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 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, Group believes that there is no definitive basis to apply IAS 29 at this stage. However, Group will review it on an ongoing basis, accordingly it has not quantified the impact of applying IAS 29 in 2018 and as of 30 June 2019.

This condensed 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 2018, 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 2018.

2 Basis of preparation (continued)

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 2018. However, the Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Other amendments and interpretations apply for the first time in 2019, but do not have an impact on the condensed interim financial information of the Group.

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.

3 Impact of changes in accounting policies due to adoption of new standards

The key changes to the Group’s accounting policies resulting from its adoption of IFRS 16 is summarized below:

From 1 January 2019, the Group recognizes operating leases to which the Group is a lessee as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Each lease payment is allocated between liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

3 Impact of changes in accounting policies due to adoption of new standards (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Low-value assets comprise IT-equipment and small items of office furniture.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial applications.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019.

	RO’000
Operating lease commitments disclosed as at 31 December 2018	**318,094**
Discounted using the lessee’s incremental borrowing rate of at the date of initial application	**279,795**
Lease liability recognised as at 1 January 2019	**279,795**
Of which are:	
Current lease liabilities	**77,790**
Non-current lease liabilities	**202,005**
	279,795

The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.38%. Interest expense on lease liabilities amounted to RO 8.4 million for the period ended 30 Jun 2019.

(a) Net impact from the adoption of IFRS 16 on opening retained earnings and non-controlling interests as at 1 January 2019 is as follows:

		RO ’000	
	31 December 2018	**Increase/ decrease**	**1 January 2019**
Right of use of assets (including held for sale assets)	-	271,542	271,542
Trade and other receivables	824,668	(41,253)	783,415
Lease liabilities	-	279,795	279,795
Accrued expenses	977,910	(437)	977,473
Retained earnings	412,844	(6,991)	405,853
Minority interests	2,066,039	(42,072)	2,023,967

Oman Telecommunications Company SAOG

Notes to the condensed consolidated interim financial information for the six month ended 30 June 2019 (unaudited) (continued)

3 Impact of changes in accounting policies due to adoption of new standards (continued)

The following table summarizes the impact on Group's consolidated statement of financial position as of 30 June 2019:

Balance Sheet	**As reported RO'000**	IFRS 16 RO'000	**Amounts without adoption of IFRS 16 RO'000**
Current assets			
Cash and bank balances	**465,151**	-	**465,151**
Trade and other receivables	**879,920**	64,579	**942,499**
Contract assets	**100,320**	-	**100,320**
Inventories	**63,513**	-	**63,513**
Investment securities at FVTPL	**19,047**	-	**19,047**
Investment securities at amortised cost	**1,000**	-	**1,000**
Assets of disposal group held for sale	**16,822**	(7,322)	**12,500**
	1,545,773	57,257	**1,603,030**
Non-current assets			
Contract assets	**25,352**	-	**25,352**
Investment securities at FVTPL	**30,688**	-	**30,688**
Investment securities at FVOCI	**8,782**	-	**8,782**
Investment securities amortised cost	**2,000**	-	**2,000**
Investments in associates and joint ventures	**106,448**	-	**106,448**
Other assets	**20,652**	-	**20,652**
Property and equipment	**1,995,410**	-	**1,995,410**
Right of use assets	**244,148**	(244,148)	**-**
Intangible assets and goodwill	**3,631,113**	-	**3,631,113**
	6,064,593	(244,148)	**5,820,445**
Total assets	**7,610,366**	(186,891)	**7,423,475**
Current liabilities			
Trade and other payables	**1,378,073**	26,682	**1,404,755**
Contract liability	**147,086**	-	**147,086**
Lease liabilities	**60,958**	(60,958)	**-**
Liabilities of disposal group held for sale	**5,229**	(5,229)	**-**
Borrowings	**607,212**	-	**607,212**
	2,198,558	(39,505)	**2,159,053**
Non-current liabilities			
Borrowings	**2,100,832**	**-**	**2,100,832**
Lease liabilities	**192,222**	(192,222)	-
Other non-current liabilities	**596,272**	**-**	**596,272**
	2,889,326	(192,222)	**2,697,104**

3 Impact of changes in accounting policies due to adoption of new standards (continued)

Impact of adoption of IFRS 16 on the condensed consolidated interim statement of financial position as of 30 June 2019:

Balance Sheet	**As reported RO'000**	**IFRS 16 RO'000**	**Amounts without adoption of IFRS 16 RO'000**
Equity			
Attributable to the Group's shareholders			
Share capital	**75,000**	-	**75,000**
Legal reserve	**25,000**	-	**25,000**
Voluntary reserve	**49,875**	-	**49,875**
Capital reserve	**36,893**	-	**36,893**
Capital contribution	**7,288**	-	**7,288**
Foreign currency translation reserve	**(57,357)**	-	**(57,357)**
Investment fair valuation reserve	**(904)**	-	**(904)**
Hedging reserve	**(2,781)**	-	**(2,781)**
Other reserves	**364**	-	**364**
Retained earnings	**401,518**	7,193	**408,711**
	534,896	7,193	**542,089**
Non-controlling interests	**1,987,586**	37,643	**2,025,229**
Total equity	**2,522,482**	44,836	**2,567,318**
Total liabilities and equity	**7,610,366**	(186,891)	**7,423,475**

3 Impact of changes in accounting policies due to adoption of new standards (continued)

The following table summarizes the impact on the condensed interim consolidated statement of profit or loss for the six-month period ended 30 June 2019.

	As reported RO'000	IFRS 16 RO'000	Amounts without adoption of IFRS 16 RO'000
Revenue	**1,258,884**	-	**1,258,884**
Cost of sales	**(346,710)**	(1,887)	**(348,597)**
Gross profit	**912,174**	(1,887)	**910,287**
Operating and administrative expenses	**(348,164)**	(48,554)	**(396,718)**
Depreciation and amortization	**(306,824)**	37,853	**(268,971)**
Expected credit loss on financial assets	**(24,516)**	-	**(24,516)**
Operating profit	**232,670**	(12,588)	**220,082**
Interest income	**7,140**	-	**7,140**
Investment income	**(106)**	-	**(106)**
Share of results of associates and joint ventures	**1,986**	-	**1,986**
Other (expense)/income	**2,822**	(81)	**2,741**
Finance costs	**(97,640)**	8,412	**(89,228)**
Loss from currency revaluation	**(7,283)**	-	**(7,283)**
Net monetary gain	**5,038**	-	**5,038**
Profit before taxation	**144,627**	(4,257)	**140,370**
Taxation	**(18,129)**	(205)	**(18,334)**
Profit for the period	**126,498**	(4,462)	**122,036**
Attributable to:			
Shareholders of the Company	**33,165**	174	**33,339**
Non controlling interest	**93,333**	(4,636)	**88,697**
	126,498	(4,462)	**122,036**

The recognized right-of-use assets relate to the following types of assets:

	Land and building RO'000	Cellular and other equipment RO'000
Balance as of 1 January 2019	**225,797**	**39,773**
Add: additions	**17,681**	**464**
Less: amortisations	**(30,132)**	**(7,721)**
Retirement	**(1,099)**	**(615)**
Closing balance as at 30 June 2019 (excluding assets of disposal group classified as held for sale)	**212,247**	**31,901**

Land and building comprises mainly of telecommunication sites on lease.

3 Impact of changes in accounting policies due to adoption of new standards (continued)

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease.*

The net impact on retained earnings on 1 January 2019 was a decrease of RO 6.99 million.

The Group's leasing activities and how these are accounted for

The Group mostly leases indoor and outdoor spaces for installation of its telecommunications sites. Rental contracts are typically made for fixed periods of 1 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, these leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

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 2018, except as mentioned below:

Extension and termination options in lease contracts

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable both by the Group and the respective lessor.

3. Impact of changes in accounting policies due to adoption of new standards (continued)

Extension and termination options in lease contracts (continued)

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Discounting of lease payments

The lease payments are discounted using the Group's incremental borrowing rate ("IBR") of the Company or the subsidiary, as applicable. Management has applied judgments and estimates to determine the IBR at the commencement of lease.

4. Cash and bank balances

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

	Unaudited 30 June 2019 RO'000	Audited 31 December 2018 RO'000
Cash on hand and at banks	**229,367**	290,333
Short-term deposits with banks	**239,883**	217,851
Government certificates of deposits held by subsidiaries	**134**	126
	469,384	508,310
Expected credit loss	**(4,233)**	(4,887)
	465,151	503,423
Cash at bank under lien	**(9,401)**	(9,355)
Deposits with maturity exceeding three months	**(3,661)**	(3,000)
Government certificates of deposits with maturities exceeding three months	**(134)**	(126)
Cash and cash equivalent in the condensed parent and consolidated statements of cash flows	**451,955**	490,942

5. Assets and liabilities of disposal group held for sale

This represents the carrying value of telecom tower assets amounting to RO 9.5 million (31 December 2018 – RO 9.453 million) and right of use of assets amounting to RO 7.3 million (31 December 2018 – Nil) in Kuwait and its related lease liabilities amounting to RO 5.2 million (31 December 2018 – Nil), classified as held for sale, on the basis that management is committed to a plan to sell these assets to a Tower Company. The Company will be the anchor tenant on commercial terms on each of the towers being sold and the transaction is expected to close in 2019, subject to customary closing conditions.

6. Investments in associates and joint ventures

6.1 Investments in associates - consolidated

This represented the Group's interest in SMTC. Based on an event in July 2018, the Group had concluded that it is able to control SMTC through its majority representation on the board of directors and accordingly consolidated SMTC from July 2018.
The group also has interests in other associates with a carrying value of RO 13.509 million (31 December 2018- RO 9.818 million).
Carrying value of RO 13.509 million includes an amount of RO 5 million representing a 40% interest acquired in Majan Telecommunications LLC (Renna) on 25 June 2019. Pursuant to a shareholder agreement, the Company has a right to cast 40% of the votes at shareholder meetings and a right to appoint two out of five directors to the Board of directors of Renna.

Interest in a joint venture
Group's interest in Joint venture comprise the following:

a) Carrying amount of RO 89.09 million (31 December 2018 - RO 86.2 million) representing interest in the 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).
b) Carrying amount of RO 3.849 million (31 December 2018-RO 3.851 million) representing interest in Equinox Muscat LLC.

7. Property and equipment

	Unaudited 30 June 2019 RO'000	Audited 31 December 2018 RO'000
Net fixed assets	**1,824,968**	1,793,727
Capital work in progress	**170,442**	226,259
	1,995,410	2,019,986

During the six months period ended 30 June 2019, the Group acquired property and equipment amounting to RO 165.4 million (30 June 2018: RO 69.4 million). Depreciation charged for the period amounted to RO 169.9 million (30 June 2018: RO 111 million).

8. Intangible assets and goodwill

	Unaudited 30 June 2019 RO'000	Audited 31 December 2018 RO'000
Intangible assets	**2,585,255**	2,539,627
Goodwill	**1,045,858**	1,040,037
	3,631,113	3,579,664

During the three-months period ended 30 June 2019, the Group acquired intangible assets amounting to RO 142.6 million (30 June 2018: RO 0.970 million).

9. Borrowings

Notes to the condensed consolidated interim financial information for the six month ended 30 June 2019 (unaudited) (continued)

	Unaudited 30 June 2019 RO'000	Audited 31 December 2018 RO'000
Parent Company		
Long term loans	**135,631**	132,221
Oztel		
Long term loan	**139,699**	139,284
Oman Data Park		
Long term loans	**7,155**	7,165
Finance lease obligation	**29**	33
Mobile Telecommunications Company-Kuwait		
Short term loans	**122,597**	136,966
Long term loans	**799,696**	753,311
Zain Jordan		
Long term loan	**-**	5,278
SMTC		
Long term loans	**676,163**	701,465
Atheer – Iraq		
Long term loans	**253,482**	188,991
Others	**21**	27
Due to banks	**2,134,473**	2,064,741
Oztel - Bonds	**573,571**	572,935
Total borrowings	**2,708,044**	2,637,676

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

Current liabilities	**607,212**	555,941
Non-current liabilities	**2,100,832**	2,081,735
	2,708,044	2,637,676

9. Borrowings (continued)

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

	Unaudited 30 June 2019 RO'000	Audited 31 December 2018 RO'000
US dollar	**2,324,600**	2,263,015
Saudi Riyals	**320,403**	337,462
Kuwaiti dinar	**55,836**	24,694
Omani Rial	**7,184**	12,505
Others	**21**	-
	2,708,044	2,637,676

The effective interest rate as at 30 June 2019 was 2.22% to 6.99% (31 December 2018 - 2.42% to 6.99%) per annum.

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.

Parent company

- The Parent Company acquired a bridge loan facility and term loan of USD 1,450 million and USD 800 million respectively in year 2017 from a consortium of banks for financing the acquisition of shares in Mobile Telecommunication Company (Zain Group). The Parent company transferred USD 435.225 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 is retained by the Parent company. The term loan is 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 loan is secured by way of a pledged on the acquired shares. 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.

9. Borrowings (continued)

- Long-term loans comprise an outstanding balance of RO 8.1 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 28.2 million (RO 10.862 million) from a consortium of banks to finance the procurement of capital equipment. 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 15.67 million (RO 6.034 million) is repayable in semiannual instalments commencing from November 2018.
  b) Tranche 2 with an outstanding balance of USD 12.53 million (RO 4.828 million) is repayable in semiannual instalments commencing from May 2019.

Oztel Holdings SPC Limited (Oztel)

Bonds

On 24 April 2018, Oztel completed the listing of USD 1.5 billion (RO 577.8 million) which was used to repay the bridge loan. 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%. The bonds are due for payment in year 2023. The effective interest rate on the bond is 6.05%. The fair value of the bond is USD 615 million.
b) 10 years tranche USD 900 million with coupon rate of 6.63%. 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 891 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.

Mobile Telecommunications Company K.S.C.P

These 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.

SMTC

Long-term loans include:

- SAR 4,463 million (RO 449.8 million) syndicated murabaha facility availed from a consortium of banks. In June 2018, SMTC refinanced and extended the maturity of the syndicated Murabaha facility that was maturing in 2018 to a SAR 5,900 million (RO 593.41 million) facility maturing in June 2023 which includes a working capital facility of SAR 647.3 million (RO 65.1 million) for two years. During the third and fourth quarters of the previous year, SMTC made early voluntary payments amounting to SAR 1,125 million (RO 112.81 million). During the second quarter of the current year SMTC made an early voluntary payment amounting to SAR 300 million (RO 30.2 million)

9. Borrowings (continued)

Mobile Telecommunications Company K.S.C.P (continued)

SMTC (continued)
The murabaha facility is secured partially by a guarantee from the Group and a pledge of the Group'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 2,269 million (RO 227.9 million) long-term loan repayable by August 2019 availed from a commercial bank. This facility is guaranteed by Zain group. In June 2019, SMTC signed an agreement with a consortium of banks to refinance the facility effective from July 2019.

Atheer
Long-term loans include:

- Term loan from a commercial bank amounting to US$ 250 million (RO 94.16 million) (31 December 2018: RO 93.82 million) that is repayable by 17 December 2019.
- Term loan from a commercial bank amounting to US$ 55 million (RO 20.716 million) (31 December 2018: RO 20.642 million) which is repayable by 31 March 2020.
- Term loan from a commercial bank amounting to US$ 50 million (RO 18.83 million) (31 December 2018: RO 18.764 million) which is repayable by 30 April 2020.
- Term loan from a commercial bank amounting to US$ 50 million (RO 18.833 million) (31 December 2018: RO 18.764 million) which is repayable by 09 April 2021.
- Term loan from a financial institution amounting to US$ 269 million (RO 101.16 million) (31 December 2018: RO 37.52 million) which is repayable by 31 May 2025.

These facilities are guaranteed by the Group and carry a floating interest rate of a fixed margin over three month LIBOR.

10 Other non-current liabilities

	30 June 2019 RO'000	31 December 2018 RO'000
Payable to Ministry of Finance- Saudi Arabia (Refer note below)	**332,496**	289,845
Due to CITC-Saudi Arabia for acquisition of spectrum	**92,678**	41,633
Customer deposits	**12,850**	12,945
Post-employment benefits	**48,270**	45,019
Others	**109,978**	110,514
	596,272	499,956

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.

11. Share capital

The authorized, issued and fully paid up share capital as of 30 June 2019 is 750,000,000 shares (31 December 2018 –750,000,000) of RO 100 Baisa each.

12. Dividend

The annual general meeting of shareholders for the year ended 31 December 2018 held on 28 March 2019 approved distribution of cash dividends of RO 0.050 (31 December 2017 – RO 0.050) per share amounting to RO 37,500,000 (31 December 2017 - RO 37,500,000).

13. Reserves

Legal reserve

In accordance with the Oman Commercial Companies Law of 1974, 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 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 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.

13. Reserves (continued)

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 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.

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 Group 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 Company.

The excess of the valuation of the Group’s licences over the amounts paid to the TRA, representing a fair value gain of 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. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in the statement of income. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in the statement of profit or loss.

13. Reserves (continued)

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 statement of income.

14. Investment income

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2019	2018	**2019**	2018
	RO'000	RO'000	**RO'000**	RO'000
Profit/(loss) from investment securities at fair value through profit or loss (FVTPL	**544**	(898)	**(1,062)**	(253)
Dividend income	**689**	622	**956**	895
	1,233	(276)	**(106)**	642

15. Earnings per share

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

	·ee months ended 30 June (Unaudi		Six months ended 30 June (Unaudited)	
	2019	2018	**2019**	2018
	RO'000	RO'000 (Restated)	**RO'000**	RO'000 (Restated)
Profit for the period attributable to shareholders	**18,262**	19,476	**33,165**	32,912
	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)	**0.024**	0.026	**0.044**	0.044

16. 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 and Bahrain as the basis for disclosing the segment information.

16. Segmental information (continued)

30 June 2019	Oman	Kuwait	Jordan	Sudan	Iraq	Bahrain	KSA	Others	Total RO '000
Segment revenues- airtime, data and subscription (Point over time)	249,657	160,004	86,360	51,478	194,720	24,568	359,401	10,998	1,137,186
Segment revenues- (Point in time)	10,192	44,266	3,399	356	1,042	5,837	56,587	19	121,698
Net profit before interest and tax	46,856	38,633	19,398	9,688	22,244	1,331	73,347	6,148	217,645
Interest income	734	143	277	654	705	105	1,387	226	4,231
Finance costs	(1,436)	(257)	(4,563)	(140)	(11,544)	(493)	(52,376)	(78)	(70,887)
Income tax expense	(6,962)	-	(4,549)	(3,213)	(2,763)	-	-	(318)	(17,805)
	39,192	**38,519**	**10,563**	**6,989**	**8,642**	**943**	**22,358**	**5,978**	**133,184**
Unallocated items:									
Investment income									(106)
Share of results of associates and joint ventures									1,986
Others									(8,566)
Profit for the period									**126,498**
Segment assets including goodwill	935,135	991,093	540,686	148,405	941,926	116,823	3,028,711	108,806	6,811,585
ROU assets	21,511	9,572	17,328	1,447	40,158	9,472	143,951	708	244,147
Unallocated items:									
Investment securities at fair value through profit or loss									49,735
Investment securities at amortised cost									3,000
Investment securities at FVOCI									8,782
Investment in associates and joint ventures									106,448
Others (Refer note below)									386,669
Consolidated assets									**7,610,366**
Segment liabilities	270,244	141,935	172,155	63,074	184,433	28,739	1,606,211	100,288	2,567,079
Lease liabilities (Current and non-current)	22,204	8,359	17,401	1,563	43,293	10,176	149,402	782	253,180
Due to banks	25,722	-	-	-	253,482	-	676,164	20	955,388
	318,170	150,294	189,556	64,637	481,208	38,915	2,431,777	101,090	3,775,647
Unallocated items:									
Due to banks									1,752,656
Others									(440,419)
Consolidated liabilities									**5,087,884**
Net consolidated assets									**2,522,483**
Capital expenditure incurred during the period	135,334	17,329	3,058	1,855	14,196	189	107,793	100	279,854
Unallocated									1,855
Total capital expenditure									**281,709**
Depreciation and amortization	51,315	33,756	19,125	4,943	49,667	6,902	97,690	2,240	265,638
Amortisation of ROU assets	5,484	4,524	2,007	129	4,385	2,118	20,504	580	39,731
Unallocated									1,455
Total depreciation and amortization									**306,824**

Others include an amount of RO 26.223 Million (2018- RO 29.258 Million) representing interest costs on borrowings relating to acquisition of shares in Zain Group.

16. Segmental information

	30 June 2018 (Restated)							
	Oman	Kuwait	Jordan	Sudan	Iraq	Bahrain	Others	Total RO '000
Segment revenues- airtime, data and subscription (Point over time)	257,149	171,791	88,233	63,034	208,784	24,999	15,598	829,588
Segment revenues- (Point in time)	26,704	46,090	2,641	323	1,107	7,637	111	84,613
Net profit before interest and tax	50,636	33,282	16,608	12,324	15,166	747	52,297	181,060
Interest income	611	-	266	448	74	28	122	1,549
Finance costs	(667)	-	(3,564)	-	(7,138)	(36)	(25)	(11,430)
Income tax expense	(7,626)	-	(3,911)	(2,816)	(2,747)	-	(314)	(17,414)
	42,954	33,282	9,399	9,956	5,355	739	52,080	153,765
Unallocated items:								
Investment income								642
Share of results of associates and joint ventures								(5,441)
Others								(47,957)
Profit for the period								101,009
Segment assets including goodwill	751,747	955,688	579,918	163,828	916,394	125,024	92,235	3,584,834
Unallocated items:								
Investment securities at fair value through profit or loss								66,408
Investment securities at amortised cost								9,000
Investment securities at FVOCI								10,307
Investment in associates and joint ventures								726,509
Dues from associates								538,496
Others								352,910
Consolidated assets								5,288,464
Segment liabilities	221,371	101,076	187,411	47,997	181,033	27,741	108,026	874,655
Due to banks	17,684	-	-	-	183,077	930	-	201,691
Unallocated items:	239,055	101,076	187,411	47,997	364,110	28,671	108,026	1,076,346
Due to banks								1,799,136
Others								100,312
Consolidated liabilities								2,975,794
Net consolidated assets								2,312,670
Capital expenditure incurred during the period	34,679	12,735	2,048	6,887	14,506	176	4,893	75,924
Unallocated								2,048
Total capital expenditure								77,972
Depreciation and amortization	52,217	31,940	19,660	7,254	49,698	6,768	2,719	170,261
Unallocated								1,248
Total depreciation and amortization								171,504

17. 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

	Six months ended 30 June (Unaudited)	
	2019	2018
	RO'000	RO'000
Revenue	**1,146**	1,542
Cost of sales	**3,225**	44
Operating and administrative expenses	**1,041**	1,838
Management fee (included in other income)	**-**	2,550
Interest income on loans to an associate	**-**	14,515
Purchase of Property and equipment from associate	**8,147**	1,468

Key management compensation

Salaries and other short term employee benefits	**2,025**	1,911
Post-employment benefits	**78**	83

Balances

	Unaudited 30 June 2019 RO'000	Audited 31 December 2018 RO'000
Trade receivables	**2,667**	-
Trade payables	**1,751**	1,920

18(a). Commitments and contingencies

	Unaudited 30 June 2019 RO'000	Audited 31 December 2018 RO'000
Capital expenditure	**386,847**	237,259
Uncalled share capital of investee companies	**578**	1,189
Letters of guarantee and credit	**107,489**	102,340
Investments	**312**	1,128

Zain group is a guarantor for credit facilities amounting to RO 9 million (31 December 2018 - RO 9 million) granted to a founding shareholder in SMTC. The Company believes that the collateral provided by the founding shareholder to the bank, covers the credit facilities.

18(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

In November 2016, Atheer signed an agreement with Iraq's Ministry of Finance under which, among other concessions, it obtained the right to submit its objection to the income tax claimed by the Income Tax Authority for the years from 2004 to 2010 amounting to US$ 244 million (RO 91.3 million). According to the terms of the agreement, Atheer had to pay minimum 25% of the amount claimed and the balance US$ 173 million (RO 68.5 million) in fifty equal monthly installments from December 2016. Atheer would thus reserve the right to file an objection for each of these years. Accordingly, Atheer submitted its objections against the US$ 244 million (RO 91.3 million) tax claim in November 2016 objecting to the full amount of the claim, and commenced payment of the amount agreed. As of 31 March 2019, Atheer has an obligation to pay a balance of US$ 75 million (RO 28.2 million) (31 December 2018: US$ 86 million equivalent to RO 32.2 million), net of previous payments in twenty-two remaining instalments.

In May 2017, Iraq General Commission for Taxes (IGCT) issued its decision rejecting the objections for the above years without stating any reasons. On 7 June 2017, Atheer filed appeals against IGCT decisions with the Appeal Committee at IGCT. On 9 November 2017, the Appeal Committee issued a decision with respect to years 2004 - 2007 rejecting Atheer's appeals by mainly arguing that Atheer did not have the right to file the original objections in November 2016, which implies that the Appeal Committee did not recognize the settlement agreed with the Ministry of Finance. On 21 December 2017 the Appeal Committee issued a decision with respect to years 2008-2010 rejecting Atheer's appeals on the basis that while Atheer had filed the objections on time but it did not pay the requisite amounts that are required under the law for the objections to be deemed properly filed, which again implied that the Appeal Committee did not recognize the settlement agreed with the Ministry of Finance. On 21 November 2017, Atheer filed a further appeal with the Cassation Committee at the IGCT with respect to years 2004-2007, and further filed similar appeals with the Cassation Committee on 2 January 2018 for the years 2008-2010. On 12 February 2018, the Cassation Committee issued decisions in favor of Atheer in relation to the years 2004-2010, by upholding Atheer's right to appeal and instructing the Appeals Committee to reconsider those appeals on their merits on the basis that Atheer's agreement with Ministry of Finance was not invalid. Appeals Committee resumed its session in June 2018 in which Atheer submitted a statement to clear its grounds. On 25 September 2018, the Appeals Committee decided to suspend the final decision on this case until it received a response from the Council of Ministers in respect of this matter based on recommendations by an internal committee at the Ministry of Finance. Based on the report of its attorneys, Atheer believes that the prospects of resolving this matter is in its favor.

18(b). Claims (continued)

Pella is a defendant in lawsuits amounting to RO 41.94 million (31 December 2018 – 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 11.84 million (31 December 2018 - 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. Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to RO 11.988 million (31 December 2018 - RO 14.45 million) of earlier years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella.

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.

19. Financial instruments

Categories of financial assets and liabilities

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

	(Unaudited) 30 June 2019 RO'000	(Audited) 31 December 2018 RO'000
Financial Assets amortised costs:		
Cash and bank balances	**465,151**	503,423
Trade and other receivables	**608,562**	726,369
Contract assets (current and non-current)	**125,672**	114,835
Investment securities at amortised cost	**3,000**	3,000
Other assets	**1,207**	1,283
Investment securities – FVTPL	**49,735**	62,706
Investment securities – FVOCI	**8,782**	8,692

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:

19. Financial instruments (continued)

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).

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 June 2019	**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	**9,279**	**34,249**	**6,207**	**49,735**
Investments securities at fair value through comprehensive income	**1,284**	**1,104**	**6,394**	**8,782**
Total assets	**10,563**	**35,353**	**12,601**	**58,517**
31 December 2018				
Financial assets at fair value:				
Investments securities at fair value through profit or loss	15,326	41,055	6,325	62,706
Investments securities at fair value through comprehensive income	1,250	1,080	6,362	8,692
Total assets	16,576	42,135	12,687	71,398

Measurement at fair value

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

20. 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.

20. Hyperinflation – Zain South Sudan (continued)

Net monetary gain (continued)

	Index	Conversion factor
30 June 2019	9,914	1.0
31 December 2018	6,306	1.46
31 December 2017	4,502	2.04
31 December 2016	2,068	4.44
31 December 2015	357	25.72
31 December 2014	170	54.01
31 December 2013	155	59.23

Provision for impairment loss on property and equipment

In March 2018, the Group had assessed that the carrying value of its network assets at Zain South Sudan exceeded their recoverable amount as determined by their fair value less cost of disposal and recorded an impairment loss of RO 12.1 million.

21. 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.

At 30 June 2019	**Positive fair value RO '000**	**Negative fair value RO '000**	**Notional amount RO '000**
Derivatives held for hedging:			
Cash flow hedges			
Interest rate swap- Parent company		590	69,849
Interest rate swap- Oztel		1,172	139,699
Profit rate swaps - Zain Group	-	13,408	299,166
At 31 December 2018			
Derivatives held for hedging:			
Cash flow hedges			
Interest rate swap-Parent company	799	-	69,849
Interest rate swap-Oztel	1,502	-	139,699
Profit rate swaps – Zain Group	-	2,159	297,995

22. Comparative figures

The accounting effect of purchase price allocation was incorporated as of the acquisition date-12 November 2017 resulting in a restatement of the results of the comparative periods. The impact of the restatement on prior year Consolidated Statement of Profit & Loss and Statement of Financial position is provided in the below table:

Statement of income

	As reported RO'000	**Restated RO'000**
Depreciation and amortisation	**148,554**	**171,504**
Share of results of associate and Joint venture	**(3,954)**	**(5,441)**
Profit before taxation	**143,224**	**118,787**
Taxation	**(17,778)**	**(17,778)**
Profit for the year	**125,446**	**101,009**
Attributable to:		
Equity holders of the parent	**38,008**	**32,912**
Non controlling interest	**87,440**	**68,097**
Profit for the year	**125,448**	**101,009**
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**(124,111)**	**(151,597)**
Cash flow hedges	**3,929**	**3,929**
Net other comprehensive income for the year from continuing operations	**(120,182)**	**(147,668)**
Other comprehensive expense not to be reclassified to profit or loss in subsequent periods		
Changes in the fair value of equity investments at FVOCI	**(198)**	**(198)**
Total comprehensive income for the year	**5,066**	**(46,857)**
Attributable to:		
Equity holders of the parent	**10,565**	**(234)**
Non controlling interests	**(5,499)**	**(46,623)**
	5,066	**(46,857)**