	USD 20,000,000	07 May 2013	24 Apr 2017	0.790%	1 month USD LIBOR
2	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 31 March 2017, the unrealised gain of RO 3,000 relating to measuring the financial instruments at fair value is included in equity in respect of these contracts (31 December 2016: RO Nil).

The table below shows the positive / (negative) fair value of the swaps, which is equivalent to the market values, together with the notional amounts analysed by the term to maturity.

			Notional amount by term to maturity		
	Positive / (Negative) Fair value RO'000	Notional amount RO'000	1 - 12 months RO'000	More than 1 upto 5 years RO'000	Over 5 years RO'000
31 March 2017 (unaudited)					
(Negative) / Positive Value (current)	3	17,329	17,329	-	-
Interest rate swaps	3*	-	-	-	-
31 December 2016 (audited)					
Positive Value	-	-	-	-	-
Negative Value	-	-	-	-	-
Interest rate swaps	-	17,329	17,329	-	-

*Fair value shown under equity in the statement of financial position is net of deferred tax of RO 432 (2016: RO Nil).

10 INTEREST BEARING BORROWINGS

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Total interest bearing borrowings	**66,131**	26,707
Less: Deferred financing costs	**(542)**	(692)
	65,589	26,015
Less: Payable within one year – Term loan	**(25,802)**	(21,700)
Payable within one year – RCF	**(23,000)**	-
Non-current portion	**16,787**	4,315

Movement in interest bearing borrowings for financing activities:

1 January 2017 to 31 March 2017	**Currency of loan**	**Nominal interest rate**	**Year of maturity**	**Face value RO '000**	**Carrying amount RO '000**
New loans					
Revolving Credit Facility	**OMR**	**FD rate+1.75%**	**2017**	**23,000**	**23,000**
Unsecured bank loan	**USD**	**Libor+1.25%**	**2021**	**23,105**	**23,105**
Repayment of loans					
Unsecured bank loan	**USD**	**Libor+2%**	**2017**	**(1,675)**	**(1,675)**
Unsecured bank loan	**USD**	**Libor+1.8%**	**2018**	**(2,503)**	**(2,503)**
Unsecured bank loan	**USD**	**Libor+1.8%**	**2018**	**(2,503)**	**(2,503)**
Other movements – deferred finance cost					**150**
Net movement during 1 January 2017 to 31 March 2017					**39,574**
1 January 2016 to 31 March 2016					
New loans					
Revolving Credit Facility	OMR	FD rate+1.75%	2016	17,000	17,000
Repayment of loans					
Unsecured bank loan	USD	Libor+2%	2017	(1,676)	(1,676)
Unsecured bank loan	USD	Libor+1.8%	2018	(2,503)	(2,503)
Unsecured bank loan	USD	Libor+1.8%	2018	(2,503)	(2,503)
Other movements – deferred finance cost					(319)
Net movement during 1 January 2016 to 31 March 2016					9,999

10 INTEREST BEARING BORROWINGS *(continued)*

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 31 March 2017, 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 signed three new financing facilities amounting to RO 68.1 million with local and international banks for general purpose requirements. The first facility is a syndicated long term loan of USD 60 million (RO 23.1 million) with a five year tenure and is repayable in sixteen quarterly instalments commencing in April 2017. The second and third facilities are revolving credit facilities of RO 45 million with a five year tenure.

As of 31 March 2017, the Company has available funds for drawdown of RO 22 million (31 December 2016: RO 68.1 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.

Loan covenant

1. Loan contains a covenant stating that at the end of any relevant period the Company's total net debt [defined in the covenant as the total borrowings less the aggregate of: eligible cash and cash equivalents; and cash and investments held at a bank that is not an acceptable bank by the borrower, a subsidiary, or joint venture (to the extent consolidated) in any country but only to the extent that such cash and investments are applied against that portion of total borrowings directly attributable to such subsidiary or joint venture (to the extent consolidated) in the same country] cannot exceed 4 times the Company's EBITDA, and
2. The Company must ensure that the ratio of EBITDA to net interest payable is not, at the end of each relevant period, less than 3:1.

11 EMPLOYEE BENEFITS

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Employees' end of service benefits	**1,655**	1,799
Employee retention – Long term incentive	**1,275**	1,313
Non-current liability as at the end of the year	**2,930**	3,112

12 DIVIDEND

The Company's shareholders at the annual general meeting held on 20 March 2017 approved a payment of baisa 42 per share as dividend for the financial year ended 31 December 2016 which will be paid in April 2017.

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:

	Unaudited 31 March 2017 (RO'000)		Unaudited 31 March 2016 (RO'000)	
	Other related parties	**Directors and key management**	Other related parties	Directors and key management
Director's and key management remuneration	**-**	**766**	-	696
Service fee	**2,031**	**-**	1,982	-
Brand license fee	**1,015**	**-**	-	-
Other expenses	**139**	**-**	203	-
	3,185	**766**	2,185	696

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.

Effective 1 October 2016, the Company has entered into a brand licensing agreement with a related party (other related party). In consideration of using the brand "OOREDOO", the Company pays a brand license fee to the related party which is calculated annually as an amount equal to one and a half percent of the Company's adjusted gross revenue.

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

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Trade payables		
Other related parties	**5,750**	2,797
	5,750	2,797

Compensation of key management personnel

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

	Unaudited 31 March 2017 RO'000	Unaudited 31 March 2016 RO'000
Salaries / remuneration and benefits	**641**	594
Director's remuneration	**50**	50
Employees' end of service benefits	**75**	52
	766	696

14 EXPENDITURE COMMITMENTS

	Unaudited 31 March 2017 RO'000	Audited 31 December 2016 RO'000
Capital expenditure commitments		
Estimated capital expenditure contracted for at the reporting date but not provided for:		
Property, plant and equipment	**22,618**	21,839
Operating lease commitments		
Future minimum lease payments:		
Within one year	**3,613**	3,606
After one year but not more than five years	**4,732**	4,732
Total operating lease expenditure contracted for at the reporting date	**8,345**	8,338

15 CONTINGENT LIABILITIES

Guarantees

At 31 March 2017, the Company had contingent liabilities in respect of guarantees of RO 280,155 (31 December 2016: RO 271,756). It is anticipated that no material liabilities are expected to arise from these.

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.

16 SEGMENT INFORMATION *(Continued)*

Segmental results for the three months period ended 31 March 2017 are as follows:

	Mobile RO'000	**Fixed line RO'000**	**Adjustments RO'000**	**Unaudited Total RO'000**
Revenue				
External sales	**57,129**	**10,640**	**-**	**67,769**
Inter-segment sales	**273**	**2,347**	**(2,620)**	**-**
Total revenue	**57,402**	**12,987**	**(2,620)**	**67,769**
Results				
Depreciation & Amortization	**13,750**	**1,942**	**-**	**15,692**
Amortisation – License	**1,181**	**213**	**-**	**1,394**
Segment results – Profit	**7,107**	**1,631**	**-**	**8,738**
Finance expense				**(556)**
Profit before taxation				**8,182**
Taxation				**(1,227)**
Profit for the period				**6,955**

Segmental results for the three months period ended 31 March 2016 are as follows:

	Mobile RO'000	Fixed line RO'000	Adjustments RO'000	Unaudited Total RO'000
Revenue				
External sales	56,916	9,156	-	66,072
Inter-segment sales	501	4,253	(4,754)	-
Total revenue	57,417	13,409	(4,754)	66,072
Results				
Depreciation & Amortization	12,739	1,792	-	14,531
Amortisation - License	1,193	213	-	1,406
Segment results – Profit	11,850	3,807	-	15,657
Finance expense				(640)
Profit before taxation				15,017
Taxation				(2,388)
Profit for the period				12,629

Capital expenditure incurred for different segments are as follows:

	Unaudited Three months ended 31 March 2017 RO'000	Unaudited Three months ended 31 March 2016 RO'000	Audited Year ended 31 December 2016 RO'000
Property, plant and equipment			
- Mobile	**3,288**	4,660	37,072
- Fixed	**1,868**	3,208	12,518
	5,156	7,868	49,590

17 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise 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.

Fair value hierarchy

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

	Carrying amount				**Fair value**			
31 March 2017	**Fair value – hedging instruments**	**Loans and receivables**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value								
Interest rate swaps used for hedging	**3**	-	-	**3**	-	**3**	-	**3**
Financial assets not measured at fair value								
Trade and other receivables	-	**28,959**	-	**28,959**	-	-	-	-
Cash and cash equivalents	-	**40,007**	-	**40,007**	-	-	-	-
	3	**68,966**	-	**68,966**	-	**3**	-	**3**
Financial liabilities measured at fair value								
Interest rate swaps used for hedging	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value								
Bank loans	-	-	**65,589**	**65,589**	-	-	-	-
Trade payables	-	-	**84,825**	**84,825**	-	-	-	-
	-	-	**150,414**	**150,414**	-	-	-	-

	Carrying amount				Fair value			
31 December 2016	Fair value – hedging instruments	Loans and receivables	Other financial Liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Interest rate swaps used for hedging	-	-	-	-	-	-	-	-
Financial assets not measured at fair value								
Trade and other receivables	-	27,718	-	27,718	-	-	-	-
Cash and cash equivalents	-	15,761	-	15,761	-	-	-	-
	-	43,479	-	43,479	-	-	-	-
Financial liabilities measured at fair value								
Interest rate swaps used for hedging	-	-	-	-	-	-	-	-
Financial liabilities not measured at fair value								
Bank loans	-	-	26,015	26,015	-	-	-	-
Trade payables	-	-	102,193	102,193	-	-	-	-
	-	-	128,208	128,208	-	-	-	-

Notes to the interim condensed financial statements

17 FAIR VALUES OF FINANCIAL INSTRUMENTS *(continued)*

Level 1: inputs are quoted price (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs are inputs, other than quoted prices included within level 1 that are observable for assets or liabilities, either directly or indirectly.

Level 3: inputs are unobservable inputs for the asset or liability.

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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.

The fair values of the interest rate swaps arrangements are worked out using the level 2 valuation technique. The related fair value details are provided by the swap counter party.

There were no transfers between the levels during the current as well as the previous year.

18 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 31 March 2017.