

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

Chairman's Report for the Second 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 6 months period ended 30th June 2011.

General Economic Environment:

The macro-economic outlook for Oman continues to remain positive for 2011. Oil prices are estimated to average @ US\$108.5/barrel in 2011 (source: European Intelligence Unit), which will support the government's planned expansion plans. Oman GDP is projected to grow by 4.8% aided by a rise in oil production in 2011. Increased government spending, economic concessions to Citizens, expanding exports are the main growth drivers for Oman Economy in 2011.

Group operating performance:

REVENUE

The total **Group Revenue** as of June'11 rose by 2.3% to RO 223.3 million compared to RO 218.4 million for the corresponding period of year 2010. Service revenues recorded a growth of 6%, while the wholesale revenues declined by 11%. 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 major portion of the comparative period (*competition begun in May'2010*). This decline in revenue was partly mitigated by revenue from capacity sales in Europe India Gateway (EIG) submarine cable system to other international operators.

Domestic Retail Revenues has recorded a growth of 5% year on year, contributed by both retail fixed and mobile businesses. This impressive growth was achieved due to aggressive roll-out strategy pursued by the group since Year 2009 to provide enhanced coverage and service quality to its valued customers

EXPENSES

The total group operating expenses increased by 9.4% to RO 164 million compared to RO 149.9 million for the corresponding period of year 2010. One of the major reasons for increase in operating expenses is the cost related to capacity sale from EIG cable systems. The other major reasons for increase in operating expenses are due to increase in depreciation and employee costs. Increase in depreciation cost is mainly due to continued expansion of Mobile 3.5G Network and the Fixed line Next Generation Network (NGN). The increase in employee costs is due to recruitment of approx 200 employees following the government's employment initiative as well as overall increase in remuneration across all employees.

NET PROFIT

The group has achieved a Net Profit after Tax (excluding Minority Interest) of RO 54.984 million compared to RO 61.020 million of the corresponding period of year 2010. On a quarter on quarter basis, the net profit for the quarter ended June 2011 was RO 29mn compared to RO 26 mn in the first quarter of 2011, an increase of 11.5%.

The Earning per Share (EPS) for the period ended 30 Jun'11 is RO 0.073, which is lower compared to the previous period figure of RO 0.081.

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Total subscriber base has reached 3.348 million as of June 11 compared to 3.245 million of the corresponding period of the previous year, a growth of 3.2%. The subscriber base includes WTL subscribers, which has grown by 6.4% and has now reached 889 K.

Subsidiary Company:

1. **Oman Mobile Telecommunications Co (LLC):** Omantel has a 99% shareholding in Oman Mobile. The number of Oman Mobile customers witnessed a marginal growth during the period and has reached 2.146 million as of June 2011 recording a growth rate of 3.3% 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 30 June'11 is RO 138.8 million compared to the previous period's revenue of RO 133.7 million, an increase of 3.8%. The company has achieved a Net Profit after Tax of RO 30.7 million compared to the corresponding period Net Profit after Tax of RO 34.7 million, a decline of 11.5%.
2. **Worldcall Telecom Limited:** Omantel has a 56.8% shareholding in Worldcall Telecom Limited (WTL). Total number of subscribers has grown noticeably by 6.4% from 835 K to 889 K. The total revenue as of Jun'11 is RO 16.9 Mn, which is lower by 16.3% over the corresponding period. The decline in revenue is primarily contributed by LDI business, which was impacted mainly due to rate reduction following a regulatory decision. The company has incurred a net loss of RO 1.4 million for the period compared to a net loss of RO 1.9m in the corresponding previous period. The WTL management has completed 1st tranche of funding options as approved at Omantel EGM last year and 2nd tranche is in progress. We expect that this will provide necessary impetus for further growth and turnaround for the company.

Associate Companies:

- (1) **Oman Fibre Optic Co SAOG (OFOC):** Omantel owns 40.96% shareholding in the OFOC. The Revenue as of June'11 rose by 12% to RO 6.67 million compared to RO 5.97 million for the corresponding period of year 2010. The company has achieved a net profit after tax of RO 0.890 million for the period ended Jun'11 compared to corresponding period profit of RO 1.274 million.
- (2) **Infoline LLC:** Omantel has 45% shareholding in the company. The Revenue as of June'11 declined by 5.5% to RO 471 K compared to RO 498 K for the corresponding period of year 2010. The Company's net profit after tax for period ended Jun'11 is RO 40 K compared to corresponding period profit of RO 112 K.
- (3) **Omania e-commerce LLC:** Omantel has 49% shareholding in the company. The Revenue as of June'11 increase to RO 790 k compared to RO 157 K for the corresponding period of year 2010. The company has incurred a loss of RO (131) K for the period ended Jun'11 compared to corresponding period loss of RO (78.3) K.

Market Share:

Oman Mobile's network market share (*including Mobile Resellers of Oman Mobile*) is estimated at 56.1% as of June'2011. This shows an increase of 3.1% compared to Dec'2010. The Fixed Telephone (post & pre-paid) market share is estimated at 95% (*Source: based on Total subscriber figures released by Oman Telecommunications Regulatory Authority*).

Corporate Social Responsibility:

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Omantel has extended support to Information Technology Authority (ITA) for its "National PC Initiative" with the objective to increase the ownership and usage of personal computers amongst certain segments (e.g. social welfare, students and teachers) of the Omani population. Omantel has provided free internet service upto one year as part of this initiative.

Future outlook:

Omantel continues to work on improving service offerings to its valued customers. The new fixed line broadband proposition launched in March'2011 has stimulated growth for both fixed line as well as broadband services. New special offer on SMS has provided an added advantage to youth segment.

The telecom sector in Oman continues to experience intense competition. Commissioning of the 3rd International Gateway operation is expected any time, which would see the competition intensifying in international call segment. Growth achieved in domestic retail revenues demonstrates success of effective strategies implemented by the group 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. The new agreement signed in Iran with three international telecom partners from Iran, UK and Russia to provide a new express cable system "Europe Persia Express Gateway (EPEG)" will strengthen Omantel's growing position as a "Carrier of Carriers" business. 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