1 Incorporation and activities

Oman Telecommunications Company SAOG (the "Parent Company" or the "Company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The Company's principal place of business is located at Madinat Al Irfan, Muscat, Sultanate of Oman. The Company's shares are listed on Muscat Securities Market.

The principal activities of the Company are establishment, operation, maintenance and development of telecommunication services in the Sultanate of Oman.

The Company and its subsidiaries ("the Group") along with its associates provides telecommunications services in Sultanate of Oman and nine (9) other countries.

2 Basis of preparation

This condensed consolidated interim financial information (condensed interim financial information) is prepared in accordance with IAS 34: Interim Financial Reporting.

The economy of the Republic of South Sudan became hyperinflationary in 2016. Accordingly, the results, cash flows and financial position of the Group's subsidiary in South Sudan have been expressed in terms of the measuring unit current at the reporting date in accordance with IAS 29: Financial Reporting in Hyperinflationary Economies. The methods used to measure the fair value and adjustments made to the account of Group's entities that operate in the hyperinflationary economies are discussed further in the accounting policies and in the respective notes.

In 2015, the Group noted that the economy of the Republic of Sudan, where the Group has subsidiaries, may be hyperinflationary from the beginning of 2015. This was based on the general price index showing the cumulative three-year rate of inflation exceeding 100% at that time. However, International Accounting Standard, IAS 29: Financial Reporting in Hyperinflationary Economies, does not establish an absolute rate at which hyperinflation is deemed to arise and states that it is a matter of judgment when restatement of financial statements in accordance with this Standard becomes necessary. In addition, the Group noted that in the 2014 International Monetary Fund (IMF) Sudan country report, the cumulative projected three year inflation rate outlook for Sudan in 2017 to be around 57% and thus, applying IAS 29 in 2015, could entail going in and out of hyperinflation within a short period which was confirmed when the Republic of Sudan went out of hyperinflation in 2016. The Republic of Sudan has been again declared as hyperinflationary in 2018. Based on the above matters, the Group believes that there is no definitive basis to apply IAS 29 at this stage. However, the Group will review it on an ongoing basis, accordingly it has not quantified the impact of applying IAS 29 as of 30 September 2020.

This condensed consolidated interim financial information does not contain all of the information and disclosures required for complete financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the interim period are not necessarily indicative of the results that may be expected for the year ending 31 December 2020, including the impact of the matter stated above regarding application of IAS 29. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended 31 December 2019.

2 Basis of preparation (continued)

Financial support to associate and group companies

The Group has committed to provide working capital and other financial support to certain subsidiaries including Mobile Telecommunications Company Saudi Arabia ("SMTC"), Zain Jordan, Al Khatem and Zain South Sudan whose working capitals are in deficit. Based on business plans, the Group does not expect these conditions will have a material adverse impact on the operations of these Group companies.

Changes in accounting policy and disclosures

The accounting policies used in the preparation of the condensed consolidated interim financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2019 except for as mentioned below:

As permitted by IFRS 9, the Group has elected to transition to applying the hedge accounting requirements of IFRS 9 effective 1 July 2020. On transition to IFRS 9 in 2018, the Group had elected to continue to apply the hedge accounting requirements of IAS 39.

The IFRS 9 general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group's risk management activities have also been introduced.

The Group's qualifying hedging relationships in place as at 1 July 2020 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on transition. As the critical terms of the hedging instruments match those of their corresponding hedged item, the hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

The application of the IFRS 9 hedge accounting requirements has had no significant impact on the results and financial position of the Group for the current and/or prior years.

Hedge accounting

For hedge accounting, the Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge) or hedges of a net investment in a foreign operation (net investment hedge).

2 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

Hedge accounting (continued)

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The Group designates only the intrinsic value of option contracts as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognised in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction-related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time-period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis – the Group applies straight-line amortisation. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item. If the hedged item is a non-financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognised non-financial item. Furthermore, if the Group expects that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

2 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in other comprehensive income. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument. Where hedging gains or losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in cash flow hedge reserve is reclassified immediately to profit or loss.

2 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the foreign currency forward contracts relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. Gains and losses on the hedging instrument accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

New and revised accounting standards

Effective for the current period

The Group has applied the following new and revised IFRS Standards that have been issued and effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to references to the Conceptual Framework in IFRS standards	1 January 2020
Amendments to IFRS 3 - Amendments to clarify the definition of a business	1 January 2020
Amendments to IFRS 7 and IFRS 9 - Amendments regarding pre-replacement issues in the context of the IBOR reform.	1 January 2020
Amendments to IFRS 16 - Amendments on Covid-19-Related Rent Concessions	1 June 2020
Amendment to IAS 1 and IAS 8 - Amendments regarding the definition of material	1 January 2020

The application of these amendments did not have a significant impact on the Group's interim condensed consolidated financial information.

2 Basis of preparation (continued)

Standards and revisions issued but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective.

New and revised IFRSs	**Effective for annual periods beginning on or after**
Amendments to IAS 1 - Amendments regarding the classification of liabilities.	1 January 2021
Amendments to IFRS 10 and IAS 28 - Amendments relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	1 January 2021
Property, Plant and Equipment – Proceeds before Intended Use – amendments to IAS 16	1 January 2022
Onerous Contracts — Cost of Fulfilling a Contract – amendments to IAS 37	1 January 2022

The management does not expect that the adoption of these Standards will have a material impact on the Group’s interim condensed consolidated financial information in future periods.

3. Significant judgments and estimates

The preparation of the condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affects the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group’s annual consolidated financial statements for the year ended 31 December 2019, except as disclosed in note 23.

4. Cash and bank balances

Cash and bank balances include the following cash and cash equivalents:

	Unaudited 30 September 2020 RO’000	Audited 31 December 2019 RO’000
Cash on hand and at banks	**445,878**	264,744
Short-term deposits with banks	**80,361**	226,521
Government certificates of deposits held by subsidiaries	**110**	-
	526,349	491,265
Expected credit loss	**(23,343)**	(20,690)
	503,006	470,575
Cash at bank under lien	**(14,176)**	(18,524)
Deposits with maturity exceeding three months	**(2,636)**	(2,560)
Government certificates of deposits with maturities exceeding three months	**(110)**	(134)
Cash and cash equivalent in the condensed consolidated statement of cash flows	**486,084**	449,357

5. Assets and liabilities of disposal group held-for-sale

5.a) In February 2020, Mobile Telecommunications Company K.S.C.P ("Zain Kuwait") completed the sale and leaseback of 1,022 telecom towers out of 1,526 towers in Kuwait classified as held for sale for a total consideration of USD 82.012 million (RO 30.4 million). Total gain from this transaction was RO 5.806 million. Zain Kuwait also assumed a 30 % minority shareholding in the newly formed Tower company.

Towers sold were leased back for a period of 10 years.

The sale and leaseback facilitates transfer of residual value risk and also provides flexibility in managing the asset ageing and the Group's liquidity.

5. b) This represents the carrying value of the remaining telecom tower assets amounting to RO 3.727 million (31 December 2019 – RO 9.5 million) and remaining right of use of assets amounting to RO 4.172 million (31 December 2019 – RO 12.287 million) in Kuwait and its related lease liabilities amounting to RO 1.234 million (31 December 2019 – RO 6.678 million), classified as held for sale. These are expected to be sold during the year 2021.

6. Investments in associates and joint venture

	Unaudited 30 September 2020 RO'000	Audited 31 December 2019 RO'000
Associates	**16,544**	17,036
Joint ventures (refer note below)	**89,710**	89,829
	106,254	106,865

Investment in a joint venture

This includes the Group's interest in joint venture, Zain Al Ajial S.A. that owns 31% of the equity shares and voting rights of Wana Corporate (a Moroccan joint stock company that is specialized in the telecom sector in that country).

7. Property and equipment

	Unaudited 30 September 2020 RO'000	Audited 31 December 2019 RO'000
Net fixed assets	**1,862,604**	1,895,270
Capital work in progress	**159,708**	159,831
	2,022,312	2,055,101

During the nine months period ended 30 September 2020, the Group acquired property and equipment amounting to RO 273.96 million (30 September 2019: RO 236.1 million). Depreciation charged for the period amounted to RO 266.2 million (30 September 2019: RO 256.5 million).

8. Intangible assets and goodwill

	Unaudited 30 September 2020 RO'000	Audited 31 December 2019 RO'000
Intangible assets	**2,478,185**	2,504,380
Goodwill	**1,057,412**	1,063,257
	3,535,597	3,567,637

During the nine months period ended 30 September 2020, the Group acquired intangible assets amounting to RO 83.317 million (30 September 2019: RO 158.9 million).

Sultanate of Oman

The mobile license of the Company which expired in February 2019 was renewed for a value of RO 75 million to be paid in two equal annual instalments commencing from January 2019. In February 2020, the Ministry of Finance agreed for the deferral of the remaining license payment of RO 37.5 million over 3 years commencing from February 2020.

Iraq

On 7 July 2020, the Government of Iraq decided to renew Atheer's license for an additional eight years ending on 30 August 2030, and to grant license for the operation of fourth generation of broadband cellular network technology (4G) starting from 1 January 2021.

9. Income tax payables

Income tax payables mainly includes current tax payable by the Group's subsidiaries in Iraq (Atheer) and Jordan respectively.

Income tax assessment orders for the years 2004 to 2011 are contested and are currently under the consideration of the Iraq General Commission for Taxes (IGCT). Income tax assessment for the period 2012 is finalized and the amount was paid by Atheer along with tax returns are treated as final assessment by the IGCT. Income tax self-assessment of USD 33.85 million (RO 12.6 million) for the year 2013 was also treated as final by the IGCT in March 2020. This amount has already been paid by Atheer.

During May 2020, Atheer received additional income tax claims of USD 68 million (RO 25.37 million) from IGCT for the years 2014 to 2018. Atheer agreed to pay the amount in 11 monthly instalments with interest. Management believes that they have adequate provisions for liabilities in respect of the assessments contested (refer note 19).

10. Borrowings

	Unaudited 30 September 2020 RO'000	Audited 31 December 2019 RO'000

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2020 (unaudited) (continued)

Parent Company		
Long term loans (ii)	**115,582**	114,380
Other long term loans (iii)	**20,532**	18,380
Oztel		
Long term loan (ii)	**137,934**	137,000
Oman Data Park		
Long term loans	**7,048**	7,191
Finance lease obligation	**20**	25
Mobile Telecommunications Company – Kuwait (v)		
Short term loans	**136,292**	99,685
Long term loans	**710,687**	740,448
Zain Jordan		
Long term loan	**-**	8,192
SMTC (vi)		
Long term loans	**590,001**	671,503
Atheer – Iraq (vii)		
Long term loans	**237,040**	208,312
Others	**4**	2,221
Due to banks	**1,955,140**	2,007,337
Oztel – Bonds (iv)	**584,084**	574,120
Total borrowings	**2,539,224**	2,581,457

The current and non-current amounts for the Group are as follows:

Current liabilities	**218,315**	229,384
Non-current liabilities	**2,320,909**	2,352,073
	2,539,224	2,581,457

10. Borrowings (continued)

The carrying amounts of the Group’s borrowings are denominated in the following currencies:

	Unaudited 30 September 2020 RO’000	Audited 31 December 2019 RO’000
US Dollar	**1,948,079**	1,946,152
Saudi Riyals	**521,983**	554,594
Kuwaiti Dinar	**62,094**	63,085
Omani Rial	**7,068**	7,216
Others	**-**	10,410
	2,539,224	2,581,457

The effective interest rate as at 30 September 2020 was 0.935% to 6.99% (31 December 2019 - 2.22% to 18%, 30 June 2019 - 2.22% to 6.99%) per annum.

(i) Compliance with debt covenants

The parent company is compliant with the principal covenant ratios, which include:

- Net borrowings to earnings before interest tax depreciation and amortization (EBITDA) at consolidated level excluding Zain group
- Interest coverage ratio

Zain Group is compliant with the principal covenant ratios, which include:

- consolidated net borrowings to adjusted consolidated Earnings Before Interest Tax Depreciation and amortisation (EBITDA)
- adjusted consolidated EBITDA to adjusted consolidated net interest payable;
- equity to total assets

(ii) Term loan

The Parent Company acquired a term loan of USD 800 million (RO 308 million) in year 2017 from a consortium of banks for financing the acquisition of shares in Mobile Telecommunication Company K.S.C.P (Zain Group). The Parent company transferred USD 435.225 Million (RO 167.6 million) representing the offshore part of the term loan to its wholly owned subsidiary Oztel Holding SPC. The remaining amount of USD 364.775 million (RO 140.4 million) is retained by the Parent company. The term loan was payable in five equal annual installments for an amount of 15% of the principal amount and the remaining amount of 25% is payable at the end of the term loan period. The first interest period for the loan is set at 8 months from the date of drawdown and thereafter at 3-month intervals until the date of repayment.

On 22 October 2019 the Company signed an amendment to the term loan whereby the term on the loan is extended by 2 years with a corresponding relief on the instalment payment for years 2019 and 2020. From year 2021 the loan is repayable in four annual instalments of USD 170 million. The margin on the term loan was also reduced to 2.55% from the earlier rate of 2.90%. The loan is secured by way of a pledged on the acquired shares.

10. Borrowings (continued)

(iii) Other long term loans

- Long-term loans comprise an outstanding balance of RO 4.2 million (31 December 2019: RO 6.1 million) from National Bank of Oman and is repayable in 16 quarterly instalments commencing from 30 September 2017. The loan is unsecured.
- Export credit loan with an outstanding balance of USD 42.3 million (RO 16.3 million) (31 December 2019: RO 12.2 million) from a consortium of banks to finance the procurement of capital equipment. The loan is unsecured. The facility carries an interest of 2.28% p.a and was utilized in the following tranches:

  a) Tranche 1 with an outstanding balance of USD 13.1 million (RO 5.1 million) (31 December 2019: RO 5.1 million) is repayable in semiannual instalments commencing from November 2018.
  b) Tranche 2 with an outstanding balance of USD 11.3 million (RO 4.3 million) (31 December 2019: RO 4.615 million) is repayable in semiannual instalments commencing from May 2019.
  c) Tranche 3 with an outstanding balance of USD 18.6 million (RO 7.2 million) (31 December 2019: RO 2.5 million) is repayable in semiannual instalments commencing from May 2019. During the period the Company has drawn down USD 13.2 million (RO 5.1 million) under Tranche 3.

(iv) Bonds

The issued bonds are denominated in US Dollars, listed on the Irish stock exchange and consists of the following tranches:

a) 5.5 years tranche USD 600 million with coupon rate of 5.63% per annum. The bonds are due for payment in year 2023. The effective interest rate on the bond is 6.05% per annum. The fair value of the bond is USD 601.8 million (31 December 2019: USD 634.8 million).
b) 10 years tranche USD 900 million with coupon rate of 6.63% per annum. The bonds are due for payment in year 2028. The effective interest on the bond is 7.09%. The fair value of the bond is USD 898.2 million (31 December 2019: USD 945 million).
c) The bonds are secured by way of a pledge on the acquired shares in Zain Group and is guaranteed by the Parent company.

(v) Mobile Telecommunications Company K.S.C.P (MTC)

During the year MTC has :

- drawn down loans amounting to RO 151.8 million. This includes:
  - USD 300 million (RO 112.3 million) from an existing USD 700 million revolving credit facility.
  - USD 100 million (RO 37.4 million) from an existing USD 100 million revolving credit facility.

  repaid loans amounting to RO 138.2 million. This includes:
  - USD 300 million (RO 111.9 million) of a long-term facility amounting to USD 200 million.
  - USD 15.7 million (RO 5.9 million) of a long-term facility amounting to USD 200 million.
  - USD 12.132 million (RO 4.5 million) of a long-term loan facility amounting to USD 200 million.

10. Borrowings (continued)

(v) Mobile Telecommunication Company Saudi Arabia (SMTC)

The above facilities carry a floating interest rate of a fixed margin over three or six month London Inter-Bank Offer Rate (LIBOR) or over Central Bank Discount rate.

Long-term loans include:

SAR 3,682 million (RO 366.65 million) syndicated murabaha facility availed from a consortium of banks.

In September 2020, SMTC signed an Amendment Agreement (the Agreement) with the consortium of lenders to refinance the existing Murabaha Facilities and secure additional funding for future capital investment. The existing murabaha facility which was earlier refinanced in June 2018 was for SAR 5,900 million and a working capital facility.

The Agreement:

- Includes a Total Term Murabaha Facility of SAR 6,000 million (RO 597.5 million), consisting of SAR 4,880 million and USD portion of SAR 1,120 million (RO119 million) for refinancing of the existing Term Murabaha Facility amounting to SAR 348 million (RO 34.7 million) and balance for future specified business purposes.
- Includes a revolving working capital facility of SAR 1,000 million (RO 99.6 million) consisting of SAR 813.393 million (RO 81 million) and a USD portion totaling to SAR 186.607million (RO 18.6 million).

The refinancing of existing facility resulted in a gain of SAR 136 million (RO 13.6 million) and was assessed for modification gain or loss separately from the additional funding limits that was availed.

Modification gain resulted from the following:

- Reduction of the applicable margin payable over and above the floating SIBOR and LIBOR rate.
- Extension of the loan maturity date to September 2025 from June 2023. The loan is repayable in four equal installment period of 12 months each, starting 24 months after the effective date and ending by 60 months after Effective Date.
- Cash flows under the contingent payment terms, mandatory prepayment in case of successful completion of rights issue and an ability for its subsequent draw down, were assessed on the date of the modification using most likely scenario.

The Murabaha Facility continues to be secured partially by a guarantee from MTC and a pledge of the MTC's and some of the founding shareholders' shares in SMTC and assignment of certain contracts and receivables. Under the Murabaha Financing Agreement, SMTC can declare dividend or other distribution in cash or in kind to shareholders, provided SMTC is in compliance with all its obligations under the agreement.

- SAR 2,243 million (RO 223.3 million) syndicated junior murabaha facility signed in June 2019 from a consortium of banks with a two year tenure with an option to extend for one more year. This facility is fully secured by a guarantee by the MTC.

10. Borrowings (continued)

(vi) Atheer

Long term loans include:

- USD 100 million (RO 37.3 million) (31 December 2019 – USD 100 million equivalent to RO 37.5 million) term loan from a commercial bank that is repayable by 17 December 2024.
- USD 105 million (RO 39.2 million) (31 December 2019 – USD 105 million equivalent to RO 39.3 million) term loan from a commercial bank which is repayable by 30 June 2023.
- USD 50 million (RO 18.7 million) (31 December 2019 – USD 50 million equivalent to RO 18.7 million) term loan from a commercial bank repayable by 09 April 2021.
- USD 130.319 million (RO 48.6 million) (31 December 2019 – USD 150.917 million equivalent to RO 56.5 million) term loan from a financial institution repayable by 31 May 2025.
- USD 150 million (RO 55.9 million) (31 December 2019 – USD 150 million equivalent to RO 56.2 million) revolving credit facilities from a commercial bank repayable by 17 December 2022.
- USD 100 million (RO 37.50 million) (31 December 2019: RO Nil) which is repayable by 31 July 2023.

These facilities are guaranteed by Mobile Telecommunications Company K.S.C.P and carry a floating interest rate of a fixed margin over three month LIBOR.

11. Other non-current liabilities

	Unaudited 30 September 2020 RO'000	Audited 31 December 2019 RO'000
Payable to Ministry of Finance - Saudi Arabia [(Note (i)]	**348,632**	358,239
Due to CITC - Saudi Arabia for acquisition of spectrum	**146,010**	92,367
Due to TRA-Oman for Mobile licence [(Note (ii)]	**12,500**	-
Customer deposits	**10,167**	11,053
Post-employment benefits	**53,803**	48,100
Others	**110,412**	106,526
	681,524	616,285

(i) During 2013, SMTC signed an agreement with Ministry of Finance-Kingdom of Saudi Arabia to defer payments that are due until 2021. These amounts will be repaid in seven instalments starting June 2021.

ii) In February 2020, the Ministry of Finance agreed for the deferral of the remaining licence payment of RO 37.5 million over 3 years commencing from February 2020.

The current portion of these payables along with accrued interest are recorded under trade and other payables.

12. Share capital

The authorized, issued and fully paid up share capital as of 30 September 2020 is 750,000,000 shares (31 December 2019 –750,000,000) of RO 100 Baisa each.

13. Dividend

The annual general meeting of shareholders for the year ended 31 December 2019 held on 10 May 2020 approved distribution of cash dividends of RO 0.055 (31 December 2018 – RO 0.050) per share amounting to RO 41,250,000 (31 December 2018 - RO 37,500,000).

14. Reserves

Legal reserve

In accordance with the Oman Commercial Companies Law of 2019, as amended, annual appropriations of 10% of the profit for the year are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the respective Omani entity's paid-up share capital. This reserve is not available for distribution. As the reserve equals one third of paid up share capital, the Parent Company has discontinued the transfer.

Voluntary reserve

In accordance with the Board of Directors' Resolution No.16T/5/2000, the Parent Company transfer 10% of its annual net profits to a distributable voluntary reserve until it becomes equal to one-half of the Parent Company's paid up share capital. As the reserve equals at least half of paid up share capital, the Parent Company has discontinued the transfer.

Capital contribution

On 11 February 2004, the Telecommunications Regulatory Authority (TRA) of the Sultanate of Oman issued licences to the Parent Company for mobile and fixed line telecommunication services at a cost of RO 500,000 and RO 200,000 and for periods of 15 and 25 years, respectively.

The Parent Company engaged an independent firm of consultants to determine the fair value of the licences as at 11 February 2004, who determined the fair value of the fixed and mobile licences as being in the amount of approximately RO 44.881 million (31 December 2019 : RO 44.881 million).

The basis of the valuation was on an assessed open market value of the licences under their current terms as they would apply to a new company obtaining the licences. The reason for adopting the assumption of a 'new company' was in order to differentiate the value of the licences from the other intangible assets that the Parent Company owns. Accordingly, the value attached to the licences is not a 'special value' to the Group of the licences and does not reflect the full value of the intangible assets enjoyed by the Parent Company.

14. Reserves (continued)

Capital contribution (continued)

The excess of the valuation of the Parent Company's licences over the amounts paid to the TRA, representing a fair value gain of RO 44.181 million (31 December 2019 : RO 44.181 million) has been recognised as a non-distributable capital contribution within equity.

The mobile licence of the Parent Company expired in February 2019 and upon renewal of the licence the fair value portion relating to previous Mobile licence amounting to RO 36.893 million was transferred to the capital reserve.

Capital reserve

This is a non-distributable reserve and represents the fair value portion of the previous Mobile licence, which expired in February 2019.

Foreign currency translation reserve

Exchange differences relating to the translation of assets and liabilities from the functional currency of the Group's foreign operations into Rials Omani are recorded directly in the foreign currency translation reserve.

Fair value reserve

The fair value reserve arises on the revaluation of financial assets.

Hedge reserve
The hedging reserve is used to record gains or losses on derivatives that are designated and qualify as cash flow hedges and that are recognised in comprehensive income. Amounts are reclassified to statement of profit or loss when the associated hedged item affects profit or loss.

15. Investment income / (loss)

	Three months ended 30 September (Unaudited)		**Nine months ended 30 September (Unaudited)**	
	2020	2019	**2020**	2019
	RO'000	RO'000	**RO'000**	RO'000
Profit / (loss) from investment securities at fair value through profit or loss (FVTPL)	**362**	(49)	**49**	(1,111)
Dividend income	**34**	79	**687**	1,035
	396	30	**736**	(76)

16. Earnings per share

Basic and diluted earnings per share based on the weighted average number of shares outstanding during the period are as follows:

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2020	2019	**2020**	2019
	RO'000	RO'000	**RO'000**	RO'000
Profit for the period attributable to shareholders	**22,390**	19,517	**46,353**	52,680
	Shares	Shares	Shares	Shares
Weighted average number of shares in issue outstanding during the period	**750,000,000**	750,000,000	**750,000,000**	750,000,000
Earnings per share – basic and diluted (RO)	**0.030**	0.026	**0.062**	0.070

17. Segmental information

The Company and its subsidiaries operate in a single business segment, telecommunications and related services in Oman and other countries. This forms the basis of the geographical segments.

Based on the quantitative thresholds, the Group has identified its operations in Oman, Kuwait, Jordan, Sudan, Iraq, Bahrain and KSA as the basis for disclosing the segment information.

17. Segmental information

30 September 2020 (unaudited)	Oman	Kuwait	Jordan	Sudan	Iraq	Bahrain	KSA	Others	Total
Segment revenues- airtime, data and subscription (Point over time)	375,851	219,713	129,445	102,722	264,146	37,677	539,925	26,342	1,695,821
Segment revenues- (Point in time)	34,214	68,375	5,033	1,224	1,025	8,263	45,072	128	163,334
Net profit before interest and tax	65,801	41,873	27,005	20,116	41,170	2,076	78,196	10,126	286,363
Interest income	1,132	1,190	431	245	671	181	1,111	90	5,051
Gain on sale and lease back transaction	-	5,806	-	-	-	-	-	-	5,806
Gain on modification of liability	-	-	-	-	-	-	13,580	-	13,580
Finance costs	(1,531)	(511)	(5,296)	(896)	(12,985)	(947)	(71,980)	(62)	(94,208)
Income tax expense	(9,406)	-	(7,019)	(6,483)	(5,877)	-	-	(443)	(29,228)
	55,996	**48,358**	**15,121**	**12,982**	**22,979**	**1,310**	**20,907**	**9,711**	**187,364**
Unallocated items:									
Investment income									736
Share of results of associates and joint ventures									1,013
Others (refer note below)									(21,442)
Profit for the period									**167,671**
Segment assets including goodwill	988,527	999,383	544,455	146,492	1,049,468	130,387	3,103,392	90,858	7,052,962
ROU assets	23,815	9,644	22,065	2,385	34,386	11,577	132,485	214	236,571
Unallocated items:									
Investment securities at fair value through profit or loss									44,698
Investment securities at amortised cost									2,000
Investment securities at FVOCI									9,014
Investment in associates and joint ventures									106,254
Others									155,150
Consolidated assets									**7,606,649**
Segment liabilities	301,526	179,029	176,158	69,425	288,217	36,770	1,595,742	92,003	2,738,870
Lease liabilities (Current and non-current)	22,289	16,699	22,869	2,149	38,578	11,722	142,233	168	256,707
Borrowing	27,600	-	-	-	237,040	-	592,001	-	856,641
Unallocated items:	351,415	195,728	199,027	71,574	563,835	48,492	2,327,977	92,170	3,850,218
Borrowing									1,684,582
Others									(478,473)
Consolidated liabilities									**5,056,327**
Net consolidated assets									**2,550,322**
Capital expenditure incurred during the period	63,922	24,164	4,291	27,850	45,380	14,766	218,038	10,031	408,442
Unallocated									810
Total capital expenditure									**409,252**
Depreciation and amortization	78,456	53,109	29,741	9,324	52,501	10,426	155,208	3,714	392,479
Amortisation of ROU assets	6,349	5,328	3,345	287	6,133	3,231	27,592	159	52,424
Unallocated									2,908
Total depreciation and amortization									**447,811**

Others include an amount of RO 39.195 million (2019- RO 39.144 million) representing interest costs on borrowings relating to acquisition of shares in Zain Group.

17. Segmental information

	30 September 2019 (unaudited)								
	Oman	Kuwait	Jordan	Sudan	Iraq	Bahrain	KSA	Others	Total RO '000
Segment revenues- airtime, data and subscription (Point over time)	381,000	238,388	132,614	80,471	294,071	37,227	539,510	18,541	1,721,822
Segment revenues- (Point in time)	15,308	66,967	4,959	568	1,422	8,095	74,167	52	171,538
Net profit before interest and tax	70,895	58,184	29,665	17,166	33,324	2,070	108,651	10,117	330,072
Interest income	1,182	288	359	971	1,188	182	2,001	337	6,508
Finance costs	(2,204)	(377)	(6,745)	(224)	(17,470)	(831)	(78,207)	(111)	(106,169)
Income tax expense	(10,523)	-	(7,029)	(5,060)	(4,318)	-	-	(484)	(27,414)
	59,350	58,095	16,250	12,853	12,724	1,421	32,445	9,859	202,997
Unallocated items:									
Investment income									(76)
Share of results of associates and joint ventures									2,244
Others (refer note below)									(6,912)
Profit for the period									198,253
Segment assets including goodwill	970,764	1,005,470	551,403	149,224	948,812	130,078	3,150,081	97,434	7,003,266
ROU assets	20,540	6,820	18,487	1,800	38,084	8,938	141,243	427	236,339
Unallocated items:									
Investment securities at fair value through profit or loss									49,385
Investment securities at amortised cost									3,000
Investment securities at FVOCI									6,349
Investment in associates and joint ventures									106,177
Others									167,533
Consolidated assets									7,572,049
Segment liabilities	287,074	150,970	160,741	56,687	188,608	32,794	1,577,950	85,961	2,540,785
Lease liabilities (Current and non-current)	21,102	6,530	18,878	1,927	42,167	9,433	152,876	465	253,378
Due to banks	24,772	-	-	-	210,983	-	670,927	16	906,698
Unallocated items:	332,948	157,500	179,619	58,614	441,758	42,227	2,401,753	86,442	3,700,861
Due to banks									1,725,969
Others									(430,474)
Consolidated liabilities									4,996,356
Net consolidated assets									2,575,693
Capital expenditure incurred during the period	148,055	37,513	5,753	2,435	28,701	13,953	120,778	104	357,292
Unallocated									3,504
Total capital expenditure									360,796
Depreciation and amortization	78,654	54,254	28,583	7,568	74,453	10,438	146,160	4,177	404,287
Amortisation of ROU assets	7,185	3,307	2,971	151	6,504	2,846	30,290	866	54,120
Unallocated									1,770
Total depreciation and amortization									460,177

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2020 (unaudited) (continued)

18. Related party transactions

The Group has entered into transactions with related parties on terms approved by management. Transactions and balances with related parties (in addition to those disclosed in other notes) are as follows:

Transactions

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	2020	2019	**2020**	2019
	RO'000	RO'000	**RO'000**	RO'000
Revenue	**2,679**	1,758	**11,754**	2,904
Purchase of goods and services	**194**	1,308	**8,123**	4,533
Purchase of property and equipment from associate	**372**	1,504	**1,409**	5,752
Key management compensation				
Salaries and other short term employee benefits	**439**	489	**2,253**	2,514
Post-employment benefits	**26**	29	**94**	107

Balances

	Unaudited 30 September 2020 RO'000	Audited 31 December 2019 RO'000
Trade receivables	**8,705**	10,985
Trade payables	**7,074**	1,749

19(a). Commitments and contingencies

	Unaudited 30 September 2020 RO'000	Audited 31 December 2019 RO'000
Capital expenditure	**248,619**	342,120
Uncalled share capital of investee companies	**3,378**	431
Letters of guarantee and credit	**102,067**	112,155
Investments	**2,884**	1,459

Zain Kuwait is a guarantor for credit facilities amounting to RO 9 million (31 December 2019 - RO 9 million) granted to a founding shareholder in SMTC and believes that the collateral provided by the founding shareholder to the bank, covers the credit facilities.

19(b). Claims

The Parent Company during financial year 2015 received demand notice amounting to RO 4.4 million from the Telecommunication Regulatory Authority (TRA) towards additional royalty payable for the prior years on certain categories of wholesale revenue. The Parent Company has paid RO 2.2 million under protest to TRA. Based upon legal opinion and interpretation of the relevant provisions of the Parent Company's license terms, the management believes that the additional royalty amount is not payable.

Claims pertaining to Zain Group

Income and capital gains taxes in Iraq

Atheer received additional income tax claims for the years 2004 to 2010 from Iraq General Commission for Taxes (IGCT). In November 2016, Atheer signed an agreement with Iraq's Ministry of Finance under which it obtained the right to submit its objection to these additional income tax claimed by the IGCT amounting to USD 244 million (RO 90.3 million) and submitted its objections against the tax claim. On 15 October 2019, the Appeals Committee of IGCT issued its decision to reduce the amount of claim to USD 109.75 million (RO 40.6 million). IGCT had the option to challenge this decision before the Court of Cassation within 15 days of Appeals Committee decision. The challenge period has elapsed and Atheer did not receive any notification from the Cassation Court or the IGCT about challenging the decision. Atheer has petitioned the Cassation Court to direct IGCT to send the case dossier and is awaiting a response. On the basis of the report of its attorneys, Atheer believes that the outcome of all appeals is still subject to the authentication of the Court of Cassation and that it will be determined in favor of Atheer.

In March 2020, Atheer received additional income tax claims of USD 23.8 million (RO 8.88 million) and USD 24.8 million (RO 9.25 million) from IGCT for the years 2011 and 2012 respectively. On 12 March 2020, Atheer submitted its objections to these additional income tax claims. On 15 March 2020, IGCT rejected the objection for year 2011. This additional tax claim is now under appeal procedures before the Appeals Committee of IGCT. Atheer believes that it has adequate provisions to meet this liability, if it arises. On 16 March 2020, IGCT accepted the objection for year 2012, cancelled its claim for additional tax of USD 24.8 million (RO 9.25 million) and approved the amount of tax self-assessed by Atheer for the year 2012 as final assessed amount.

Renewal of license in Iraq

On 7 July 2020, the Iraqi Cabinet decided to renew Atheer's license for an additional eight (8) years ending on August 30, 2030, and to grant license for the operation of fourth generation of broadband cellular network technology (4G) starting from January 1, 2021. In August 2020, this decision was challenged by a member of parliament, and later by the president of the parliament as a second plaintiff, against the Iraqi Cabinet, CMC and three operators in Iraq ("the defendants") in the Court of First Instance. On 25 August 2020, the Court of First Instance issued a restraining order to prevent CMC from completing the executive procedures of the license renewal and granting of 4G license. The defendants challenged the restraining order before the same court but it was rejected on 20 September 2020. The defendants challenged the same before the Court of Cassation and are awaiting a decision. On the basis of the report of its attorneys, Atheer believes that the prospects of this matter being resolved in Atheer's favor are good.

19(b). Claims (continued)

Pella-Jordan

Pella is a defendant in lawsuits amounting to RO 41.5 million (31 December 2019 – RO 15.3 million). Based on the report of its attorneys, the Group expects the outcome of these proceedings to be favorable to Pella. Pella has initiated legal proceedings against the claim by regulatory authorities of RO 11.73 million (31 December 2019 - RO 11.77 million) for the years 2002 - 2005 on the grounds that it has already paid the amount that it was obligated to pay for those years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella. Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to RO 11.87 million (31 December 2019 - RO 11.87 million) of earlier years. The outcome of the above matter cannot be assessed at this stage, as it is dependent on several legal, regulatory and other technical aspects.

In addition, legal proceedings have been initiated by and against the Group in some jurisdictions. On the basis of information currently available and the advice of the legal advisors, Group management is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position or the consolidated performance of the Group.

20. Financial instruments

Categories of financial assets and liabilities

The carrying amounts of the Group's financial assets and liabilities as stated in the condensed consolidated statement of financial position are categorized as follows:

	(Unaudited) 30 September 2020 RO'000	(Audited) 31 December 2019 RO'000
Financial assets amortised costs:		
Cash and bank balances	**503,005**	470,575
Trade and other receivables	**667,569**	643,833
Investment securities at amortised cost	**2,000**	2,000
Investment securities – FVTPL	**44,698**	45,369
Investment securities – FVOCI	**9,014**	7,868

All financial liabilities are categorized as 'other than at fair value through profit or loss'.

Fair value hierarchy for financial instruments measured at fair value

The following table presents the financial assets which are measured at fair value in the condensed consolidated statement of financial position in accordance with the fair value hierarchy.

This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3: Inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

20. Financial instruments (continued)

Fair value hierarchy for financial instruments measured at fair value (continued)

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

30 September 2020 (unaudited)	**Level 1 RO'000**	**Level 2 RO'000**	**Level 3 RO'000**	**Total RO'000**
Financial assets at fair value:				
Investments securities at fair value through profit or loss	**7,779**	**30,782**	**6,137**	**44,698**
Investments securities at fair value through comprehensive income	**1,956**	**2,737**	**4,321**	**9,014**
Total assets	**9,735**	**33,519**	**10,458**	**53,712**
31 December 2019 (audited)				
Financial assets at fair value:				
Investments at fair value through profit or loss	8,936	30,226	6,207	45,369
Investments at fair value through comprehensive income	1,534	2,587	3,747	7,868
Total assets	10,470	32,813	9,954	53,237

During the period there was no transfer between any fair value hierarchy levels.

Measurement at fair value

The methods and valuation techniques used for measuring fair value are unchanged compared to the previous year.

21. Hyperinflation – Zain South Sudan

Net monetary gain

The Republic of South Sudan economy had become hyperinflationary in 2016. Accordingly, the results, cash flows and financial position of the Group's subsidiary in South Sudan have been expressed in terms of the measuring unit current at the reporting date in accordance with IAS 29 Financial Reporting. The effect on the net monetary position is included in the Condensed Consolidated Statement of Profit or Loss as 'net monetary gain'.

The general price indices used in adjusting the results, cash flows and the financial position of Zain South Sudan set out below is based on the Consumer Price Index (CPI) published by South Sudan Bureau for Statistics.

	Index	**Conversion factor**
30 September 2020	14,932	1
31 December 2019	10,657	1.40
31 December 2018	6,306	2.37
31 December 2017	4,502	3.32
31 October 2017	4,127	3.62

22. Derivative financial instruments

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year-end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

	Negative fair value	Notional amount
At 30 September 2020	**RO '000**	**RO '000**
Derivatives held for hedging:		
Cash flow hedges		
Interest rate swap	**31,184**	**593,919**
At 31 December 2019		
Derivatives held for hedging:		
Cash flow hedges		
Interest rate swap	14,829	507,811

23. Impact of Covid-19

The outbreak of the novel Coronavirus (Covid-19) in early 2020 in most countries has caused widespread disruptions to business, with a consequential negative impact on economic activities. The Group is continually monitoring its impact, while working closely with the local regulatory authorities, to manage the potential business disruption of the Covid-19 outbreak.

In light of Covid-19, the Group has considered whether any adjustments and changes in judgments, estimates and risk management are required to be considered and reported in the condensed consolidated interim financial information. Below are the key assumptions about the future and other key sources of estimation that may have a significant risk of causing material adjustments to the condensed consolidated interim financial information.

Impact on non-financial assets

The Group has performed a qualitative assessment for its investment in CGUs, considering the minimal impact of Covid-19 on entities operating in the telecommunication sector, and compared the actual results for the period against the budget and industry benchmarks to conclude the impairment assessment as at 31 December 2019 remains largely unchanged.

The Group has also considered any impairment indicators arising and any significant uncertainties around its property and equipment, intangible assets and right-of-use assets especially arising from any change in lease terms and concluded there is no material impact due to Covid-19.

23. Impact of Covid-19 (continued)

Expected Credit Losses ("ECL") and impairment of financial assets

The Group has applied management overlays on the existing ECL models by applying probability weightage scenarios on the relevant macroeconomic factors relative to the economic climate of the respective market in which it operates. The Group has also assessed the exposures in potentially affected sectors for any indicators of impairment and concluded there is no material impact on account of COVID-19.

Commitments and contingent liabilities

The Group has assessed the impact of any operational disruptions, including any contractual challenges and changes in business or commercial relationships among the Group, customers and suppliers, with a view of potential increase in contingent liabilities and commitments and no issues were noted.

Going concern

The Group has performed an assessment of whether it is a going concern in the light of current economic conditions and all available information about future risks and uncertainties. The projections have been prepared covering the Group's future performance, capital and liquidity. The impact of COVID-19 may continue to evolve, but at the present time the projections show that the Group has ample resources to continue in operational existence and its going concern position remains largely unaffected and unchanged from 31 December 2019. As a result, this condensed consolidated interim financial information has been appropriately prepared on a going concern basis.

24. Comparatives

Certain comparative figures have been reclassified to conform to current period presentation. Such reclassifications do not affect previously reported net profit.

Impact of adoption of IFRIC 23 - Uncertainty over Income Tax Treatments

The Group applied IFRIC 23: 'Uncertainty over Income Tax Treatments' using the modified retrospective method in December 2019. Accordingly, the management determined an additional tax liability of RO 55.737 million for the years 2011 to 2018 which was adjusted to opening retained earnings and non-controlling interest by RO 9.275 million and RO 46.462 million respectively as on 1 January 2019.

25. Events after the reporting date

Capital restructuring in SMTC

The Extraordinary General Assembly meetings of SMTC held in October 2020 approved its capital restructuring by first reducing the share capital from SAR 5.837 billion to SAR 4.487 billion through cancellation of issued shares and then increasing it through a rights issue by SAR 4.5 billion to SAR 8.987 billion.