

**Oman Telecommunications Co (S.A.O.G)**  
**Board of Directors' Report Third Quarter Results – Year 2018**

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**Respected Shareholders,**

We are pleased to present to you a summary of the results of the operations for the 9 months' period ended 30<sup>th</sup> September 2018.

**Operating performance:**

**REVENUE**

Group Revenue as of Septmeber'18 has grown to RO 1,546.7 million compared to RO 406.8 million for the corresponding period 2017. The Group revenue include acquired business of Zain Group, which contributed revenues of RO 1,131.8 Mn. The Group results for the period Q3'18 include fully consolidated Zain Group results, while Q3'17 results do not include Zain Group. Further Zain Saudi Arabia (KSA) became a subsidiary of Zain Group due to the step up acquisition during the quarter. The impact of the Zain KSA consolidation in Q3-2018 resulted in the Group recording an additional RO 201 Mn in revenues.

Omantel (excluding Zain Group) Revenues recorded a growth of 2% and reached RO 414.9 million compared to RO 406.8 million for the corresponding year 2017. The Retail revenue posted a drop of 0.7%, whereas Wholesale revenues recorded an increase of 13.3%, which is due to higher revenues from External Administration (Hubbing) business. As for the retail revenue, Fixed Broadband revenues have recorded a growth of 13.8%. 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 to RO 1,253.1 million compared to RO 335.5 million for the corresponding year 2017, of which costs related to Zain group is RO 917.7 Mn.

Omantel (excluding Zain Group) costs decreased by 0.02% to RO 335.4 million compared to RO 335.5 Mn. The decrease is mainly due to decline in depreciation and cost optimization drive especially on general operating costs.

**NET PROFIT**

The Group achieved an after tax Net Profit of RO 184.3 Mn (RO 58.6 Mn net off non-controlling interests) compared to the after tax profitability of RO 64.2 Mn in 2017.

The Group net profit include acquired business of Zain Group, which contributed net profit of RO 158.9 Mn to the Group.

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Net profit of Omantel Group (*excluding Zain Group*) for the period ended 30 September 2018 is RO 67.9 Mn compared to RO 61.9 Mn, an increase of 9.7%. This net profit includes the following.

- 1) Interest cost relating to Zain acquisition amounting to RO 43.7 Mn (30 September 2017 – Ro 2.4 Mn).
- 2) Dividend income from Zain Group amounting to RO 42.6 Mn (30 September 2017 – RO Nil)

If the above items are excluded, then the Net profit of Omantel Group (Excluding Zain Group) for the period ended 30 September 2018 is RO 69Mn (30 September 2017- 64.3Mn) reflecting a growth of 7.3%.

Group Earning per Share (EPS) for the period ended 30 Sep'18 is RO 0.078 compared to RO 0.087 for the corresponding period of year 2017.

**SUBSCRIBER BASE**

The total domestic subscriber base as of September 2018 (including mobile and fixed businesses) was 3.45 million (excluding Mobile Resellers) compared to 3.57 million of the corresponding period of the previous year, recording a decline of 3.3% over the last period. Total subscriber base with mobile resellers reached 4.45 Mn.

**Subsidiary Companies:**

- 1) **Mobile Telecommunication Company (Zain):** During the second half of 2017, Omantel completed the acquisition of 21.9% shareholding in Zain Group and acquired a controlling interest in the Zain Group. Since then Omantel financials are consolidated with Zain Group financials and disclosed to the market.

Zain Group revenues recorded a growth of 18% and reached US\$ 3.0 Bn (*RO 1.2 Bn*) as of Q3'2018 compared to the corresponding period revenues of US\$ 2.5 Bn (*RO 963 Mn*). EBITDA stands at US\$ 1.1 Bn (*RO 423 Mn*), recording a growth of 3%. Net profit is US\$ 454 Mn (*RO 175 Mn*), an increase of 12% over the previous period. One of the contributing factor for net profit increase is overall growth across key market segments and net monetary gain. Total customer base grew by 5% to 47.8 Mn compared to 45.3 Mn of the previous period. Further Zain Saudi Arabia (KSA) became a subsidiary of Zain Group due to the step up acquisition during the quarter. The impact of the Zain KSA consolidation in Q3-2018 resulted in Group recording an additional RO 201 Mn in revenues and RO 75 Mn in EBIDTA and RO 5 million in Net profit.

- 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 80%. The revenue for the period ended Sep'18 is RO 3.8 Mn an increase of 11.7% compared to RO 3.4 Mn for the corresponding year 2017. The company has shown an

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improved performance with EBITDA at 23.3% . The company reported a net loss of RO 0.3 Mn for the period ended Sep'18 compared to a loss of RO 0.2 Mn in the previous year.

**Market Share:**

Omantel's Mobile network market share (*including Mobile Resellers*) is estimated at 58.2% with a revenue share of 58.3%. The Fixed Telephone (post & pre-paid) market share is estimated at 74.0% with a revenue market share of 81.9%.

**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 3 months' period ended 30 September 2018:

1. Omantel Signed an MOU with UNICEF to advocate for the well-being of Children by offering its smart telecom solutions to help the organization to have more innovative approach in addressing the health, nutrition and education for children.
2. Omantel Support After Mekunu Cyclone: an initiative to support damaged houses in Sadh – Rakhyut – Dhalqut.
3. ICT competition: a program aims to transform graduating students' class projects into financially viable information and communication technology (ICT) start-ups by supporting the winners with the seed funding. The program announced 3 winning graduation projects.

**Future outlook:**

Since third quarter 2018, we are witnessing slow down on the telecom market revenue from the impact of economic downturn. In 2018, the core telecom services market revenues, especially in mobile, are showing signs of limited growth or even a slight decline, only partially compensated by growth in fixed line services. This market stagnation is caused by reduction in spending power as well as a stagnation in population growth. These conditions will be further impacted by the increased competition between existing players as well as the introduction of a 3rd Mobile License and the new Access & Interconnect regulation. However, on a positive note, the stabilization of the oil price and economic environment is expected to result in a positive market growth in the medium to 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

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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 domestic regulation, makes it challenging for domestic telecom operators to compete on value added services. Furthermore, building the required infrastructure to support this demand remains a substantial burden on operators, putting an increased pressure on the margins.

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 that 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. At the same time, we focus on optimizing our cost base in order to compensate the decline in margins.

Moreover, the 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 the occasion of the 48<sup>th</sup> National Day. 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**