

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

Chairman's Report for the First Quarter Results – Year 2011

Respected Shareholders,

On behalf of the Board of Directors of Omantel, I am pleased to present to you a summary of the results of the operations for the 3 months period ended 31st March 2011.

General Economic Environment:

Oman's economic recovery is expected to gather momentum in 2011 as higher oil prices boost government revenues and support the Sultanate's spending program. The Sultanate saw real gross domestic product growth hit 4.2% in 2010 after growing by only 1.1% in 2009. Real GDP growth is set to reach 4.4% this year. The country is ahead to diversify the economy by enhancing non-oil sectors and creating a market-friendly economic environment. We are optimistic that these initiatives would positively impact the telecommunications sector.

Group operating performance:

REVENUE

The total group revenue as of March'11 rose by 0.8% to RO 111.5 million compared to RO 110.6 million of the corresponding period of year 2010. Service revenues recorded a growth of 11%, while the wholesale revenues including external administration declined by 41%. The Service revenues include revenue from capacity sales from Europe India Gateway (EIG) submarine cable system to other international operators based on Indefeasible Rights of Use (IRU). Also, it is important to note that the reduction in wholesale revenue is due to decline in revenues from international gateway operation, which was not opened up for competition during the comparative period (1st Quarter of 2010).

EXPENSES

The total group operating expenses increased by 10.0% to RO 82.7 million compared to RO 75.2 million of the corresponding period of year 2010. One of the major reasons for increase in operating expenses is the cost related to IRU sale from EIG cable systems. The other major reason for increase in operating expenses is due to increase in depreciation resulting from the continued expansion of Mobile 3.5G Network and the Fixed line Next Generation Network (NGN).

NET PROFIT

The group has achieved a Net Profit after Tax (excluding Minority Interest) of RO 26 million compared to RO 32.4 million of the corresponding period of year 2010.

The Earning per Share (EPS) for the period ended 31 Mar'11 is RO 0.034, which is lower compared to the previous period figure of RO 0.043.

Total subscriber base has reached 3.258 million as of Mar'11 compared to 3.133 million of the corresponding period of the previous year, a growth of 4.0%. The subscriber base includes WTL subscribers, which has grown by 7.1% and has now reached 875 K.

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Subsidiary Company:

1. **Oman Mobile Telecommunications Co (LLC):** Omantel has 99% shareholding in Oman Mobile. The number of Oman Mobile customers witnessed a marginal growth during the period and has reached 2.068 million as of March 2011 recording a growth rate of 4.5% over the last year. The subscriber growth has been slowed down due to implementation of new regulation on active subscribers. The gross revenue from mobile operations for the period ended 31 March'11 is RO 66.2 million compared to the previous period's revenue of RO 65.2 million, an increase of 1.5%. The company has achieved a Net Profit after Tax of RO 13.2 million compared to the corresponding period Net Profit after Tax of RO 16.1 million, a decline of 18.3%.
2. **Worldcall Telecom Limited:** Omantel has 56.8% shareholding in Worldcall Telecom Limited (WTL). Total number of subscribers has grown noticeably by 7.1% from 817 K to 875 K. The total revenue as of Mar'11 is RO 7.4 Mn, which is lower by 32.4% over the corresponding period. The decline in revenue is primarily contributed by LDI business, which was impacted mainly due to rate reduction following the regulatory decision. The company has incurred a net loss of RO 0.8 million for the period. The WTL management is in the process of completing the funding options as approved at Omantel EGM last year. We expect that this will provide necessary impetus for further growth and turnaround of the company.

Associate Companies:

- (1) **Oman Fibre Optic Co SAOG (OFOC):** Omantel owns 40.96% shareholding in the OFOC. The company has achieved a net profit after tax of RO 0.476 million for the period ended Mar'11 compared to corresponding period profit of RO 0.526 million.
- (2) **Infoline LLC:** Omantel has 45% shareholding in the company. The Company's net profit after tax for period ended Mar'11 is RO 1 K compared to corresponding period profit of RO 56 K.
- (3) **Omania e-commerce LLC:** Omantel has 49% shareholding in the company. The company has incurred a loss of RO (51) K for the period ended Mar'11 compared to corresponding period loss of RO (41) K.

Market Share:

Oman Mobile's network market share (including Mobile Resellers of Oman Mobile) is estimated at 55% as of March'2011 based on the total subscriber figures released by Oman Telecommunications Regulatory Authority (TRA). This shows an increase of 3% compared to Dec'2010.

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Future outlook:

Omantel continues to work on improving service offerings to its valued customers. The new fixed line broadband proposition launched in March is one of such offerings, which provides immense benefit to customer's in terms of increased speed at a very competitive price.

In line with Royal directives and to support the social cause, the group has hired 200 employees and they have joined effective 1st May 2011.

The telecom sector in Oman continues to experience intense competition. The 3rd International Gateway license has already been announced in March 2011, which would see the competition intensifying in international call segment. Omantel has successfully faced the competition with effective strategies in place and we are quite confident that we will be able to withstand the challenges posed by the increasing competition. Omantel strategies of "Carrier of Carriers" business to expand the Wholesale Business resulted in growth in revenues from capacity sales reported under Service Revenues. We will continue to focus on creating sources of income and diversifying the investment portfolio directed to achieve sustainable growth in revenues, wherever possible and maximize returns to shareholders. With the intensifying competition, we remain cautious to the increasing challenges to the revenue growth.

Thanks and appreciation

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 the Executive Management and Employees. With your support, we are confident that the Omantel Group will continue its good performance and will be able to reach new heights of excellence.

We also express our special thanks to the Ministry of Finance, the Telecommunications Regulatory Authority and the Capital Market Authority for their valuable co-operation and contributions to our success.

On behalf of the Board of Directors, executive management and the staff, I am honoured 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