

Oman Telecommunications Co (S.A.O.G)
Board of Directors' Report First Quarter Results – Year 2018

Respected Shareholders,

We are pleased to present to you a summary of the results of the operations for the 3 months period ended 31st March 2018.

Operating performance:

REVENUE

Group Revenue as of March'18 has grown to RO 470 million compared to RO 131.6 million for the corresponding period 2017. The Group revenue include acquired business of Zain Group, which contributed revenues of RO 325.2 Mn. The Group results for the period Q1'18 include fully consolidated Zain Group results, while Q1'17 results do not include Zain Group.

Domestic Operations Revenues includes Parent company and domestic subsidiaries, which recorded a growth of 9.8% and reached RO 144.5 million compared to RO 131.6 million for the corresponding year 2017. The Retail revenue posted a growth of 2.6%, whereas Wholesale revenues recorded an increase of 40.5%, which is due to higher revenues from submarine capacity sales. The growth is mainly driven by Fixed Broadband revenues, which recorded a growth of 12.5%. Conventional revenue streams such as national calls, international calls have continued their declining trend due to Over The Top (OTT) services.

EXPENSES

Group's total Operating expenses increased to RO 392.6 million compared to RO 106 million for the corresponding year 2017, of which costs related to Zain group is RO 268 Mn.

Domestic Operations costs increased by 17.5% to RO 124.5 million compared to RO 106 Mn. The increase is mainly due to increase in Cost of Sales and provision of impairment of receivables.

NET PROFIT

The Group achieved an after tax Net Profit of RO 57.4 Mn (RO 16 Mn net off non-controlling interests) compared to the after tax profitability of RO 23.7 Mn in 2017.

The Group net profit include acquired business of Zain Group, which contributed net profit of RO 52.8 Mn to the Group. After adjusting for the non-controlling interest, the acquired business contributed profit of RO 11.3 Mn to the Group Profit.

Group Earning per Share (EPS) for the period ended 31 Mar'18 is RO 0.021 compared to RO 0.032 for the corresponding period of year 2017.

SUBSCRIBER BASE

The total domestic subscriber base as of March 2018 (including mobile and fixed businesses) was recorded at 3.43 million (excluding Mobile Resellers) compared to 3.36 million of the corresponding period of the previous year, recording a growth of 2.1% over the last period. However, total subscriber base with mobile resellers reached 4.41 Mn.

Subsidiary Companies:

- 1) Mobile Telecommunication Company (Zain):** During the second half of 2017, Omantel completed the acquisition of 21.9% shareholding in Zain Group and acquired the controlling interest in the Zain Group. Since then Omantel financials are consolidated with Zain Group financials and disclosed to the market.

Zain Group revenues recorded a growth of 7% and reached US\$ 863.5 Mn (*RO 325.5 Mn*) as of Q1'2018 compared to the corresponding period revenues of US\$ 809.7 Mn (*RO 305.2 Mn*). EBITDA stands at US\$ 281 Mn (*RO 105.9 Mn*), a decline of 20%. Net profit is US\$ 136.5 Mn (*RO 51.5 Mn*), an increase of 9% over the previous period. EBITDA is impacted mainly due to lower growth in some of the key markets and forex translation impact. One of the contributing factor for net profit increase is overall growth across key market segments and net monetary gain. Total customer base grew by 2% from 46.898 Mn compared to 46.136 Mn of the previous period.

- 2) Oman Data Park LLC:** is a joint venture of Omantel and 4Trust LLC. The paid up capital is RO 2.8 million and Omantel owns 60%. The revenue for the quarter ended Mar'18 is RO 1.3 Mn an increase of 34.8% compared to RO 0.9 Mn for the corresponding year 2017. The company has incurred a net loss of RO 0.1 Mn for the quarter ended Mar'18 as compared to a loss of RO 0.128 Mn in the previous year.

Bond Offering:

On 17th April 2018, Omantel has successfully issued bonds worth US\$ 1.5 Bn in two tranches – 5.5 Years and 10 Years. This is the largest Corporate offering from Oman. 5.5 Year Bond valuing US\$ 600 Mn maturing in 2023 paying an annual coupon of 5.625% and 10 Years Bond valuing US\$ 900 Mn maturing in 2028 paying an annual coupon of 6.625%. The proceeds of the bonds is used to repay the bridge loan facility taken for the investment of Omantel in Zain Group, Kuwait.

Oman Telecommunications Co (S.A.O.G)
Board of Directors' Report First Quarter Results – Year 2018

Market Share:

Omantel's Mobile network market share (*including Mobile Resellers*) is estimated at 56.6% with a revenue share of 60.4%. The Fixed Telephone (post & pre-paid) market share is estimated at 75.6% with a revenue market share of 83.3%.

Corporate Social Responsibility (CSR):

As part of its ongoing commitment to support the society and environment, Omantel has embarked on number of CSR initiatives and programs and has extended its support to various organizations and events. The below summarizes the major initiatives and events supported during the 3 months period ended 31st March 2018:

1. **Omantel launched "OMHUB"** in partnership with National Business center, Oman Oil Company, and Oman India Fertilizers Company OMIFCO. OMHUB is an incubation center for both new startups in addition to already established SMEs that can be further grown through accelerator programs.
2. Also, Omantel continued its participation in Outward Bound Oman in the 5th consecutive years (targeting government school students to enhance soft skills), participated in 6th Dar Al Atta's Treasure hunt to support the student program care, Wal Awael program aimed at elderly people to familiarize the latest means of communication and participated in World Autism Awareness program by supporting Autism Fingerprint application.

Future outlook:

The introduction of several fundamental regulatory changes in 2018 will have a substantial impact on the Omani telecom market in 2018. First of all, the new Access & Interconnect regulation in its current form, will inevitably lead to increased pressure on overall market value and profitability, however, the company now working with TRA on this issue. Secondly, the award of a 3rd Mobile License, even though the conditions and timeline are not clear at this stage, will substantially shift the competitive forces in the market. On a positive note, the current stabilization of the oil price and economic environment will likely result in a positive market growth in the medium and long term.

The OTT (over-the-top) trend continues to put pressure on the traditional markets in the telecom sector, both globally and in Oman. Especially the explosion of data usage in social media and streaming content provides opportunities as well as challenges to operators in Oman. The growth in data consumption in both fixed and mobile increases demand for broadband services providing an opportunity to grow revenues. At the same time, the popularity of free services and the dominance of global content players with a capability to leverage a global customer base while being subjected to limited regulation makes it challenging for local players to compete on value added services. Furthermore, building the required infrastructure to support this demand remains a substantial burden on operators, putting a substantial pressure on EBITDA levels.

The execution of our “Omantel 3.0” strategy remains the essential tool for Omantel to defend our position in the market and deal with the changing market dynamics. Our focus is on maximizing the share of wallet and value for customer, through excelling in customer experience as well as expanding in beyond the core services such as ICT solutions. This will assure we can further grow our position in the market. We continue to invest in our network to meet the increasing demand for data services and to enhance customer experience. Our Carrier of Carriers strategy as part of Wholesale proposition in the region enables us also to assure we provide the best connectivity to international players.

Moreover, the recent acquisition of a stake in Zain will enable Omantel to diversify its revenue sources and contribute to the creation of an added value to the shareholders of both companies, and will provide opportunities for integration between the two companies as well as to find a strong platform to compete more effectively in the market and overcome the risks of being in a single market.

Thanks and appreciation

We take this opportunity to express our heartfelt thanks to our shareholders and loyal customers for their continued support that enabled us to achieve these excellent results. Also, we wholeheartedly appreciate the sincere contribution of the Executive Management and Employees for the remarkable performance in the challenging situation. With your support, we are confident that Omantel will continue its good performance and will be able to reach new heights of excellence.

On behalf of the Board of Directors, executive management and the staff, we are honored to extend our sincere congratulation to His Majesty Sultan Qaboos bin Said on the occasion of the blessed month of Ramdadhn. We pray to Almighty Allah to shower him with his blessings, and grant him all the strength to continue to lead the country on the path of sustainable development.

Eng. SULTAN HAMDOON AL HARTHI
CHAIRMAN, OMANTEL BOARD OF DIRECTORS