

Respected Shareholders,

We are pleased to present to you a summary of the results of the operations for the year 2018.

Operating performance:

REVENUE

Group Revenue for the year ended 31st December 2018 has grown to RO 2,186 million compared to RO 751.7 million for the corresponding period 2017. The Group revenue include acquired business of Zain Group, which contributed revenues of RO 1,642 Mn. The Group results for the full year 2018 include fully consolidated Zain Group results, while Year 2017 consolidated results include only the results of Zain Group from November 2017 to December 2017. Further Zain Saudi Arabia (KSA) became a subsidiary of Zain Group due to the step up acquisition since Q3 2018.

Omantel (excluding Zain Group) Revenues recorded a growth of 2.6% and reached RO 546 million compared to RO 532.2 million for the corresponding year 2017. Revenue growth is mainly driven by Fixed Broadband and Wholesale Revenues. Fixed Broadband revenues have recorded a growth of 12.8%, while Wholesale Business recorded an increase of 20.8%. 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 1,774.1 million compared to RO 619.1 million for the corresponding year 2017, of which costs related to Zain group is RO 1,331.7 Mn.

Omantel (excluding Zain Group) costs increased by 0.9% to RO 445.1 million compared to RO 440.9 Mn. The increase is mainly due to growth in revenue related expenses and provision of impairment of receivables.

NET PROFIT

The Group achieved an after tax Net Profit of RO 208.8 Mn (RO 64.8 Mn net off non-controlling interests) compared to the after tax profitability of RO 99.8 Mn in 2017 (RO 78.3 Mn net off non-controlling interests).

The Group net profit include acquired business of Zain Group, which contributed net profit of RO 176 Mn to the Group.

Net profit of Omantel Group (*excluding Zain Group*) for the year ended 31st December 2018 is RO 75.5 Mn compared to RO 72.6 Mn, an increase of 4.3%. Total cash outflow on interest cost related to Zain

Oman Telecommunications Co (S.A.O.G)
Board of Directors' Report the year ended 31st December 2018

Transaction is RO 46.9 Mn against the Dividend Income from Zain of RO 42.6 Mn. The total Interest Cost on Zain Transaction is RO 56.3 Mn including amortization cost related to the Financing.

Excluding Interest cost and Dividend related to Zain Transaction, then the Net profit of Omantel Group for the year ended 31st December 2018 is RO 89.2 Mn (December 2017- 83.2 Mn) reflecting a growth of 7.2%.

Group Earning per Share (EPS) for the year ended 31st Dec'18 is RO 0.086 compared to RO 0.104 for the corresponding period of year 2017.

Dividend

Board has recommended a dividend of 50 bz per share which will be subject to the approval of AGM. The payout ratio is 57% of the Group Profit.

SUBSCRIBER BASE

The total domestic subscriber base as of December 2018 (including mobile and fixed businesses) was 3,494 million (excluding Mobile Resellers) compared to 3,501 million of the corresponding period of the previous year, recording a decline of 0.2% over the last period. Total subscriber base with mobile resellers reached 4,251 Mn.

Subsidiary Companies:

- 1) Mobile Telecommunication Company (Zain):** Omantel acquired 21.9% shareholding in Zain Group in Year 2017 and acquired a 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 28% and reached US\$ 4.4 Bn (*RO 1.62 Bn*) as of Dec'18 compared to the corresponding period revenues of US\$ 3.4 Bn (*RO 1.3 Bn*). EBITDA stands at US\$ 1.7 Bn (*RO 646.3 Mn*), recording a growth of 25%. Net profit is US\$ 649 Mn (*RO 250 Mn*, net off non controlling interest) an increase of 23% over the previous period. 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 5% to 49 Mn compared to 46.6 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 4.75 million and Omantel owns 80%. The revenue for the year ended Dec'18 is RO 5.5 Mn an increase of 7.9% compared to RO 5.1 Mn for the corresponding year 2017. The company has shown an improved performance with EBITDA at 27%.

Market Share:

Omantel's Mobile network market share (*including Mobile Resellers*) is estimated at 56.7% with a revenue share of 58.1%. The Fixed Telephone (post & pre-paid) market share is estimated at 73.4% with a revenue market share of 81.1%.

Awards and recognitions:

Omantel won the following awards during the Year 2018:

1. Received '**Best Middle Eastern Project**' award at the Global Carrier Awards 2018 in London. the award recognizes Omantel's work in establishing the first world-class carrier-neutral hub in Oman.
2. Won awards in **Oman Digital Transformation awards-2018** in 6 categories at Oman telecom innovation conference i.e. best telecom company, smart city, e-government, innovation, best ICT company and best of the best at Oman telecom innovation conference.
3. **Top Trusted Brand in Telecommunications category** and the **Most Trusted Omani Brand** among corporates in the 'The Most Trusted Brands in Oman' survey by by Oman Economic Review (OER) business magazine.
4. The **Best company in the field of Investor Relations** and **Best Investor Relations Professional** in the field of investor relations in the Sultanate of Oman for the year 2018 by the Middle East Investor Relations Society, Dubai.

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 year 2018:

1. **Signing an MoU with MoE:** signed a cooperation and partnership agreement on a series of programs to enhance and improve the education sector such as: Omantel Olympics for Coding, "Programing project", "driven by innovation Bus", "Renewable Energy lab" and others.
2. **Ideation Program:** Omantel in collaboration with NBC running a new program that targets talented students and potential entrepreneurs who need help in forming a business around their ideas.
3. **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.
4. Signed an MOU with UNICEF to advocate for the well-being of Children by offering its smart telecom solutions to help the organization to have more innovative approach in addressing the health, nutrition and education for children.
5. **ICT competition:** a program aims to transform graduating students' class projects into financially viable information and communication technology (ICT) start-ups by supporting the winners with the seed funding. The program announced 3 winning graduation projects.
6. Omantel continued its participation Hosting Charity associations (Al Rahma Association and Dar Al Atta'a Association), participated in Fak Kurbah campaign, ICT internship for the forth batch of Omantel & Huawei ICT internship program designed for fresh graduates.

7. **Other CSR activities include** 1) Supported for the 2nd time Oman Basketball Championship on wheelchairs organized by the Paralympic Committee, 2) Provided “**Tecotherm Neo**” Cooling therapy device for Sohar Hospital, 3) Participated in National Blood Donation Campaign, 4) Mehnati program a training program that will graduate 100 Omani job seekers from 5 different governances. 5) Participated in the OCA 15th Annual cancer walkathon, 6) Participated Outward Bound Oman in the 5th consecutive years.

Future outlook:

Year 2018 witnessed a slow down on the core telecom market revenues mainly resulting from economic slowdown and increased competition in the domestic market. . In 2018, the core telecom services market revenues, especially in mobile, are showing signs of stagnation or even a slight decline, only partially compensated by growth in fixed line services. This market stagnation is caused by reduction in spending power as well as a stagnation in population growth and a change in demographics. These conditions will likely fuel more aggressive competitive behavior between existing players, further accelerated with the introduction of new players in the market, such as the introduction of a 3rd Mobile License and the new license for Oman Broadband as well as the new Access & Interconnect regulation. In a declining core telecom market, this will very likely limit revenue growth potential across all players.

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 domestic regulation, makes it challenging for domestic telecom operators to compete on value added services. Furthermore, building the required infrastructure to support this demand remains a substantial burden on operators, putting an increased pressure on the margins.

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 for enterprise and government customers. This will assure that 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. At the same time, we focus on optimizing our cost base in order to compensate the decline in margins.

Moreover, the 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

Oman Telecommunications Co (S.A.O.G)
Board of Directors' Report the year ended 31st December 2018

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.

Board performance appraisal

In compliance with the "Code of Corporate Governance for Public Listed Companies, the AGM of the company appointed on 28 March 2018 the Protiviti as an independent consultant to evaluate the Board of Directors performance based on the parameters that were approved by Shareholders. The Protiviti completed their assignment and sent their complete report to the Chairman of the Board of Directors highlighting certain improvement opportunities. Summary of the report is included in the agenda of the AGM.

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 express our sincere gratitude to His Majesty Sultan Qaboos bin Said for His visionary leadership. 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