

Respected Shareholders,

We are pleased to present to you a summary of the results of the operations for the year 2017.

Operating performance:

REVENUE

Group Revenue for the year ended 31st December 2017 has grown to RO 751.7 million, an increase of 44.7% compared to RO 519.3 million for the corresponding year 2016. The Group revenue include acquired business of Zain Group, which contributed revenues of RO 219.6 Mn.

Parent company Revenues have recorded a growth of 2.4% and now reached RO 527.5 million compared to RO 515.1 million for the corresponding year 2016 (*Revenue has been adjusted with cost of content*). The Retail revenue posted a growth of 2.6%, whereas Wholesale revenues recorded an increase of 1.6%, which is due to higher revenues from submarine capacity sales. The growth is mainly driven by Fixed and Mobile Broadband revenues, which recorded a growth of 16.6% and 13.4% respectively. 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 by 56.3% to RO 612.6 million compared to RO 391.9 million for the corresponding year 2016, of which costs related to Zain group is RO 171.6 Mn.

Parent Company costs increased by 12.4% to RO 435.8 million compared to RO 387.6 Mn. The increase is mainly due to change in Royalty Fees from 7% to 12% and Depreciation. Royalty Fees increased by RO 17.6 Mn and Depreciation and Amortization Increased by RO 13.3 Mn. The depreciation increase is mainly from increased investment in network expansion and modernization of both mobile and fixed networks to meet the growing demand of broadband services.

NET PROFIT

The Group achieved an after tax Net Profit of RO 106.8 Mn (*RO 79.7 Mn net off non-controlling interests*) for the year ended 31st December 2017, compared to the after tax profitability of RO 115.8 Mn in 2016, a decrease of 7.8%. The parent company achieved a net profit of RO 70.6 Mn during 2017, i.e. a decrease of 40% from net profitability recorded in 2016. The impact on the net profit is due to increase in royalty from 7% to 12%, and increase in the corporate tax rate from 12% to 15%. The Group net profit include acquired business of Zain Group, which contributed net profit of 35.7 Mn to the Group for the period from 15 November 2017 to 31 December 2017. After adjusting for the non-controlling interest, the acquired

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business contributed profit of RO 11.1 Mn to the Group Profit (RO 7.6 Mn as a Subsidiary and RO 3.5 Mn as an Associate).

Group Earning per Share (EPS) for the year ended 31 Dec'17 is RO 0.106 compared to RO 0.156 for the year 2016.

Final Dividend

Board has recommended a final dividend of 50 bz per share which will be subject to the approval of AGM. This is in addition to the interim dividend of 20 bz per share paid in Aug 2017. This is bringing the total dividend of 70 bz per share (70% of the paid up capital) for the financial year 2017. The payout ratio is 66% of the Group Profit.

SUBSCRIBER BASE

The total domestic subscriber base as of December 2017 (including mobile and fixed businesses) was recorded at 3.5 million (excluding Mobile Resellers) compared to 3.351 million of the corresponding period of the previous year, recording a growth of 4.5% over the last period. However, total subscriber base with mobile resellers reached 4.559 Mn.

Subsidiary Companies:

- 1) Mobile Telecommunication Company (Zain):** Omantel has expanded its operational footprint through an international acquisition of strategic stake in the Zain Group ('Zain'). During the second half of 2017, Omantel completed the acquisition of 21.9% shareholding in Zain for a total consideration of RO 845 Mn (US\$ 2.19 Bn). Resultantly, Omantel Group has become the second largest shareholder in Zain with the Board control. Zain Group results are consolidated for the period from 15 November 2017 to 31 December 2017. The number of subscribers increased to 52 million and became the third largest operator in the Middle East, opening several opportunities and options in the near future that will benefit our shareholders and subscribers.
- 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 year ended 31 Dec'17 is RO 5.1 Mn an increase of 6.1% compared to RO 4.8 Mn for the corresponding year 2016. The company has incurred a net profit of RO 0.048 Mn for the year ended 31 Dec'17 as compared to a loss of RO 0.356 Mn in the previous year.
- 3) Omantel France SAS:** is a 100% Omantel owned company that will be responsible for landing and maintaining the Asia Africa Europe - 1 (AAE-1) cable in France. The setting up of this company gives Omantel a worldwide recognition by becoming the only Middle-east operator to build a presence in European Union (EU) and provide open access into EU to all other owners in AAE-1 consortium..

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Omantel France has completed all the required infrastructure for landing AAE1 cable and operational since Q3 2017.

- 4) **Worldcall Telecom Limited (WTL):** As disclosed, in Oct 2016, as part of the divestment its stake in WTL, Omantel concluded Share Purchase Agreement with WorldCall Services Limited and Ferret Consulting (the "Purchaser") for sale of ordinary and convertible preference shares of WTL held by Omantel. The sold shares have now been issued in the name of the Purchaser which marks the completion of the share transfer. Henceforth its financials would not be consolidated.
- 5) **Internet of things LLC (Momkin):** Omantel owns 65% shareholding in the company. The Company is engaged in the development of applications and services across a wide spectrum of smart, connected objects and M2M communications. The commercial operation has already started this year.

Market Share:

Omantel's Mobile network market share (*including Mobile Resellers*) is estimated at 57.5% with a revenue share of 59.2%. The Fixed Telephone (post & pre-paid) market share is estimated at 76.9% with a revenue market share of 82.2%.

Awards and recognitions:

Omantel won the following awards during the Year 2017:

1. Omantel was awarded the '**Quality Choice Prize 2017**' by the European Society for Quality Research (ESQR) for the second year in a row.
2. Omantel was awarded the '**Most Trusted Brand**' in the telecommunications sector in Oman for the second year in a row, according to a survey conducted by Muscat Daily.
3. 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 2017 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 2017:

1. **Smart Cities Lab in SQU:** Omantel entered into partnership with SQU and Momkin (Omantel IoT subsidiary) to provide computers, IoT solutions and devices to be used in researches at SQU.
2. **OMHUB:** an incubation center launched in partnership with Oman Oil and National Business Centre at Knowledge Oasis Muscat that targets talented students and potential entrepreneurs who need help in forming a business and look for coaching and a place to be incubated in.

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3. **Mobaderah Award:** An initiative that was announced during Omani Women Day celebrations targeting Omani women associations and members with outstanding contributions to compete for the best CSR program.
4. **Innovation Bus:** a joint CSR initiative between Omantel and Ministry of Education. This bus will be traveling around the Sultanate and will be opened for all school students in Oman. The bus contains innovation tools such as: Virtual Reality, 3D Printers, Programming and STEM.
5. **Mobile phone maintenance program:** A training program on mobile phones maintenance and repair for 100 Omani job seekers covering 5 governorates in collaboration with Prime Institute and under the supervision of Ministry of Manpower.
6. **Other CSR activities include** 1) Supported the First Oman Basketball Championship on wheelchairs organized by the Paralympic Committee, 2) Provides special printer to Omar ibn Al khatab institute for blinds for printing in braille and Tablet devices to Almal School for deaf, 3) Enhanced IT infrastructure for Oman Special Olympic Center. 4) provided mobile devices with scree reader's feature for Al Noor Association Sohar. 5) Support to Oman Cancer Association and Royal Hospital.

Measuring Board Performance:

The appointed consultant by the Ordinary General Assembly of the Company evaluated the performance of the Board for its performance during the 2017 and presented its report to the Chairman and included in the agenda of the AGM. The conclusion of the report is that the Board is in compliance with Code of Corporate Governance, and all members of the board have the relevant financial and industry experience. The recommendations of the consultant were discussed and agreed for an action plan for implementation during the year 2018.

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. 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.

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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 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