
Management Discussion & Analysis

Report – Year Ended 31st December 2007

The management of Oman Telecommunications Company SAOG (Omantel) is pleased to present to the shareholders of the Company, a detailed report covering analysis on industry structure and development, opportunities and threats, future outlook, risks and concerns, detailed analysis on operational performance and other major activities of the year 2007.

BRIEF HISTORY:

Omantel is the leading telecom operator in the Sultanate providing Fixed, Mobile and Internet services to corporate, government and residential customers. The company was established in 1980 pursuant to Law No. 43 of 1980 as the General Telecommunications Organization (GTO), and has been a monopoly provider of telecommunications services since then. In view of emerging competition in the mobile market, Omantel Group established Oman Mobile in 2004, as a subsidiary company. Omantel became a publicly listed company in the year 2005 and its shares were listed on July 28th, 2005 in the Muscat Securities Market (MSM). Omantel is currently owned 70% by the government and 30 % by private investors.

The sector competition began in March 2005 and the mobile segment was the first one to open up for competition.

INDUSTRY STRUCTURE & DEVELOPMENT:

Omantel's main operations are within the telecom market in Oman. The government started implementing the sector liberalization in line with World Trade Organization (WTO) agreement. Beginning March 2005, the industry witnessed competition in the mobile sector through the licensing of a 2nd mobile operator. Currently, two mobile operators have been licensed.

The sector liberalization process which began in the Sultanate in year 2005 has gained further momentum in year 2007 with the signing of Free Trade Agreement with United States of America. Telecommunication Regulatory Authority (TRA) has already requested applications from interested parties for the "*Resale of mobile calls offered by the country's two mobile operators through pre-paid cards*". Also, following the TRA directive, Omantel has submitted the Reference Access offer (RAO) as part of the market liberalization of Internet and Value Added services. This is currently under review by the TRA. In addition to the above, TRA issued series of consultation papers / documents soliciting operator (s) and public opinion on:

- 1) Resale of International Calls.
- 2) Consultation on Quality of Standards (QoS) framework and Network Standards.
- 3) Rules and Procedures for Class III License Application.

As part of improving the competitiveness, Omantel has started the implementation of the "Competitive Readiness Program" (CRP). The Phase I is completed and Phase II is expected to start soon. With this program, Omantel would undergo major transformations to fully prepare for competition. CRP outlines key elements of Omantel Group strategy and structure for the years to come.

Also, Omantel is working closely with the Ministry of Finance (MoF) on the partial sale of Omantel shares to the Strategic Investor.

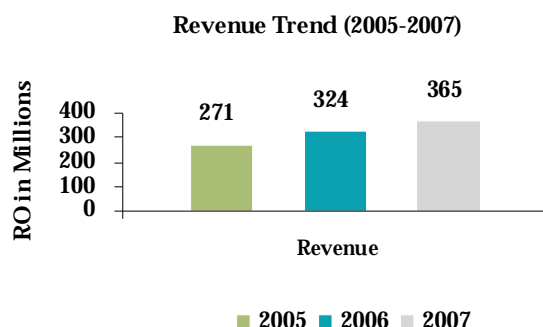
OPPORTUNITIES AND THREATS:

With Fixed Business services set to open up for competition in year 2008, the telecom market in Oman would undergo further dynamic changes in telecom service offerings. New Internet and other Value Added service providers are expected to enter the market soon. This would provide the market with numerous differentiated service offerings that are not available at present. We realize that there are still opportunities to increase customer base and penetration levels in Oman. As the leading telecommunication service provider in Oman, Omantel Group is strongly placed not only to compete with newcomers in the fixed line business segment, but also to benefit from the same through providing wholesale services to new telecom operators, which would position Omantel as “carrier of carriers”. This is due to strong national brands, fully built-out and up-to-date network, and capable workforce in development, national distribution as well as systems and processes efforts to provide and deliver services and support customers.

Though, liberalization would further stimulate the telecom market, and as witnessed in other markets under liberalization, the likely price dilution would impact the sector profitability. Also, we are of the opinion that the number of operators in services such as Internet and Value added services are required to be adequately regulated to ensure profitable existence and service continuity. Omantel takes the view that competition is beneficial but that it needs to be implemented in the right market at the right time and under the right terms and conditions. We anticipate that the TRA’s sector policy would provide the balanced path to further liberalization programs based on the current adopted way of consulting with the market players before finalizing the policy.

ANALYSIS OF SEGMENT AND PRODUCT WISE PERFORMANCE:

Total service revenues comprise revenues from Fixed line, Internet & data, Mobile services and in-payment and interconnection services. Total service revenues have increased from RO 323.6 million in 2006 to RO 365.3 million in 2007 (y-o-y growth of 12.9%).

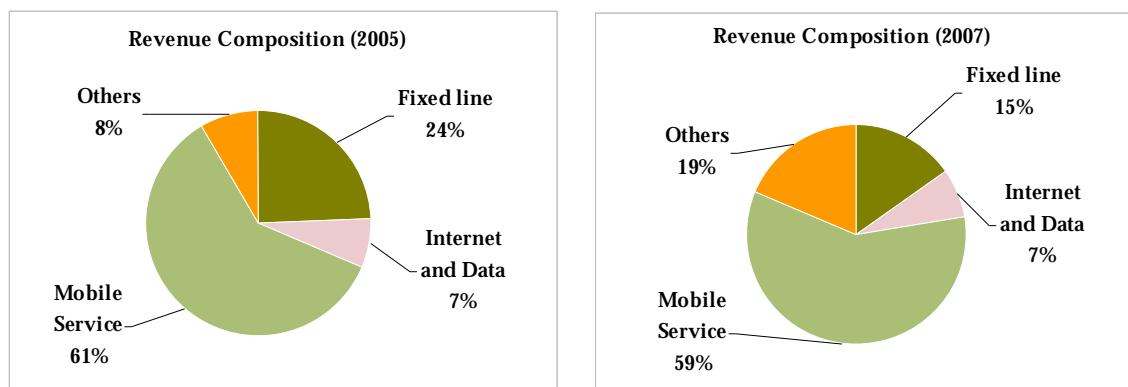


The following table describes the classification of revenues for the past three years:

Financial year ended 31 December			
Fig in RO Mn	2005	2006	2007
Fixed line service (including payphones)	66.2	60.8	56.3
Internet and data services	18.7	22.0	25.6
Mobile Service	163.0	195.7	215.1
Others (In payment + Interconnection+ capacity sale)	22.8	45.1	68.3
Total Service Revenues	270.6	323.6	365.3
Growth %	9.4%	19.6%	12.9%

The growth in total service revenues for the period from 2005 to 2007 has been mainly driven by the increase in mobile revenue resulting from an increase in the number of mobile (and in

particular prepaid) subscribers and other revenue streams. Fixed line revenues fell during the same period. Aggregate internet and data communications revenue gradually rose during the same period. The increase in other revenue for the year 2007 is mainly due to interconnection service provided to the other telecom operator and sale of network capacity to international operators. The following chart shows the change in revenue contribution between year 2005 and 2007.



Segment Revenue

Fixed Line Services:

Fixed line services include national and international fixed line voice, prepaid cards (Jibreen) and payphones (Al Multaqa).

The ARPU for the fixed line segment has been derived based on the revenues generated by all fixed line users, including payphones.

Financial year ended 31 December			
	2005	2006	2007
Fixed line revenue (RO Million)	66.2	60.8	56.3
Average number of subscribers (including pre-paid & payphones services)	256,107	271,761	277,564
Blended Monthly ARPU (RO)	21.5	18.6	16.9

The ARPU of the fixed line segment has declined from RO 21.5 per month in 2005 to RO 16.9 per month in 2007. During the same period, the increase in number of average subscriber base is 2.7%.

Internet and Data Services

Internet and Data communications services include Internet dialup, Internet broadband services (ADSL "PowerNet"), Internet prepaid services ("Al Ufuq"), and Internet dedicated services and data services (domestic and international leased line).

The ARPU for the Internet services (excluding data services) has been derived based on the revenues generated by all Internet services, which includes dial-up, pre-paid, dedicated and ADSL services:

Financial year ended 31 December			
	2005	2006	2007
Internet revenues (RO millions)	10.7	13.3	16.4
Average Internet subscribers (including broadband)	72,689	89,587	96,441
Average revenue per subscriber per month blended (RO)	12.3	12.3	14.2

The above table demonstrates that the ARPU has recorded an increase of 15.4% mainly due to increased off-take of broadband services.

Mobile Services

Mobile service includes postpaid, prepaid and other value added services. The year 2007 witnessed steady growth in mobile subscriber base and the total mobile subscriber base has reached 1.483 Mn.

The Omantel Group's mobile revenues now accounts for 59% of total revenues in 2007. The mobile segment has been the primary growth driver of the Omantel Group's revenues over the past 3 years.

The blended mobile ARPU (postpaid and prepaid) decreased from RO 14.3 in 2005 to RO 13.1 in 2007. The fall in the ARPU level is as expected as prices have been reduced and the numbers of subscribers have increased rapidly. The fall in blended ARPU in year 2007 is 6% compared with 2006, which is considered to be healthy in an increasing competitive scenario. The evolution of blended ARPU is provided in the following table.

Financial year ended 31 December			
	2005	2006	2007
Mobile Revenue (<i>excluding inter-connection</i>) - RO millions	163.0	195.7	215.1
Average subscribers	947,817	1,167,725	1,364,586
Blended Monthly ARPU (RO)	14.3	14.0	13.1

OUTLOOK:

In view of the impending competition in Fixed line business and based on the Ministerial committee directive, the management has formulated the following strategies, which are:

- Continue being the leading integrated telecom service provider in the Sultanate by enhancing revenue growth in Fixed and Mobile segment, while retaining valued customers through loyalty programs.
- Enhance internal efficiency to control operating costs, while cautious infrastructure investment to abreast new technologies that enhance the customer experience.
- Align transformation program of the group towards customer focus strategy.
- Build competitive edge through investments in brand, marketing & sales, capabilities, and technology investments

We expect the growth in the telecom market to continue in Oman and the group revenue would grow next year mainly due to additional growth opportunities in the mobile market. With the planned introduction of 3G+ based Wireless Broadband services and increased thrust on Wire line Broadband services across the Sultanate would see radical change in the service offerings to meet the needs of various market segments. Also, gradual implementation of Next Generation

Network replacing the existing Fixed Line network beginning in Year 2008 would enhance the customer experience. We expect these planned strategies would be completed in time, which would enhance the competitive position of the company prior to the expected competition in the fixed business segment. Also, the planned implementation of new integrated billing system and Customer Relations Management would enhance the efficiency in service delivery and after sale services. We are confident that these measures would undoubtedly increase the service revenue and profitability.

However, the expected competition in Fixed Telephony Business needs to be managed appropriately; otherwise this would impact the positive outlook of the group as stated above. Retaining market share in a competitive environment would be a key challenge, though the company has done exceptionally well in terms of revenue and profitability growth since the competition began in year 2005..

As part of its growth strategy, Omantel is currently pursuing acquisition of majority shareholding of Worldcall Telecom Ltd, Pakistan. Omantel will be acquiring 65% stake in Worldcall at a cost of US\$ 193 Mn.

RISKS & CONCERNS:

As stated in our last year report, the major risks for the coming year are mainly related to the implementation of the sector liberalization program in Oman. With the expected liberalization of fixed telephony business segment, all telecommunication services will be fully liberalized. However, there are still uncertainties on the timing of the new entrants for various telecom markets, which makes it difficult to evolve appropriate strategies.

In view of the above, Omantel had initiated constructive dialogs with the TRA and various consultation processes are in progress, which provide us reasonable comfort level that the regulator would take the balanced approach in liberalizing the market.

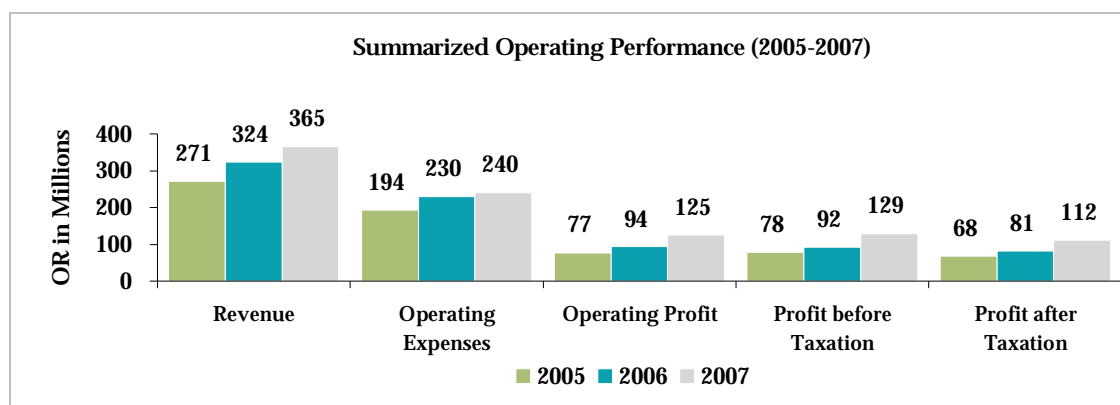
INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY:

The company has internal control systems and processes that provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. Internal controls comprise of operational procedures, segregation of duties, periodic reconciliations and formal policies and procedures that facilitate complete, accurate and timely processing and recording of transactions and safeguarding of assets. The Management receives independent feedback from the reports issued by Internal Audit of the Group, Statutory Auditors and the State Audit Institution on the adequacy of the internal controls and endeavors to strengthen the internal control weaknesses. Also, as part of the internal control, the company has a defined authority manual and processes, which are followed across the organization. Internal controls are generally adequate for established activities and services. For new activities and services, certain inadequacies have been identified that are being addressed. Internal controls are periodically tested, reviewed and enhanced.

FINANCIAL AND OPERATIONAL PERFORMANCE DURING 2007

The total group revenue as of Dec'07 rose by 13% to RO. 365.3 million compared to the corresponding period of the previous year.

The Group's Net profit after tax (NPAT) is RO 112 Million, an increase of 39% compared to the previous period. The following graph illustrates the summary of Operating Performance for the period 2005-2007.



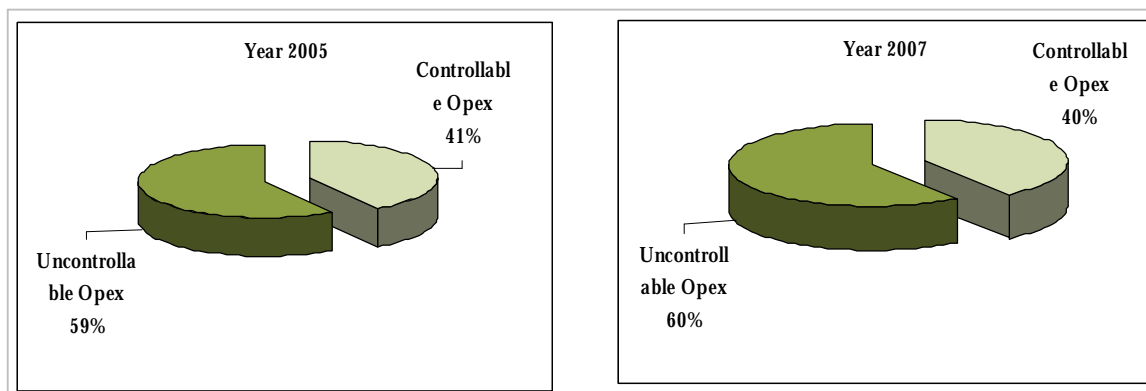
Operating Expenditure

Total operating expenses (“Opex”) of the Omantel Group amounted to RO 240.1 million in 2007, an increase of 4.4% compared to last year. As a percentage of total service revenue, Opex was 66% in year 2007, while the ratio in year 2006 was 71.1%. The following table sets out the breakdown of the components of Opex.

Financial year ended 31 December			
Fig in RO Mn	2005	2006	2007
Staff costs	30.2	34.2	39.7
Operating & maintenance expenditures	18.7	20.8	25.1
Administrative expenditures	7.9	6.4	6.5
Marketing & Advertising expenses	5.9	4.3	3.8
Sales Commissions	11.4	16.5	19.6
Provision for doubtful debts	5.7	5.0	1.4
Total Controllable Opex	79.8	87.2	96.1
Cost of content services	2.8	1.3	2.1
Cost of Roaming operator	4.5	4.6	6.3
External Administration expenses	16.3	16.7	17.4

Interconnection expenses	3.9	14.1	23.7
Depreciation	52.3	64.5	65.2
Provision for against penalties	1.7	0.0	0.0
Amortization of license fee	2.8	2.8	2.8
Annual License Fees to TRA	0.6	1.4	1.1
Royalty charges	29.1	37.4	25.4
Total Uncontrollable Opex	114.0	142.8	144.0
Total Operating Expenses	193.8	230.0	240.1

Analysis of Controllable Vs Uncontrollable expenses as classified above shows the controllable expenses have reduced to 40% in year 2007 compared to 41% in year 2005.



Staff Costs

Staff costs include salaries and allowances, social security costs, end of service benefits, and other benefits. The total number of employees (permanent and non-permanent) have increased from 2,669 (Dec'06) to 2,735 as of Dec'07.

Marketing, Operating & Maintenance and Administrative expenditures

Marketing expenses have recorded a 10.3% decrease compared to last year. Administrative expenses recorded a marginal increase of 0.7% compared to last year. Operating & Maintenance ("O&M") expenditures have increased by 21%, which are in line with the network expansions carried out since 2003.

Collection and Sales Commissions

This comprises of commission (factoring) paid to OIFC and commission charges paid to dealers for the sale of pre-paid cards. The increase in collection and sales commission in 2007 is principally due to the increase in commissions resulting from increased sales of prepaid "Hayyak" cards, which witnessed 16% revenue increase over last year and change in factoring charges for OIFC from 3.5% to 3.9% effective July'07.

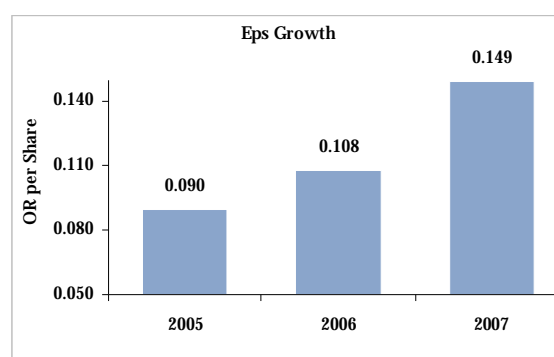
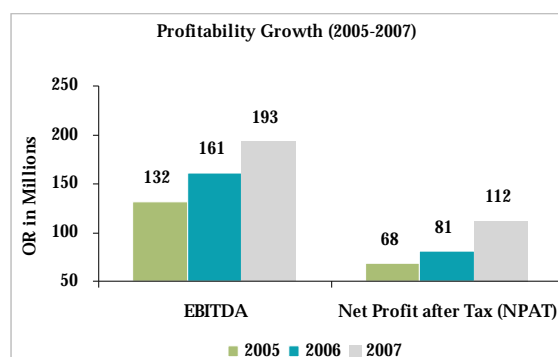
Royalty charges

With effect from 2004, the Omantel Group was required to pay a royalty amounting to 10% of gross revenues under the Fixed License and 12% of gross revenues under the Mobile License. The reduction in Royalty charges to 7% (for both Fixed Line and Mobile services) announced by the government on 3rd October 2007 had significantly reduced the Royalty expenses. Thus, the total Royalty charges has declined by 32% compared to the corresponding period.

Profitability

EBITDA (Earning before Interest, Taxation, and Depreciation) margin has grown from 49% in Year 2005 to 53% in year 2007. Similarly, other profitability index has also recorded growth. The following table and graph illustrates the profitability and Earnings Per Share (EPS) growth for the period 2005-2007.

Financial year ended 31 December			
	2005	2006	2007
Net Profit Margin	25%	25%	31%
EBITDA	49%	50%	53%
EPS	0.090	0.108	0.149



Cash Flow

The following table provides information regarding the Omantel Group's consolidated cash flows for the past three years:

Financial year ended 31 December			
Fig in RO Mn	2005	2006	2007
Cash flow from Operating activities	116.7	158.9	177.9
Cash and cash equivalents at the end of the year	47.6	54.8	106.4

The Omantel Group's primary source of liquidity is cash generated from operations. Over the past 3 years, the Omantel Group has generated sufficient cash from operating activities to meet its working capital and capital expenditure requirements.

Balance Sheet

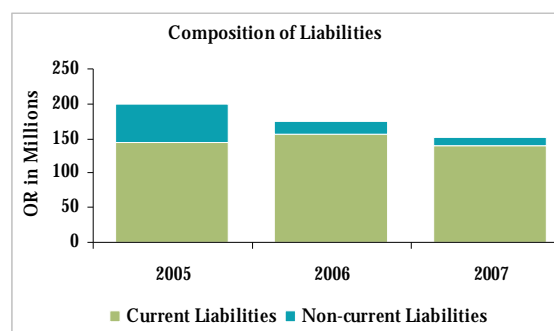
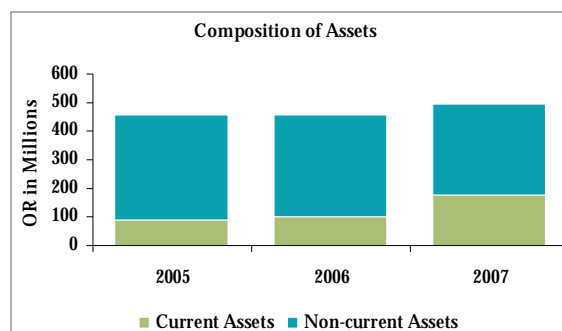
Total Assets

The total assets of the Omantel Group have, over the past 3 years, increased, reflecting the capital investments that the Omantel Group has incurred to upgrade and expand its network especially in the mobile and fixed line services. The fixed assets, principally telecom equipment and facilities now accounts for 64% of the total assets. An analysis of assets and liabilities are provided in the table below:

Financial year ended 31 December			
	2005	2006	2007
Current Assets	88.1	100.7	175.3
Non-current Assets	366.4	356.6	317.1
Total assets	454.5	457.3	492.4
Current Liabilities	145.2	155.0	142.5
Non-current Liabilities	55.4	20.1	8.0
Total Liabilities	200.6	175.1	150.5
Ratios			
Debt Ratio (Total liabilities/ Total assets)	44%	38%	31%
Current Assets / Current liabilities (Current ratio)	61%	65%	124%

The non-current assets of the Omantel Group mainly comprise of fixed assets and investment in associated companies (OFOC, Info-Line LLC, and Tejari).

The total liabilities of the Omantel Group decreased from RO 175.1 million in 2006 to RO 150.5 million in 2007. As a percentage of total liabilities, amounts owed to the Government in the form of loan repayments to government, taxation and royalty charges accounted for 42% of total liabilities in 2007. The following graph illustrates the composition of assets and liabilities for the period 2005 to 2007.



Employee status:

Total number of employees in the group (Omantel and Oman Mobile) as of Dec'07 is 2,735. With total number of Omanis of 2503, Group's Omanization achievement stands at 92%.

	Omantel Group Employees (as of Dec'07)		
	Omani	Non-Omanis	Total
Employees (Permanent)	2,468	176	2,644
Employees - (Non-Permanent)	35	56	91
Total	2,503	232	2,735

Other Subsidiary and Associate company performances:

Oman Mobile Telecommunications Co (LLC): Omantel owns 99% shareholding in Oman Mobile. During the period, the number of customers subscribed to Oman Mobile service increased by 237 K (from 1,246 K to 1,483 K). The gross revenue from mobile operations for the year 2007 is RO 257 Million compared to the corresponding period of previous year's revenue of RO 228 Million, an impressive growth rate of 13%.

Associate Companies:

- 1) **Oman Fibre Optic Co SAOG (OFOC):** Omantel has 25.96% shareholding in the OFOC. The company has achieved a net profit after tax of RO 1,132.7 K (un-audited) for the year 2007, which is 102% higher than the corresponding period profit.
- 2) **Infoline LLC:** Omantel has 45% shareholding in the company. The company has achieved a net profit after tax of RO 188.3 K (un-audited) for the year 2007, which is 11% lower than the corresponding period profit.
- 3) **Omania e-commerce LLC:** Omantel has 40% shareholding in the company and it has started operation from 4th Qtr of year 2005. The company has incurred a loss of RO 192.7 K for the year (un-audited), which is 45% lower than the corresponding period loss.

Affects of exceptional climate disturbances, which hit Oman:

The exceptional climate disturbances, which hit Oman on 6th June 2007, had partially disrupted the communication services in some areas in the Sultanate. As part of the damage and destruction caused by this disturbance, some properties of the company were damaged and destroyed. The company is lodging a claim of approximately R.O 7.6 Million. The claim is being reviewed by insurance consultants before final submission to the insurance company. The insurance company has sanctioned an interim payment of R.O 2 Million which is recognized as claims receivable.

MAJOR ACTIVITIES DURING THE YEAR 2007

Omantel management is fully dedicated in its efforts to transform itself into a customer focused, efficient and capable operator that meets the increasing requirements of its customers. Some of the major activities / achievements of the year 2007 are summarized below:

Investment in Telecom infrastructure: During the year 2007, the company has signed over RO 30 Million worth of contracts, mostly infrastructure based expansion covering both Omantel and Oman Mobile.

Special contracts:

Omantel signed agreements with both Bank Muscat and National Bank of Oman for the provision of fully managed state of the art advanced and secured communication solutions based on the MPLS technology (Multi Protocol Label Switching). While, these agreements would provide an integrated telecommunication solution, they would also support diverse needs of telecommunication requirements of each of these entities.

Omantel has been awarded a special contract with Ministry of Information to provide customized solution to support TV transmission requirements. With this, Omantel would provide TV transmission terrestrial and microwave links to carry the TV transmission across the Sultanate.

Oman Mobile has also entered into series of agreements with large and medium corporate clients to provide customized solutions.

Awards:

The Arab States Gulf Co-operation Council honored Omantel for its leading position in the area of job localization. Omantel as a group achieved 92% Omanization, which is well above the stipulated level by the Ministry of Labor. This award was presented in November 2007 during the 24th session of the meetings of the Council of Ministers of Labor and Social Affairs of the Arab Gulf Co-operation council.

Oman Mobile was awarded with Best Call Centre as well as Most Strategy Efficient Call centre in the region.

MARKETING ACTIVITIES:

During the year, the group (both Oman Mobile and Omantel Fixed business) has launched series of new and value added services as well as Value for Money consumer promotions. Some of the major marketing activities of the group are highlighted below:

New Product Launches:

Omantel	Oman Mobile
1) ADSL Rollout program: Launched new aggressive aDSL roll-out program in Oct'07.	1) Corporate Private Network (CPN) was launched in April 2007 mainly for business communities.
2) Easy Learning Service: This service was launched in January 2007. The new service for the first time ever in the Sultanate of Oman, will add another dimension to enhance the e-culture in the Sultanate.	2) New SMS registration system for students for the Higher Education using SMS in May 2007.
3) Post-Paid WiFi: The service was launched in May 2007, which facilitates the post-paid customers to access the internet at any hotspot by using the same ID and password.	3) Samani, a popular ring back tone service in August 2007.
	4) Call Me service (<i>a useful service in times of emergencies</i>) for Hayyak user in September 2007.
	5) Weather Forecast service in October 2007.
	6) SMS Portal for Ministry of Education in Dec 2007
	7) BlackBerry service with three different solutions (<i>Enterprise Solution, Internet Solution and Enterprise Solution Plus</i>) in Dec 2007.

Mobile Roaming Services:

To enhance the seamless connectivity across the world, Oman Mobile continues to sign with roaming agreements with most of the operators. As of Dec'07, the total number of roaming

countries has reached 136 with 314 service operators. Also, it has signed up with over 20 operators for Data Roaming agreements.

Consumer Promotions:

Like previous years, the group companies, both Omantel and Oman Mobile have launched series of “Value for Money” promotions. In addition to special price offerings such as reduction of connection fee, free air time, occasional special price offers for national and international calls etc., this year has witnessed special high intensity promotions during Muscat Festival, Comex and Khareef festivals offering free gifts such as home theater, laptops, ipods, air tickets, free service subscriptions, pc and handset bundled offers, special promotions for Schools/teachers etc.,

Sponsorships:

As a corporate citizen, Omantel as a group actively supports sport, education and special needs organizations. In addition to Muscat Festival, Comex and Khareef festival, it has also sponsored various events such as HM Football cup, 5th Annual Cancer awareness campaign, JOBBER 2007, Women’s Business Conference, Mother’s Day, Education Day etc., Omantel sponsored and hosted the ITU Workshop on MPLS technology in Salalah.

Dr. Mohammed Ali Al Wohaibi
Chief Executive Officer