Management Discussion & Analysis

Report – Year Ended 31st December 2017

The Telecom Market Landscape

With the maturity of high speed broadband internet affordability, coverage and quality, the global telecom landscape has transformed beyond recognition over the past decade. The conventional definition of telecommunications is rapidly changing and moving away from the classical Voice and SMS telephony, more towards 'data connectivity'. During 2017 the global telecommunications market continued its rapid transformation from provisioning of '*interconnected devices or individuals*' towards '*interconnected lifestyles, societies and economies'*.

Ideally, this massive growth in internet and data consumption should have bought equally sizable revenue additions for the operators'. The reality however, has been entirely otherwise as data usage growth is not translating into equivalent revenue growth. Additionally, retail voice and messaging revenues are being concurrently cannibalized by the growing footprint of VoIP communications, that are supported mainly largely by the unregulated OTT players.

Several external factors such as regulatory interventions, sectoral liberalization and macro-economic deterioration etc. exert continuous pressure on operators' revenue and profitability, which in Omantel's context are (a) liberalization of fixed broadband business (b) increase in taxation and royalty rates, and (c) slowdown in spending by the corporate customers in response to the prevailing economic downturn.

Regardless of the abovementioned challenges, Omantel maintains its market leadership both in Fixed and Mobile segments. We continue to focus on expanding and upgrading our network to address increasing coverage and network quality to provide enhanced services to the customers.

Furthermore, Omantel is focusing more on customer retention and optimizing controllable costs to maintain profitability. During the years 2016-17, we successfully achieved savings through several cost optimization measures in terms of (a) efficient resource/asset utilization, (b) process re-engineering, (c) re-structured vendor management and (d) network/systems modernization etc. Omantel will continue to pursue cost optimization in 2018 through several identified initiatives.

The Sultanate's economic growth remained under stress during 2017 due to prolonged slump in oil prices, weaker consumption and low government spending. Resulting from this macro-economic situation, the demand for telecom services has remained under pressure. Moreover, the increase in Government's royalty charges from 7% to 12% accompanied by increase in income taxes has significantly impacted our profitability during 2017.

Our Acquisition of Strategic Stake in the Zain Group

As an endeavor to enhance value for our shareholders through non-organic growth, Omantel has expanded its operational footprint through a prolific international acquisition of strategic stake in the Zain Group ('Zain'). During the second half of 2017, Omantel completed the acquisition of 21.9% shareholding in Zain for a total consideration of RO 845 Mn (US$ 2.19 Bn). Resultantly, Omantel Group has become the second largest shareholder in Zain with the Board control.

The acquisition will enable Omantel to emerge as a new digital powerhouse in the region, which will contribute in driving our digitization strategy to success. This deal is expected to yield long term economic benefits to our shareholders and government, as our expectations on intra-group synergies in both retail and wholesale segments begin to materialize. By virtue of this acquisition, Omantel has become the 3rd largest telecoms group in the MENA region, serving 10 markets and a total of over 51 Mn customers.

The acquisition is financed through a combination of long-term and bridge loan facilities. Omantel is monitoring for an opportunity to replace the bridge loan facility through long-term capital markets instruments.

Our Wholesale Strategies and Achievements

Omantel Group has been following an aggressive wholesale strategy over the years to capitalize on the global phenomenon of tremendous connectivity growth. Over recent years, Omantel has emerged as a competitive wholesale telecom operator in the region. We are considered among the leaders in the field of submarine cable networks, attracting high profile global content providers by hosting their regional hubs the Sultanate.

Omantel's participation in several international submarine cable systems is, supplemented by several direct terrestrial links in our portfolio. Omantel has 12 international submarine cable landings and access to 20 submarine cable systems around the world, connecting all continents. This makes the Sultanate of Oman one of the most connected places in the region and an attractive international hub as entrance to the Gulf.

The recent milestone we have achieved in our endeavor to become a "Carrier of Carriers" is the landing of the Asia Africa Europe-1 (AAE-1) submarine cable system. AAE-1 is one of the largest submarine cable systems in the world spanning approximately 25,000 kms, and connect 18 countries all via Oman. This footprint of this cable system will cover nearly half of the world's population.

Omantel is also part of a consortium of East African telecommunications providers to lay the Gulf to Africa (G2A) undersea fiber-optic cable connecting southern Oman with East Africa. This move is the first step in our planned expansion across the African continent. G2A will provide Internet capacity to underserved countries in the African continent hosted by Omantel. Omantel is also an important partner in the Bay of Bengal Gateway cable system, the first cable system in the world connecting Singapore directly with the Middle East through Oman.

With these new and other existing submarine assets, Omantel is well prepared to offer unrivaled quality and capacity to the region in order to serve the growing broadband Internet demand with low latency aligned to the social and economic objectives of the Sultanate, and the neighboring countries.

Industry Structure and Related Challenges

The Omani telecom market is fairly diverse in terms of geography, competition and customer demographics. Over recent years, the domestic telecom sector continues to advance towards a stronger competition and regulatory tightening, at the backdrop of rising penetration levels, falling prices, a generally prevailing economic slowdown and a more price sensitive customer than ever.

Growth in telecom sector indicators remains healthy, penetration rates in Oman for fixed line and broadband services have posted a steady growth. Estimated fixed line penetration is at 81% and fixed broadband penetration at 57% (based on households). As per the national statistics (NCSI), mobile penetration is 149.7% and mobile broadband penetration stands at 93.8%.

The year 2017 witnessed a strengthening competitive and tightening regulatory environment across all the major telecom services in Oman. In particular, competition in the fixed broadband category is intensifying as Government-owned OBC continues to expand its fiber network across Muscat. This will result in a higher growth in FTTH based broadband connections during 2018.

The Sultanate's telecom market stands highly competitive in all segments with 2 class-1 mobile operators, 3 class-1 fixed operators, 4 international gateway licensees, 1 class-1 maritime operator and, 6 class-2 re-sellers' licenses (2 out of which are currently operational).

The introduction of a 3rd mobile operator in the market still remains a possibility as the policy decree issued by the Ministry of Transport & Communications suggests assignment of the license to a consortium of local investment funds supported by a strategic global partner.

The recent decision by the regulator on new Access and Interconnection (A&I) Regulations will allow complete availability of an operator's infrastructure to competitors at cost-plus basis. This will impact operators' wholesale and retail revenue base, margins, and de-incentivize them from continuing capital investments in their networks going forward.

The increase in royalty charges from 7% to 12% of the revenue effective from the beginning of 2017 accompanied with increase in taxes have significantly impacted telecoms profitability. Operational and financial challenges emanating from intensive regulatory tightening, IP based OTT operators, persistently declining fixed voice business & international wholesale prices, and a tense macro-economic environment will continue to challenge the business outlook of Omantel.

Omantel Group – Consolidated Performance – 2017

Omantel Group revenue includes revenues from domestic operations of the parent company, revenue from Zain Group, domestic and other international subsidiaries.

Omantel Group revenue posted an increase of 44.7% mainly due to the consolidation of Zain's revenue. The parent company posted a revenue growth of 2.5%, mainly driven from broadband internet services. Details of parent company performance are elucidated later in this document.

Profit & Loss Statement	Parent Company			Consolidated		
	2017	2016	% Change	2017	2016	% Change
RO in 000's						
Revenue	527,515	515,058	2.4%	751,725	519,351	44.7%
Cost of Sales	(163,254)	(134,871)	-21.0%	(230,125)	(136,778)	-68.2%
Gross Profit	**364,261**	**380,187**	**-4.2%**	**521,600**	**382,573**	**36.3%**
Operating & Other Costs	(157,394)	(150,883)	-4.3%	(230,746)	(152,327)	-51.5%
EBITDA	**206,867**	**229,304**	**-9.8%**	**290,854**	**230,246**	**26.3%**
Depreciation & Amortization	(115,163)	(101,828)	-13.1%	(151,729)	(102,768)	-47.6%
EBIT	**91,704**	**127,476**	**-28.1%**	**139,125**	**127,478**	**9.1%**
Financing Income/Cost & Others	(9,308)	6,207	-250.0%	(23,014)	6,208	470.7%
Profit before Taxation	**82,396**	**133,683**	**-38.4%**	**116,111**	**133,686**	**-13.1%**
Taxation	(11,767)	(16,174)	27.2%	(8,985)	(16,174)	44.4%
Profit for the Period from Continuing Operations	**70,629**	**117,509**	**-39.9%**	**107,125**	**117,512**	**-8.8%**
Profit Net Off Discontinued operations / Others	70,629	117,509	-39.9%	106,779	115,781	-7.8%
Profit Net Off Non-Controlling Interests	70,629	117,509	-39.9%	79,717	116,671	-31.7%

The acquired business of Zain Group contributed revenues of RO 219.6 mn and net profit of 35.6 mn to the Group for the period from 15 November 2017 to 31 December 2017. After adjusting for the non-controlling interest, the acquired business contributed profit of RO 11.1 mn to the Group Profit (*RO 7.6 Mn as a subsidiary and RO 3.5 Mn as an associate for the period 24th Aug to* 14 Nov 2017).

Profitability Ratios	Parent Company		Consolidated	
	2017	2016	2017	2016
EBITDA Margin	39%	45%	39%	44%
Net Profit Margin	13%	23%	14%	22%
EPS	0.094	0.157	0.105	0.156

The group achieved an after tax Net Profit of RO 106.8 Mn (*RO 79.7 Mn net off non-controlling interests*) for the year ended 31st December 2017, compared to the after tax profitability of RO 115.78 Mn in 2016 (*RO 116.7 Mn net off non-controlling interests*), a decrease of 7.8%. The parent company achieved a net profit of RO 70.6 Mn during 2017, i.e. a decrease of 40% from net profitability recorded in 2016. The impact on the net profit was due to increase in royalty from 7% to 12%, and increase in the corporate tax rate from 12% to 15%.

EPS, Dividend & Yield:

Group's EPS stood at RO 0.106 in 2017, compared to the parent company EPS of RO 0.094. This 14% increase in the EPS is contributed by consolidation of Zain's results. However, compared with 2016, the Group's EPS declined by 32.2% in 2017, mainly due to the increase of royalty charges and taxation in the parent company.

The Group has declared a final dividend of 50 bz per share which will be subject to the approval of AGM. This is in addition to the interim dividend of 20 bz per share paid in Aug 2017. This is bringing the total dividend of 70 bz per share (70% of the paid up capital) for the financial year 2017. The payout ratio is 66% of the Group Profit.

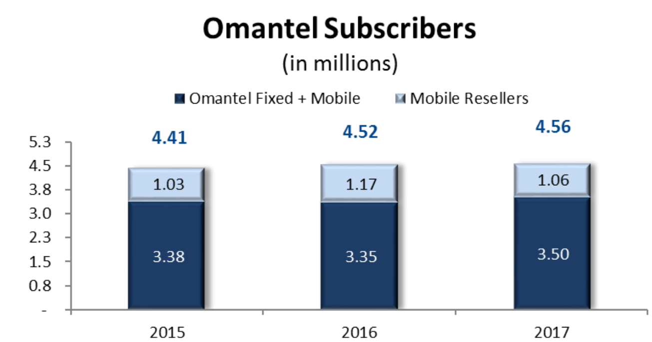
Performance of Parent Company (Domestic Fixedline & Mobile operations)

Omantel demonstrated solid operational and financial performance during 2017. We have maintained our leadership position in the Sultanate's telecom market, with a steady market share.

Revenue posted a positive year-on-year growth of 2.4% in 2017, increasing from to RO 515.1 Mn in FY 2016 to RO 527.5 Mn in FY 2017. The key to our sustainable performance has been the zeal to exceed our customers expectations, innovative offerings, process improvements, service delivery excellence, cost optimization and efficient network planning.

During 2017, our customers grew by 4.5%. Main growth was witnessed in Fixed and Mobile Broadband segments that grew by 16.2% and 10.6% respectively.

As at 31st Dec'17, Omantel's domestic customer base stood at 3.50 Mn *(4.56 Mn including mobile resellers)* as against a total customer base of 3.35 Mn *(4.52 Mn including mobile resellers)* in 2016.



Financial year ended 31 December			
DOMESTIC OPERATIONS	**2015**	**2016**	**2017**
Fixed line Service (Voice)	25.9	24.2	23.8
Fixed Line Broadband & Enterprise Data Services	91.3	102.1	107.5
Mobile Service	297.4	286.4	290.3
Wholesale (In-payment+ Interconnection+ Capacity sales)	85.8	102.3	103.9
ICT + Near Core		0.0	2.0
Total Service Revenues	**500.4**	**515.1**	**527.5**
Growth %	**6.7%**	**2.9%**	**2.4%**

The growth in total revenues is mainly driven by the increase in Broadband revenue resulting from growth in both mobile and fixed broadband business. Voice business continues to persistently decline across Fixedline and Mobile, mainly due to OTT substitution and competition in prepaid segment.

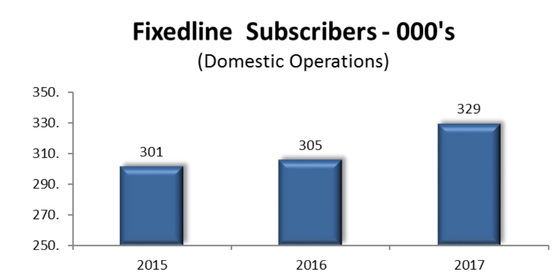
The Fixed business retail revenue recorded a growth of 5.5%. Mobile retail segment posted a modest growth of 1.3% after recovering from a negative growth of -3.3% in 2016. Fixedline growth is driven by Broadband revenues, which witnessed an overall increase of around 16.6%.

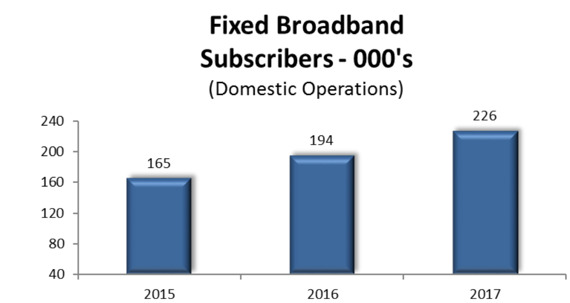
Globally, the share of Broadband internet is rapidly increasing in the operators' revenue equation. Omantel has been witnessing the same phenomenon as 47% and 44% of our Fixedline and Mobile retail revenue was contributed by Fixed and mobile Broadband services respectively, compared to 43% and 40% in the year 2016.

Revenue and Subscribers:

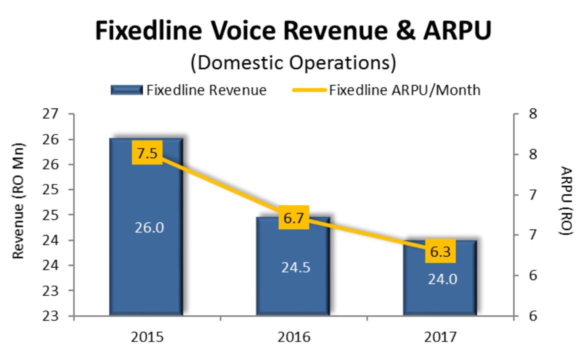
Fixed line Business:

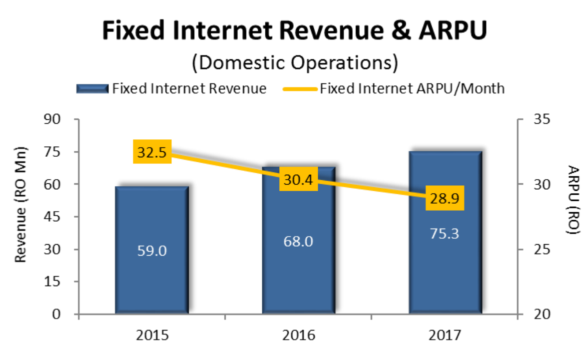
Fixed line Business includes national and international fixed line voice, fixed broadband, dedicated internet and enterprise data services. Fixed line subscribers posted an overall growth of 7.8% over 2016, and an y-o-y increase of 24k subscribers during 2017. Higher growth however, is witnessed in the fixed bundled broadband services. Fixedline internet subscribers comprise of Broadband, Internet dedicated and dialup, posted a healthy growth of 16% mainly driven by fixed broadband (FBB), which grew by 32k subscribers during 2017.





The ARPU for the fixed line segment has been derived based on the revenues generated by all fixed line users. The ARPU of the fixed line segment continued its decline during 2017, i.e. from RO 6.7 per month in 2016 to RO 6.3 per month in 2017.



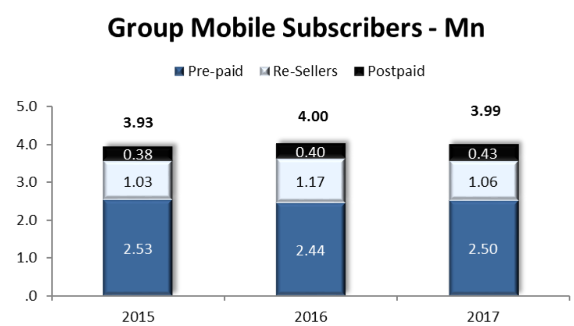


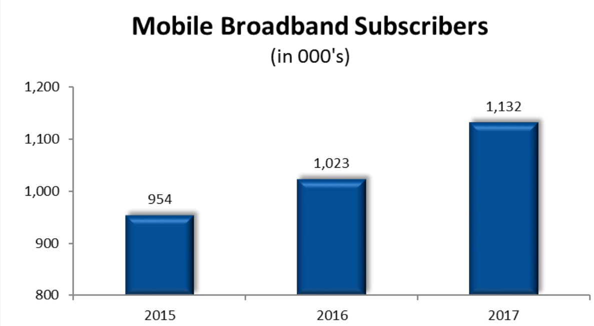
Overall revenue from Internet services (internet dialup, fixed broadband, internet dedicated) posted a growth of 11% during 2017, mainly driven by Broadband growth. However, the ARPU in this segment has declined by 4.9%; Fixed Broadband subscribers increased by 16.3% reaching 226k in 2017 compared to 194k in 2016. Fixed internet ARPU for is driven from revenues generated by all Internet services.

Mobile Business:

Mobile service includes postpaid, prepaid and other value added services. Omantel mobile customer base posted a growth of 3.3% during 2017. However including the mobile resellers, the customer base declined slightly by 0.4%. Our mobile broadband customer base grew by 11% during 2017, against a growth of 7% in 2016.

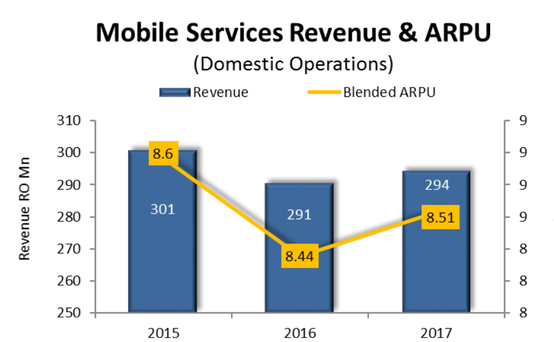
We are pleased to highlight that our service delivery strategies, coupled with innovative pricing and a premium network quality, led to this customer growth in a nearly stagnant market.





The mobile segment continues to be a major growth driver of the Omantel Group's revenues over the past several years.

Omantel mobile retail revenue accounted for 55% of total domestic revenue in 2017. Mobile services revenue recorded a growth of 1.3% during 2017, whereas blended monthly mobile ARPU increased from RO 8.4 in 2016 to RO 8.51 in 2017.

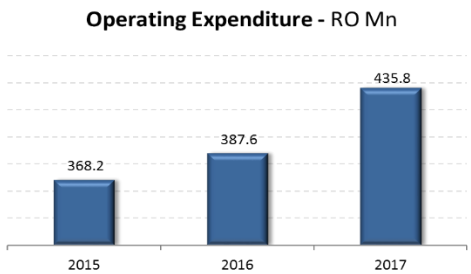


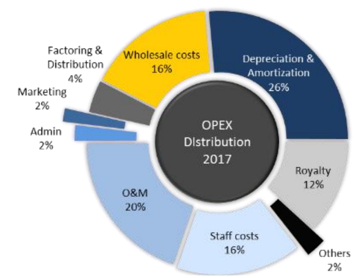
Operating Costs:

Total operating expenses ('opex') of the Omantel amounted to RO 435.8 Mn in 2017, i.e. an increase of RO 48.2 Mn over 2016. As a percentage of total revenue, the Group's Opex to revenue ratio increased from 75.3% in year 2016 to 82.6% in the year 2017.

Main contributors to the increased operating costs are the increased Government royalty charges, higher costs of O&M and depreciation on the expanding network assets.

Evolution of domestic operating expenditure over the years





The increase in operating expenditure was posted mainly due to the increase in wholesale costs, depreciation, O&M, royalty and staff costs.

Financial year ended 31 December	*Figures in RO Mn*		
	2015	2016	2017
Cost of sales	126.7	134.7	163.3
Operating Expenditure:			
Staff cost	70.5	67.9	68.9
Operating and maintenance expenses	57.0	57.2	61.6
Administrative expenses	12.7	11.1	8.4
Marketing and advertisement expenses	7.8	8.3	7.2
Annual License fees	4.4	4.4	2.1
Depreciation & Amortization	87.7	101.8	115.2
Provision for impairment of receivables	1.4	2.1	9.2
Total Operating Expenses	368.2	387.6	435.8

Cost of Sales:

Cost of Sales includes device, roaming operator, interconnections, external administration, submarine cable, royalty, collection and distribution costs. Major increase in cost of sales was due to increase in the royalty charges from 7% to 12%. Also, increase in external admin, device sales and submarine cable revenue witnessed a corresponding increase in their respective costs.

Staff Costs:

Staff costs include salaries and allowances, social security costs, end of service benefits, and other benefits. Staff costs have recorded a 1.5% increase compared to Year 2016 due annual increments as per the law.

Operating & Maintenance expenditure

Operating & Maintenance ("O&M") expenditures increased by 20.3%, mainly due to increase in cost of sales which is in line with increase in network expansion, increase in rentals of satellite channel and frequency charges.

Administrative expenditure

Administrative expenses have decreased by 24.5% as Omantel fully embarks on a major cost optimization drive, which will continue in the year 2018.

Depreciation & Amortization

Depreciation Increased by 13.2%, mainly due to increased investment in network expansion and modernization of both mobile and fixed networks to meet the growing demand of broadband services.

Royalty charges

Royalty charges recorded a major increase of 52% as the royalty rates increased from 7% to 12% effective Jan'2017.

Investor Rating:

Omantel maintained investor grade long term ratings of 'Baa3' (outlook stable) and 'BB+' (outlook negative) assigned by Moody's and Standard & Poor's respectively The ratings reflect Omantel's resilient operating performance against increased operational challenges. However, operational threats continue to put ratings under pressure from the recessionary economic environment at national level.

Internal Control Systems and their Adequacy:

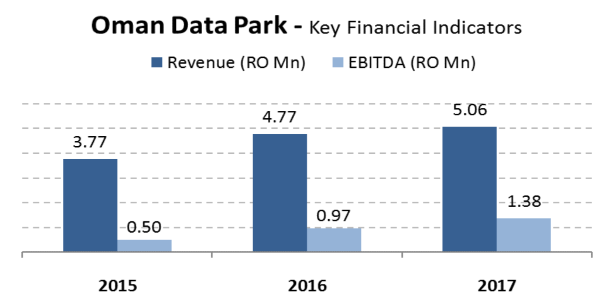
The company has internal control systems and processes that provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. Internal controls comprise of operational procedures, segregation of duties, periodic reconciliations and formal policies and procedures that facilitate complete, accurate and timely processing and recording of transactions and safeguarding of assets.

The Management receives independent feedback from the reports issued by Internal Audit of the Group, Statutory Auditors and the State Audit Institution on the adequacy of the internal controls and continues to strengthen the internal control weaknesses. Also, as part of the internal control, the company has a defined authority manual and processes, which are followed across the organization. Internal controls are generally adequate for established activities and services. Internal controls are periodically tested, reviewed and enhanced.

Omantel Group Subsidiary – *Oman Data Park*:

Omantel Group's subsidiary Oman Data Park ('ODP') continued on its growth path during 2017 and the company posted net profitability for the first time since incorporation.

ODP is providing disaster recovery, business continuity and cloud based IT services to the domestic corporate sector. Omantel holds 60% shareholding in ODP.



ODP has reported a healthy EBITDA growth of 41%. EBITDA remained RO 1.38 Mn for 2017. The Company posted a revenue of RO 5.1 Mn, which was up from RO 4.8 Mn as recorded in 2016. A slow revenue growth is reflective of the current market conditions, as potential corporate and public sector customers have slowed down their development expenditure. However, given the Company's pioneer position in the domestic market, growth outlook of ODP remains promising.

Our Network

Omantel has integrated network infrastructure providing extensive coverage throughout Oman as well as internationally. Its 3G mobile and 4G/LTE network covers 99% and 92% of the population respectively. Over 90% per cent of households in Oman had access to fixed broadband (predominantly ADSL), with continued FTTH deployment underway in various high-population areas around the country.

Omantel's fixed line network consists of two main soft switches, operating as active or standby switches, in addition to five gateways and legacy exchanges, which are currently being migrated to Next Generation Network (NGN) soft switches. Approximately 95% of fixed line subscribers have been migrated to NGN.

Omantel has extensive transmission network infrastructure, mainly based on fibre optic cables, comprising the Muscat Governorate SDH network, the National ring, the Southern ring and the Northern ring. Omantel's network comprises over 15,000 kilometres of fibre across Oman. The fixed networks cover all regions in the country. The outlying areas of Oman are linked to this network by means of satellite stations and microwave links.

Our Corporate Strategy '3.0'

Omantel continues to pursue its "Omantel 3.0 – Leapfrog to Lead" Corporate Strategy, which we consider as the key tool to maintain our leadership position while operational challenges intensify. The expected impact of a 3rd MNO, combined with tightening regulatory settings will inevitably lead to increased pressure on overall market value and profitability.

Leveraging digitization of services and automation of processes are key ingredients to become the customer experience leader in the market. A relentless focus on our core services combined with a growth in near core propositions such as ICT will strengthen Omantel market position and capability to protect value on the long term. Our 2018 corporate plan is built around 4 Strategy Pillars:

- **Exceed Customer Expectations**, with a focus on relentless process optimizations across all touchpoints as well as deliver a consistent omni-channel experience
- **Lead Omani Digitalization**, with further digitization of our channels in both Consumer and Corporate, as well expanding our turn-key value propositions to enable E-Government in Oman
- **Innovate Offering**, with a primary focus on strengthening the Core Business as the key revenue driver as well as continuing our build out of ICT solutions and the International Service Portfolio
- **Transform to agile Omantel**, with a focus on process improvements, efficient Network Planning, Cost awareness and optimization and HR Talent & Workforce development.

Group Achievements & Awards

- CEO of Omantel received an award for Best Chief Executive among 100 chief executives in the region in a survey carried out by “Trends” magazine in cooperation with International INSEAD University.
- HR Excellence Award for Employee Engagement in the Middle East and Africa
- Best Performing Company award among companies listed on the Muscat Securities Market and an award for Leading Transformation.
- Quality Choice Prize by the European Society for Quality Research for the second consecutive year.
- Award for the Most Trusted Brand in the telecom sector in Oman for the second year in a row.
- TMT M&A Emerging Markets Telecom Deal of the Year for 2017. The award was presented to Omantel for the 22% acquisition of a stake in Zain Group.
- Omantel was named ‘Brand of The Year’ at the world branding forum in London.
- Omantel was recognized as the ‘Leading Corporate for Investor Relations’ award in Oman at the annual MEIRA Conference held in Dubai.

Trends, Opportunities, Threats & Outlook

Over the last 2 decades, continuous modernization, technical transformation and evolution of affordability drove high growth in telecom industry. However recently as telecom penetration reaches beyond saturation in most of the markets, the operators are caught up in a dilemma managing to maintain balance between defending their profitability from regulation, competition and VoIP explosion, while keeping pace with enormous technological advancements that are fueling demand for advanced networks and new services.

Voice and data connectivity pricing continues to decline at the cost of operators' earnings amid stringent regulatory settings and competition in both retail and wholesale markets.

As traditional voice and messaging businesses are severely hit by the growing foothold of IP communications, a majority of operators are now collaborating with multinational OTT services providers to capture growth in data revenues associated with IP based communications.

The fast pace of technological progression does not allow sufficient time for operators to recover the cost of investment. Connectivity captures only a smaller proportion of the information value chain, whereas content, solutions and service packaging carry more weightage. OTT services providers in the countries with developed internet infrastructure have largely intruded into the operators' core functionality. It expected that large global content players or OTT operators will start acquiring telecom operators for efficient services integration.

Another strengthening trend that is set to change the shape of telecom industry is the advancements in IoT segment. The explosion of connected devices over the IoT networks will result in astronomical growth in data volumes.

Consumer oriented "things" driving IoT growth include wearables, smartphones, "connected" cars and "smart" homes. Whereas in the enterprise space, manufacturing, transportation, utilities, retail, and hospitality are set to become big contributors to the IoT ecosystem. Operators will also seek opportunities in the public sector, as "smart cities" gain more worldwide traction.

The challenge for the telecom operators in the coming years will be to manage capital allocation at the backdrop of declining profitability margins. A fresh example of which could be the case of fifth generation (5G) mobile technology, which is rapidly gaining popularity, whereas operators have not yet been able to fully recover their investments in 4G network.

One recent trend has been the operators' shift from proprietary, hardware-based network equipment to software-based network functions with technologies such as Software Defined Networking (SDN) and Network Function Virtualization (NFV). This will allow them to manage networks more efficiently, and be more responsive to changes in consumer preferences, while reducing dependence on physical hardware. Omantel is currently considering implementation of NFV functionality in order to prepare for the 5G network deployment going forward.

In addition to the general economic and sectoral trends, Sultanate's telecom sector bears a unique set of challenges and threats such as limited market size, extensive regulatory framework and an expanding list of operators in the country. Omantel is facing continuous competitive pressure in an already saturated market. Regulatory developments such as liberalization across mobile, fixed and wholesale segments, and new Access & Interconnection regulations will continue to put pressure on Omantel growth and margins going forward.

Employee Status:

Total number of employees in the group (Domestic Operations) as of Dec’17 stood at 2,533 (2,567 in Dec’16). With total number of Omanis of 2,263, compared to 270 Non-Omani employees, the Group’s Omanization stands at 89.3%. Total Male employees accounted for 1,991 at 31st Dec’17, and female employees were reported at 542.

59% of the total employees are aged between 36-50 years, 35% are aged between 21-35 years and 6% of the employee force is aged above 51 years.