

Oman Telecommunications Co (S.A.O.G)

Chairman's Report

For The Year Ended – December 2008

Respected Shareholders,

On behalf of the Board of Directors of Omantel, I am pleased to present a summary of the results of the operations for the year 2008.

General Economic Environment:

Preliminary estimates show Oman is poised to achieve a GDP growth rate of 40% at current prices in year 2008 mainly contributed by the Oil sector. Non-Oil sector especially the Tourism sector is estimated to grow by approximately 22%. In line with the economic growth, Omantel group has also achieved its best result with an overall revenue growth of 12.6% in year 2008. However, after years of strong growth the world economy is decelerating quickly as per the International Monetary Fund (IMF). The global meltdown and continuing financial crisis are expected to have an impact in the coming years.

Group operating performance:

The group has achieved a Net Profit after Tax (excluding Minority Interest) of RO 118.6 million during the year ended 31st December 2008 compared to the Net Profit after Tax of RO 112.0 million of year 2007, a growth of 5.9%.

The main reason for the good growth in net profit is the continuous double digit revenue growth. The total group revenue as of December'08 rose by 12.6% to RO 411.5 million compared to RO 365.3 million of the previous year.

The operating expenses increased by 5.2% to RO 253.5 million compared to RO 241.0 million for the previous year. The major reason for increase in operating expenditure is increase in royalty charges, commission, operating & maintenance expenses and impairment of receivables.

Deteriorating market conditions in Pakistan due to Global Financial Crisis have affected the value of the Strategic Investment made in Worldcall Telecom Limited (WTL). As a measure of prudence, the Group has recognised an impairment loss against the investment resulting from the WTL acquisition, which is exceptional in nature. Omantel Group holds 56.8% shares in WTL. As required by IFRS, the Group has recognized an impairment loss of RO 18.88 Million to the value of investment made in WTL. These adjustments are a non-cash charge on the income statement. On account of these adjustments, the reported net profit for the year has been impacted. Without this impairment the net profit after tax (excluding Minority Interest) would have been RO 137.5 million, a growth of 22.8%.

The Earning per Share (EPS) for the year ended 31 Dec'08 is RO 0.158, which is 6.0% higher than the previous year figure of RO 0.149.

Total subscriber base (all services) increased to 2,119 K as of Dec'08 as compared to 1,869 K of the previous year, a growth of 13.4%.

Major Group Achievements:

During the year, the management has initiated a series of steps to enhance its operational efficiencies with the assistance of a renowned international consultant. The Competitive Readiness Program was one such initiative, which resulted in unveiling a new operating model. This program once completed, integrates fully the operations of Omantel and Oman Mobile organizations, thus leveraging group synergies resulting in enhanced performance in the coming years. Some of the major activities / achievements of the year 2008 are summarized below:

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Chairman's Report

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Omantel Fixed Line Product Launches:

- 1) ADSL (Fixed Line Broad band service) New Service Portfolio provides 5 flexible home packages (starting from 512 Kbps to 8 Mbps), 5 business packages (starting from 1 Mbps to 16 Mbps) and 3 educational & social packages.
- 2) New Fixed Line unified tariff offers simple and easy to understand flat rate pricing structure. The new price structure offers free call minutes, and special discounted bundle packages with ADSL services for residential customers with a single bill option.
- 3) New Jibreen Cards enhance user experience, which comes with other added benefits.

Oman Mobile Product Launches:

- 1) Mada-On Package offers cheaper on-net national calls at 19 bz per minute for post-paid mada subscribers.
- 2) BlackBerry service - new BlackBerry mobile handsets models - Curve 8310, Pearl 8110 followed by BlackBerry Bold 9000 in Dec'08. Also, launched three innovative BlackBerry packages to suit various market segments, namely Lite, Local Unlimited and International unlimited with differing monthly subscriptions.
- 3) Sammani (Ring back tone) - allows mobile customers to gift and copy ring back tones to or from other people.
- 4) My Travel Mate" provides live flight departure and arrival details on the mobile phone.
- 5) Push-To-Talk service offers communication simply with a push of a button, which comes in three distinct packages.
- 6) Educational portal SMS Service provides parents a facility to follow their children's performance at school through SMS.

Consumer Promotions: Omantel and Oman Mobile have introduced International call Promotions to 5 selected destinations (India, Pakistan, Bangladesh, Sri Lanka and Philippines), which offered 67% discount, with the call rates as low as 100 bz / minute. It has also launched a series of consumer promotions during the Muscat Festival, Comex and Khareef festival.

Sponsorships & Corporate Social Responsibility:

Sponsorships: Omantel continues to support major social events in the Sultanate. It has sponsored Muscat Festival, Oman Web Awards, 2nd Annual Women in Business Conference 2008, First International Medical Students Conference, Muscat International Book Fair, World Health Day, Teachers day, Corporate Governance Conference, Comex , Khareef festival, Annual Golf tournament, World Scouting Camp etc.,

Corporate Social Responsibility: As part of its Corporate Social Responsibility, Omantel continued to support charitable organizations. It has supported Al Wafa Social Centres across all regions, Al Noor Blind Association, National Association for Cancer Awareness Childhood Care home, philanthropic centre and other charitable organizations across the Sultanate and SMS charity campaign to help the victims of floods in Bihar (India).

Omantel Group has signed an agreement with Oman Football Association (OFA) to sponsor the football League for three years under the name of Oman Mobile Football League. It has also sponsored the 19th Arab Gulf Cup and felicitated the Oman team for winning the cup.

Oman Telecommunications Co (S.A.O.G)

Chairman's Report

For The Year Ended – December 2008

Awards:

- 1) Omantel and Oman Mobile have won the BIZPRO Award 2008 for its contribution in the field of Omanization and especially aimed at developing competency, professionalism and leadership among the national cadres.
- 2) Omantel group has received award of No.1 in the Top 20 Rankings of the listed companies in Oman as per the classification of "Oman Economic Review" magazine. This award is a clear indication of Omantel's leading position among the listed companies on the Muscat Securities Market in terms of net profits and overall capital.
- 3) Oman Mobile has won the rank of the best brand among 50 best brands covering 14 different services provided in the Sultanate.
- 4) Omantel Group received the Golden Gear from the Ministry of Sports Affairs during the ministry's annual ceremony as a token of appreciation for its continued support to the Omani sports activities during the year 2008.

Subsidiary Company:

Oman Mobile Telecommunications Co (LLC): Omantel has 99% shareholding in Oman Mobile. The number of Oman Mobile customers has reached 1,709 K as of December 2008 recording a growth rate of 15% over the last year. The gross revenue from mobile operations for the year ended 31 December'08 is RO 271.1 million compared to the previous years revenue of RO 257.1 million, an increase of 5.4%.

Associate Companies:

- 1) **Worldcall Telecom Limited:** Omantel acquired 56.8% of the share capital of Worldcall Telecom Limited (WTL) on 2 May 2008. Due to legal, regulatory and WTL Board of Directors issues in Pakistan, the company has not been able to demonstrate effective control over WTL. Accordingly, the investment in WTL is accounted for as an associate in accordance with IAS 28 - Investments in Associates. Once control is achieved, WTL will be consolidated as a subsidiary company.
- 2) **Oman Fibre Optic Co SAOG (OFOC):** Omantel owns 25.96% shareholding in the OFOC. The company has achieved a net profit after tax of RO 2.05 million for the year ended Dec'08 compared to the previous year's profit of RO 1.133 mn.
- 3) **Infoline LLC:** Omantel has 45% shareholding in the company. The Company's net profit after tax for the year ended Dec'08 is RO 195 K compared to the previous year's profit of RO 188 K.
- 4) **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 153 K for the year ended Dec'08 compared to the previous year's loss of RO 193 K.

Market Share:

The mobile sector was liberalized in March 2005. Oman Mobile's subscriber market share is estimated at 53.1% as of 31 December'08 based on the total subscriber figures released by *Oman Telecommunications Regulatory Authority (TRA)*.

Oman Telecommunications Co (S.A.O.G)

Chairman's Report

For The Year Ended – December 2008

Future outlook:

The sector liberalization program has further intensified with the TRA announcement in November 2008 awarding Oman's second fixed-line network and possible award of more Internet Service Providers (ISPs) in year 2009. This would intensify the competition in fixed line segments covering international call market, internet and data services. Also, the appointment of 6 mobile resellers by TRA would see innovative and competitive mobile offerings.

The Government's plan to sell 25% stake in Omantel to a Strategic Investor has been called off because of the current conditions in the global capital markets. However, this will not impact the Omantel Group business going forward.

Challenges

Omantel has started implementing the Ministerial Committee recommendations to integrate Omantel and Oman Mobile organizations. The implementation of the new operating model is in its final stages, which would allow Omantel to compete effectively in the evolving market place. The program envisages inculcating a sense of dedication and motivation to employees, which would prepare them to excel in their assigned responsibilities. Implementing this program would result in attracting the best of talents, while retaining the competent work force, as the telecommunication market is increasingly competing to attract good competent and experienced human resources across the globe.

The global economic meltdown which began in mid 2008 will continue to have its impact in Year 2009. The not too encouraging prediction of IMF on World Economic Outlook update for the year 2009, predicts "World growth is projected to fall to ½ percent in 2009, its lowest rate since World War II". This is likely to have an impact on Oman's Economy and with increased competition in domestic telecom sector; there will be increased pressure on Omantel's growth.

As planned, the 3.5G implementation is in its final phase, which would revolutionize the service offering in the mobile landscape. This is expected to increase the off-take of wireless broadband services and provide necessary stimulus for revenue growth. Similarly, Omantel has started the planning process of migrating its legacy fixed line network to the new Next Generation Network (NGN). This is a very challenging phase for any operator and adds increasing pressure on both its operating cost and human resource. Also, being the incumbent it has to comply with all regulatory requirements in time to provide a level playing field to the new competitor which would undoubtedly put pressure on its operating costs. Despite all of these factors, we are confident that with the right strategy in place, we will be able to overcome these challenges with minimum impact on the Group's performance.

On behalf of the Board of Directors, I take this opportunity to express our heartfelt thanks to our shareholders and loyal customers for their continued support to achieve these excellent results. Also, we, wholeheartedly appreciate the sincere contribution of Executive Management and Employees. With your support we are confident that the Group will continue its good performance and will be able to reach new heights of excellence.

We also express our special thanks to the Telecommunications Regulatory Authority of Oman for their valuable co-operation and contributions to our success.

On behalf of the Board of Directors, I am honored to express our sincere gratitude to His Majesty Sultan Qaboos bin Said for His visionary leadership and we pray to the Almighty to 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