

Oman Telecommunications Co (S.A.O.G)
Board of Directors' Report Third Quarter Results – Year 2020

Respected Shareholders,

We are pleased to present to you a summary of the results of the operations for the 9 months' period ended 30th September 2020.

Operating performance:

REVENUE. Group Revenue for the period ended September 2020 has reached RO 1,859.2 million compared to RO 1,893.4 million for the corresponding period 2019. The Group revenue include acquired business of Zain Group, which contributed revenues of RO 1,458.2 Mn.

Omantel (*Domestic performance*) Revenues recorded a growth of 3% and reached RO 410.1 million compared to RO 396.3 million for the corresponding period 2019, mainly contributed by Fixed Broad band and Revenues from Wholesale International business and devices (*which are typically of low margin compared to the core revenues*). Adjusted for the above, Core revenues for the nine months period 2020 is RO 328.2 Mn compared to RO 345.4 Mn in 2019, a decrease of 5%, which impacted the overall margins. However, the performance was impacted as well by the Corona pandemic (Covid19) as well as the drop in oil prices which both have consequences on the economies of countries.

EXPENSES. Group's total Operating expenses increased to RO 1,548.6 Mn compared to RO 1,538.1 Mn for the corresponding period 2019, an increase of 0.7%.

Omantel (*Domestic performance*) cost of sale increased to RO 145 Mn compared to RO 119.4 Mn. The increase is mainly due to increase in revenue related expenses. Omantel has managed to reduce its Operating and administrative expenses by 6% YoY resulting from the Cost Optimization measures.

NET PROFIT. The Group achieved an after tax Net Profit of RO 167.7 Mn compared to RO 198.3 Mn in 2019 Zain Group contributed RO 150.3 million to the net profit (before non-controlling interest) of Omantel Group for the nine months period 2020 compared to RO 179.6 million of the same period in 2019, a decline of RO 16.3%. After adjusting for non-controlling interest, Zain group contributed RO 28.9 million for the nine months period 2020 compared to RO 33.8 million of the same period in 2019.

Omantel domestic operation results has been resilient considering the serious business disruptions witnessed since March'20 resulting from Covid-19 pandemic. Omantel domestic operation witnessed 6% decline in Net profit for the nine months period 2020 compared to the same period in 2019. However, proactive cost optimization measures taken by the management has positively contributed in achieving a 6% reduction in Operating and administrative expenses YoY.

Group Earning per Share (EPS) for the period ended 30th September 2020 is RO 0.062 compared to RO 0.070 for the corresponding period of year 2019.

SUBSCRIBER BASE

The total domestic subscriber base as of September 2020 (including mobile and fixed businesses) was 3.2 Mn (excluding Mobile Resellers) compared to 3.4 Mn of the corresponding period of the previous year, recording a decline of 7% over the last period. Total subscriber base with mobile resellers reached 3.8 Mn.

Subsidiary Companies:

1) Mobile Telecommunication Company (Zain):

Zain Group revenues recorded a drop of 3% and reached *RO 1,499.6 Mn* as of September 2020 compared to the corresponding period revenues of *RO 1,549.2 Mn*. EBITDA stands at *RO 629.5 Mn*, recording a decline of 8%. Net profit stands at *RO 165.2 Mn* compared to *RO 194 Mn* of the previous period.

Zain Group's resilient results were achieved despite the widespread disruption in economic and social activity. To counter the impact of the COVID-19 pandemic on Zain Group financials, management proactively took decisive cost optimization measures in areas such as contracts renegotiation, and management of cash flows that succeeded in reducing operational expenses by *RO 50.1 Mn*.

Total customer base of Zain Group decreased by 0.4% to 48.9 Mn compared to 49.1 Mn of the previous period.

Market Share: Omantel's Mobile market share (*including Mobile Resellers*) is 53% with a revenue share of 58.5%. The Fixed Telephone (post & pre-paid) market share is 69.9% with a revenue market share of 80.7%.

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 period July-September 2020:

1. **An agreement with Be'ah to promote recycling culture:** As part of the ESG Initiative, Omantel has signed a strategic partnership agreement with Oman Environmental Services Holding Company (be'ah) to foster the recycling culture among communities in Oman through the deployment of Reverse Vending Machines (RVMS) across Muscat.
2. **Omantel launched a SMS donation campaign to support Lebanon & Sudan:** Omantel through its cooperation with the Oman Charitable organization announced its support for the
 - a. Lebanese citizens to help them after the Beirut explosion.
 - b. Sudanese citizens to help them to face the repercussions of the floods.
3. **Other CSR Initiatives:**
 - a. **Upgrade-4:** a program aims to transform graduating students' projects into financially viable fourth industrial revolution start-ups
 - b. **Ideation program:** Omantel with partnership with NBC run a pre-incubation program that targets talented students and potential entrepreneurs who need help in forming a business around their ideas.

Covid19 Management Response: To manage the challenges posed by Covid'19, Omantel management has put in serious of measures as follows:

1. Proactive Cost optimization measures which include postponement of non-critical Capex projects, strict working capital management and implementing effective opex management.
2. Activating Digital channels across most of the customer touch points and encourage customers to use the digital channels including the mobile app. E-shop and chatbot 'Noor' through IVR announcements and SMS. Also, activated Work From Home for Call center agents to provide uninterrupted call center service to the customers. .
3. Introducing COVID-19 solutions that enable public and private organizations to work effectively from home, and resume work from office safely. In addition to providing the healthcare sector with solutions to monitor patients' health, condition remotely.
4. Enhancing the mobile app experience by enabling SIM ordering with the ability to track the order, Gift Internet, request for more data, WFBB profile management, bill payment history for up to six months and e-SIM activation for existing customers.

Awards & Recognitions

1. Omantel bagged the “Happiness at Work” award for the best employee engagement program in the third edition of Happiness at Work ceremony organized by Sustainable Minds (Dubai).
2. Recognized as the “best data/ capacity provider of the year in the Middle East regional operator of the year in the 4th Carrier Community Global Awards 2020.

Future outlook:

The Covid-19 outbreak continues to have a profound impact on the global and local economies as well as the telecom sector in specific. The uncertainty created by the pandemic has led to sever disruptions especially in the tourism and retail sectors, resulting into substantially altered spending patterns across companies, Public Sector institutions and households. Business closures and the current reduction in expatriate workforce also puts further pressure on an already decreasing market for telecom services and increases the risk of non-payments and termination of services. Despite these challenges, the current situation also offers unique opportunities for the telecom sector in general: the “New Normal” has led to a dramatic shift in how telecommunication services are being used and how much capacity is required (Working from Home, acceleration of online business transactions and extended digitalization of services).

In addition to the Covid-19 impact, the Omani market will further be impacted by 2 major evolutions: the arrival of the 3rd MNO and the emergence of a new technology: 5G.

- The arrival of the third operator in Oman will have a profound impact on the current competitive dynamics. The Omani market is showing signals of saturation and we are witnessing a decline in both core telecom market revenues (such as voice, data and messaging) and subscribers, as the number of expats is expected to decrease due to the overall economic impact. It is expected with the entry of the third operator will impose further challenges on the existing operators.

- At the same time, the continuing growth of OTT (over-the-top) services such as Netflix, WhatsApp, YouTube and Instagram drives an increasing demand of bandwidth volumes, which is in principle a potential for operators to grow revenues. Nevertheless, 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, investment in expanding the infrastructure to support this demand remains a substantial burden on operators, putting an increased pressure on the margins.
- Under these circumstances, it is additionally challenging for operators to find the funding for the required investments in 5G. Even with the far superior services 5G can provide in terms of speed and latency, as well as the possibility to develop a new stream of advanced smart services and IoT (Internet of Things) solutions, history in previous network upgrades such as 4G has proven that the monetization of these advanced features is challenging in the short term. As with every new technology, the real use cases will only become clear once the network has been rolled out and the appropriate echo system is developed. This will provide a dilemma for operators to decide when and how to pace the deployment of 5G networks.

In light of the current situation and in order to strengthen our position as one of the primary enablers of Oman's digital ambitions, we have developed our new strategy, "Shift Gear to achieve sustainable profitability growth". Our new strategy builds further on the key transformation initiatives started under Omantel 3.0 (such as digitalization, Customer Experience, ICT, Carriers of Carriers and Agility) and focuses further on extracting maximum value from these activities.

In addition to the above, Omantel has introduced stringent controls in spending to assure the impact of Covid-19 is minimized while continuing to invest in essential strategic domains.

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 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 and the staff, we are honored to greet His Majesty Sultan Haitham bin Tariq on the occasion of the 50th National Day. We pray to Almighty Allah to return this occasion to His Majesty with good health, happiness and long life, and to the Omani people with prosperity under the wise leadership of His Majesty. We pray to Almighty Allah to grant him long live, health and welfare to achieve more progress, prosperity and welfare for Oman and its people.

CHAIRMAN