Management Discussion & Analysis

Report – Year Ended 31st December 2014

Omantel continues its journey as the leading fixed and mobile communications services provider of the Sultanate of Oman. In the midst of unfolding global 'digital revolution' driven by high speed internet and data technologies, and rapid penetration of the smart devices, the shape of communications technologies is rapidly changing globally.

Responding to the global shift in communication patterns, Omantel Group takes pride in successfully cascading benefits of this global 'digital revolution' down to our customers by providing them best in class technologies and services.

As the year 2014 witnessed an exponential growth in data and internet segments, our revenues from these services continue to grow as we benefit from our investment in infrastructure. By embracing the best of the technological solutions available to the world, we continue to provide best of class services.

Operationally, Omantel continues to bolster and sustain its position as the Sultanate's flagship telecom operator despite immense competitive pressures. We remain a leading force in both fixed and mobile segments, driven by our attractive pricing, innovative service offering, and high quality network of the largest footprint in Oman.

Omantel demonstrated solid consolidated performance during the year 2014. Alongside the stiffening domestic competition as well as competition from the global OTT players, the Group revenue posted a year on year growth of 4% to RO 481 mn from RO 463 mn in FY 2013.

As at 31st December 2014, Omantel's consolidated customer base, stood at 4.296 mn (FY2013 4.02 mn), representing a year-on-year growth of 6.8%.

Continued improvements in our already superior network and customer service have also yielded a high degree of loyalty among our customers, that fact which is well reflected from the growing size of our customer family.

Omantel also continues to enjoy a prestigious profile in among investor community through its high investor grade ratings. Rated by the globally renowned agencies, Omantel is assigned 'BBB' and 'A3' ratings by Standard & Poor's and Moody's respectively. These ratings reflect our strong and sustainable financial and competitive position in the Sultanate's fixed line and mobile telephony markets, solid operating performance and high profitability.

Omantel also lead the Government's efforts to revive its privatization program, as 2014 also saw the successful placement of 19% of the Government's stake in Omantel to individual and corporate investors. The Government fetched about RO 204 mn equivalent to US$530 mn through this stake sale. Resultantly, the Government's share in Omantel diluted to 51% from the previously held 70%.

We also received several international awards and recognitions in the previous years. The most recent and prominent of which were the 'Best Performing Company' in MSM for the 9th consecutive year by Oman Economic Review, and 'Asian Business Leaders Forum' for the best business practices in recognition of improvement in internationally recognized business practices.

During 2014, we also stepped up our efforts towards revival of our investment in Worldcall Telecom Limited. At the backdrop of severe market competition in Pakistan and deteriorating operational environment for the operators in the country, we have taken several strategic initiatives which will help to revive Worldcall's operational performance. Network upgradation, product development and tighter controls are some of the few important objectives for Worldcall that are being persistently pursued by the management of Omantel.

Omantel continued to work towards its "Carrier of Carriers" objective, whereby our strategy is to achieve sustainable revenue growth from wholesale business by expanding our international footprint. The successful execution of our strategy is evidenced by the fact that more and more global content players and international carriers select Omantel as their partner to serve the region and beyond. The signing of the AAE-1 system whereby Omantel is the landing party in Oman and in France will bring the total numbers of submarine cable systems landing with Omantel to 11.

To further strengthen our international presence in the wholesale arena, we established Oman France SAS, a 100% owned subsidiary of Omantel Group, with an objective of maintaining and landing the Asia Africa Europe - 1 (AAE-1) submarine cable in France. This initiative has given Omantel an instant worldwide access as the only Middle Eastern operator to build its presence in the European Union. AAE-1 cable system is expected to become operational in the year 2016, whereby Oman France SAS will provide open access to all owners in AAE-1 consortium into the EU.

In 2015, we will embark on our new Corporate Strategy 'Omantel-3.0', pursuing operational excellence, innovation and transformation of Omantel into a digital powerhouse of the country. We will continue to build on our brand, and emphasize on providing enhanced customer experience as well as bringing innovative and affordable services to our valued customers. We will also continue to focus on creating sources of income and diversifying the investment portfolio directed to achieving sustainable growth in revenues, wherever possible and maximizes returns to shareholders.

Industry Structure and Related Challenges

Omantel's main operations are within the telecom market in Oman. Relative to the country's population size, the domestic telecom market stands highly liberalized with multiple operators across fixedline, mobile, and international gateway segments. As of today, 2 class-1 mobile operators, 3 class-1 fixed operators, 4 IGW licensees and 1 calss-1 maritime operator are present on the telecom landscape, and 6 class-2 mobile resellers operator.

A state owned infrastructure provider 'Oman Broadband Company' has been established to provide fiber (passive) infrastructure to operators in the city of Muscat. Furthermore, the recent announcement of National Broadband Strategy will have its own implications on the operators going forward.

A persistent series of regulatory initiatives continue to challenge our business model. In Year 2014, we witnessed series of consultation initiatives such as BULRIC, Access & Interconnection Regulation, Licensing

Framework etc., which will have far reaching impact on the operator's business models, if it is not adequately deliberated prior to its implementation.

Some of the key operational challenges being faced today are declining voice business; threatening OTT penetration in mobile segment in terms of VoIP and messaging; increased spending in upgrading networks to match customer expectations amidst global technological evolution; persistent decline in the international voice and data prices; extensive competition in corporate data services, and international connectivity etc., which are impacting the revenue growth and profitability.

Opportunities & Threats

In today's rapidly evolving digital society, the role of communications industry has proven to be a key enabler for domestic socio economic growth. From a strategic perspective, the opportunities arising in the industry are also coupled with immense challenges. The fast industry shift towards data based communications is threatening the importance of traditional cash cows such as voice and SMS. However, the same has also given way to the growth opportunities in the fields of mobile broadband, cloud computing, ICT services, M2M, and M-advertising.

The global telecom industry is re-inventing itself in response to the explosive demand for internet and internet related services. The legacy telecommunication behavior is moving away from core traditional communications products (e.g. voice) to new services (e.g. data, VAS). New services with low margins are replacing traditional connectivity services. About 12 billion internet enabled devices are expected to be active by the end of 2020, ranging from automobiles to home appliances and phones. Smartphone penetration is growing robustly as its affordability among the masses continues to increase, hence creating an excessive demand for quality high speed data services.

Telecom operators are completely exposed and exploited to rapidly expanding OTT players which work without any geographical boundaries. OTT operators are a completely new breed of global competitors which is quickly turning the tables for traditional telecom operators through their data based communication models/solutions.

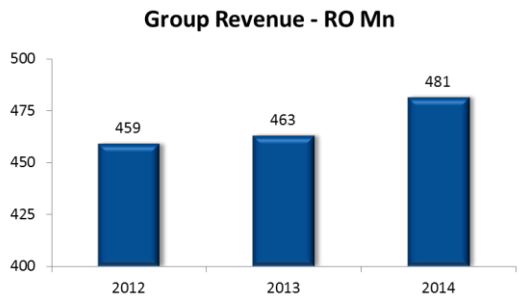
Conventionally high margin segments such as voice and SMS, which used to be the major contributors in the telecom operators' growth through circuit switched and TDM mediums, are now witnessing a major shift to IP based mediums. For instance, the global VoLTE (4G VoIP) market is expected to grow upto US$ 6 billion by 2020.

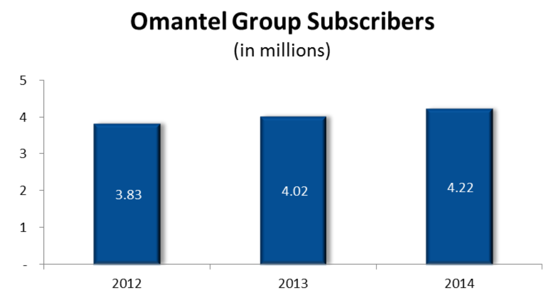
We at Omantel believe that consistency of growth in our retail and wholesale revenues, especially the growth in mobile and fixed broadband revenues, will be heavily dependent upon our vision and actions to transform Omantel to meet the evolving trends. Our effective strategies to sustain fixedline and mobile growth are being continuously re-evaluated to reflect the changing technological trends.

Broadband data in both consumer and corporate market is poised to remain a key growth area going forward. Today, Omantel provides the broadest choice, largest coverage and superior quality for broadband services across our fixed and mobile networks, and we continue to expand roll-out of our network based on ADSL, 3G and 4G LTE technologies.

Analysis of Segment and Product Wise Performance

Total revenue includes revenues from Fixedline, Internet & Data, Mobile and wholesale (external admin & Interconnection) services. Total service revenue during the year 2013 posted a growth of 4% over the revenue generated in 2013.

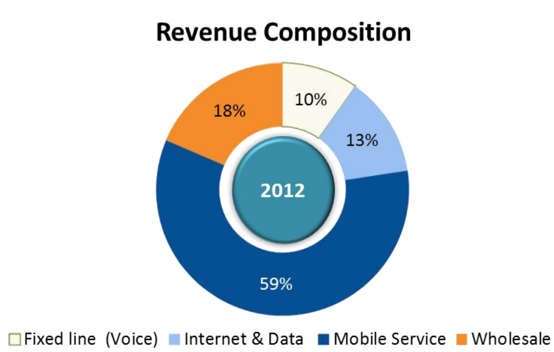


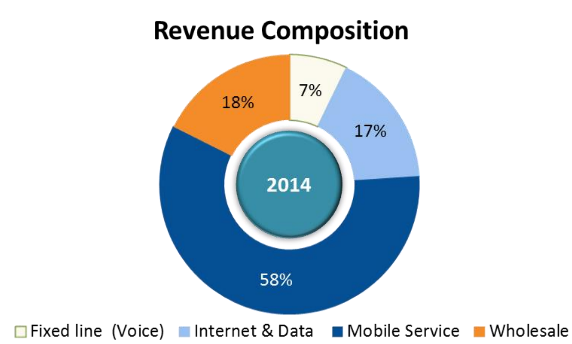


Total revenue of Omantel group includes the operations of Worldcall Telecom Limited (WTL) and Oman Data Park LLC. WTL is a Pakistani telecom services operator providing Wireless Local Loop, Long Distance International Services, Payphones and Cable Television services. Oman Data Park is a locally incorporated subsidiary of Omantel Group providing data center, co-location, cloud and disaster recovery services in the country.

Financial year ended 31 December			
Fig in RO Mn	**2012**	**2013**	**2014**
Fixed line Services (voice)	45.0	36.4	34.7
Internet and data services	58.7	68.2	80.5
Mobile Service	270.0	275.8	281.3
Wholesale (In payment + Interconnection+ capacity sale)	85.1	82.5	84.7
Total Service Revenues	**458.9**	**462.9**	**481.2**
Growth %	1.4%	0.9%	4.0%

The growth in total revenues in the period from 2012 to 2014 has been mainly driven by the increase in Broadband revenue resulting from growth in both mobile and fixed broadband business. Fixedline voice business has been witnessing persistent decline over recent years and mainly due to a constant fixed to data / mobile substitution and decline in WTL WLL and Long distance revenues

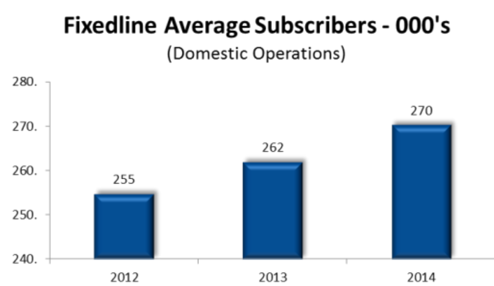


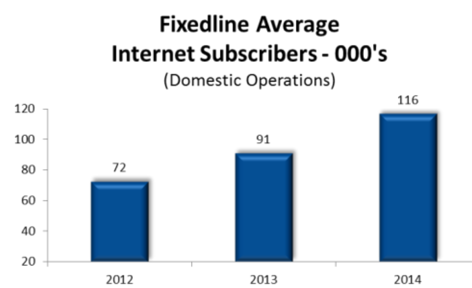


Revenue & Subscriber Analysis – Domestic Operations

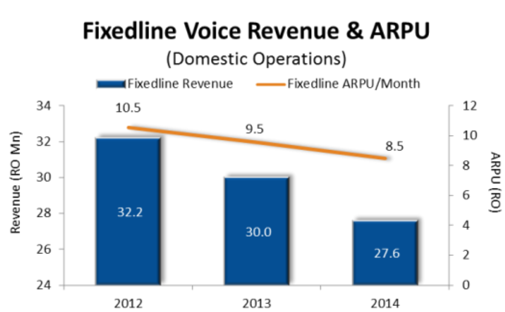
Fixed line Business:

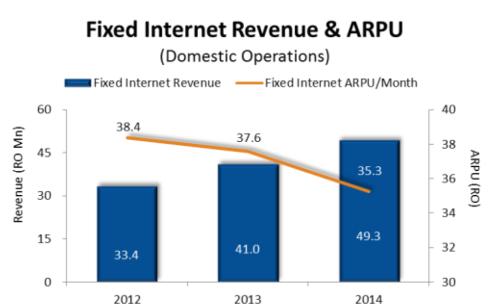
Fixed line Business include national and international fixed line voice (post and pre-paid) and prepaid cards (Jibreen) and payphones (Al Multaqa). Fixed line subscribers posted an overall growth of 6% over 2012, i.e. a net increase of 9.6k subscribers during 2014, mainly due to increasing demand for fixed line bundled broadband services. Internet subscribers comprises of Broadband, Internet dedicated and dialup posted an increase of 27% mainly driven by fixed broadband (FBB), and achieved an increase of 28.7k subscribers during 2014 compared to a net increase of 22.5k subscribers during the year 2013.





The ARPU for the fixed line segment has been derived based on the revenues generated by all fixed line users, including payphones. The ARPU of the fixed line segment continues to decline at the backdrop of mobile substitution. Fixed line voice ARPU declined by 11%, i.e. from RO 9.5 per month in 2013 to RO 8.5 per month in 2014. Since 2012, the ARPU has witnessed a decline of 19%.

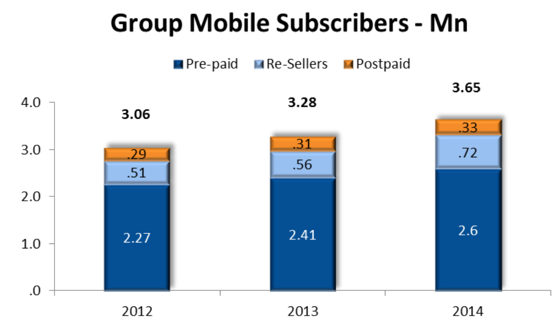


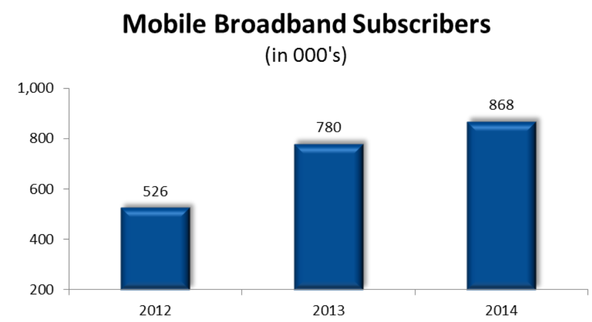


Overall revenue from Internet services (internet dialup, fixed broadband, internet dedicated) posted a healthy growth of 20% during 2014 mainly driven by Broadband services and subscribers. However, the ARPU in this segment has declined by 6% due to increased service off-take during the year; Fixed Broadband subscriber increased by 31% reaching 124k in 2014 compared to 94k in 2013. The ARPU for the Internet services is driven from revenues generated by all Internet services.

Mobile Business:

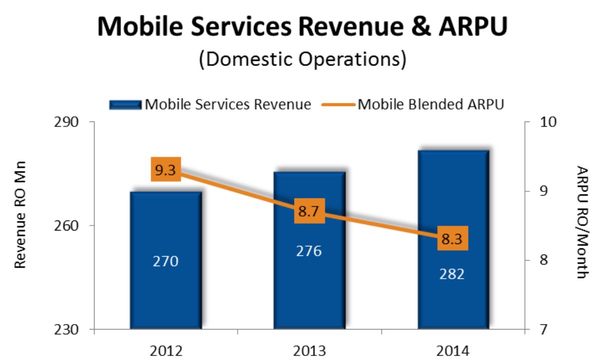
Mobile service includes postpaid, prepaid and other value added services. The Group continued to grow its mobile subscriber base during 2014 i.e. an increase from 2.72 Mn subscribers in 2013 to 2.85 Mn subscribers in 2014, excluding re-sellers. However, as country's market saturated further, the growth slowed down from 7% in 2013 to 5% in the Year 2014. Including Mobile Resellers, total network subscribers have grown by 11% to reach 3.65 Mn at the end of 2014.





The mobile segment has been the primary growth driver of the Omantel Group's revenues over the past several years.

Omantel mobile retail revenues accounted for 58.4% of total revenues in 2014. Despite an increase in the revenue, the blended monthly mobile ARPU decreased from RO 8.7 in 2013 to RO 8.3 in 2014, a decline of 4.6%.



Outlook

As witnessed over the recent past, telecom industry continues to maintain its profile as a vibrant sector with growing competitiveness and expanding rapidly in multiple directions across infrastructure, technologies and services.

Promising recent developments have emerged such as exponential growth in data usage, rapid emergence of the internet-of-things phenomenon, an expanding ecosystem of increasingly connected devices and infusion of e-governance, e-businesses and e-marketing with data centric communications.

The big transition in communications ecosystem has made it evident that the sector is transforming into globally interconnected cloud of network. We fully realize the situation that operating with traditional telco approach in the modern times carry a high risk of limiting our role as an infrastructure provider rather than a telecom solution provider.

Complete reliance on growth through traditional revenue streams such as voice and messaging, is now becoming more of a historic reality. In addition, extensive liberalization of the sector coupled with increasing penetration rates is exerting tremendous pressure on both subscriber growth, retention and returns.

Any growth or retention of the subscriber base is becoming more of a ‘transformation play’, wherein successful operators should be able to provide seamless and high quality data connectivity to their customers across their device eco-systems. Service differentiation would only be recognized in terms of the operator’s ability to offer seamless connectivity to their customers across their device portfolios at an affordable pricing.

Telecoms sector, like other industries, is also facing challenging economic environment. According to the World Bank outlook for 2015, Global economy is struggling to gain momentum as many high-income countries continue to grapple with legacies of global financial crisis and emerging economies stand less dynamic compared to their recent past.

In addition to the economic challenges, a throng of sectorial forces, as discussed earlier, are adversely impacting business models and posing challenges to telecom operators.

Omantel is not an exception to these challenges. However, we proudly report that the Group has successfully responded to these elements and retains its stature as the flagship telecom operator of the country in mobile, fixed and wholesale markets.

As the country leads its way towards its prudent development focused on infrastructure growth, SME, social, health and education sectors, in line with ‘Oman 2020’ vision, the government is also focused on attracting foreign & local investments in private sector, setting up new industrial zones and rapid diversification of the economy.

Over the years, the Sultanate’s telecom sector has drawn its growth stimulus from the consistent economic development of the country. However at the backdrop of recent crash in the oil prices, and in case of any prolonged consistency in the pricing slump, the growth momentum of the national economy as well as performance of the Sultanate’s telecom sector would have to be assessed in the broader economic context.

Overall telecom market witnessed growth across both fixed and mobile segments. Broadband internet in (both fixed and mobile) remained the major growth driver. The momentum of mobile broadband growth is expected to continue with robust penetration of lower end of devices coupled with flexible and innovative offers. In addition, fixed broadband has also witnessed growth during 2014 due to innovative offers. Trends witnessed in the Sultanate’s telecom sector coincide with the global telecom direction, where data services are clearly emerging as engines of growth.

In view of the foregoing, the company’s strategy remains focused on enrichment of customer experience, customer growth & retention, market leadership through innovation, and cost efficiencies, with the ultimate goal to enhance our shareholders’ value.

‘Omantel 3.0’

Omantel’s is rolling out its new strategy ‘Omantel 3.0’ which will cover a period of 2015-2020. This strategy will focus on revenue generating units as key metrics, by expanding into near core and non-core areas and by becoming the key differentiator companion of choice and creator and enabler of digital ecosystems.

The new corporate strategy revolves around the following elements:

1. Exceed customer expectations: where our priority is to delight our customers, focusing on excellence in any action we do and become a true companion of choice of our customers and put long term impact over short term financial gains;

2. Lead Oman digitalization: where we bridge the digital divide, enabling all society to interact digitally, independent on location and technology, where we go digital, both into our people mindset and approach, and support the government in its digitalization efforts;

3. Innovate offering: whereby we increase relevance to customers by leveraging our assets to strengthen our core & venture into new service strems, focusing on Digital Home ecosystem by becoming the partner of choice for international carriers and businesses;

4. Transform to agile Omantel: whereby investing in our people and foster risk taking attitude to enable the transition to 'Omantel 3.0' by simplifying and automation of processes, procedures and optimising our infrastructure to be most efficient;

Risks & Concerns

Several sector deregulation initiatives have been started since 2012, which constitute some concerns that we will endeavor to address as part of our role as an operator. We reiterate changes to the sector should follow a balanced and measured approach towards achieving long term sector and economic development objectives. Also we emphasize the recognition of the need for having available scarce resources (especially spectrum frequencies) for the most optimum use, for the benefit of the telecom sector and economic and social development in the Sultanate.

Internal Control Systems & their Adequacy

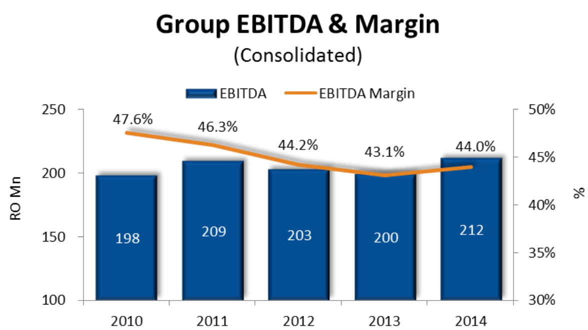
The company has internal control systems and processes that provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations. Internal controls comprise of operational procedures, segregation of duties, periodic reconciliations and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

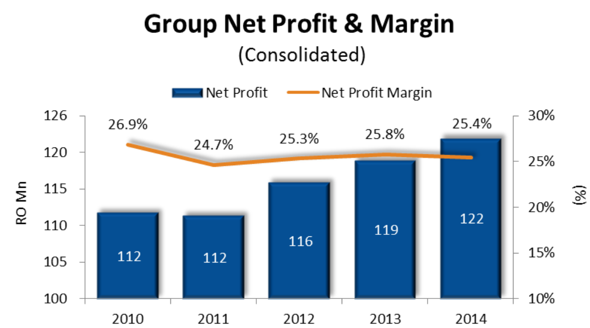
The Management receives independent feedback from the reports issued by Internal Audit of the Group, Statutory Auditors and the State Audit Institution on the adequacy of the internal controls and continues to strengthen the internal control weaknesses. Also, as part of the internal control, the company 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.

Group Financial & Operational Performance

Profitability & Dividend Analysis:

EBITDA Margin (Earnings before Interest, Taxation, Depreciation and Amortization) improved from 43.1% in year 2013 to 44.0% in 2014.





The group achieved an after tax Net Profit of RO 122.4 Mn for the year ended 31st December 2014, compared to the after tax profitability of RO 119.3 Mn in 2013, an increase of 2.6%. The Net Profit Margin declined slightly from 25.8% in 2013 to 25.4% in 2014.

Also, the Group's profitability growth has been impacted by performances of our subsidiary company WTL. WTL has incurred a loss of RO 14.1 Mn during the year (out of which Omantel share is RO 7.9 Mn) compared to a loss of RO 5.5 Mn in 2013. In addition, a loss of RO 763k was reported by Oman Data Park (ODP) compared to a loss of RO 832k in 2013. However, the better performance by the associate companies contributed positively to the group net profit. The combined share of profits from the associates (Oman Fiber Optic Co & Infoline LLC) is RO 3.3 Mn compared to a profit of RO 1.7 Mn in 2013.

Omantel Group Subsidiaries:

Worldcall Telecom Limited:

The Company posted a total revenue of RO 8.9 Mn in 2014, i.e. a decrease of 26% over the revenue in 2013. The decrease in revenue is mainly contributed to decrease in international retail minutes with the introduction of International Clearing House (ICH). During the year, operating expenses also decreased by 16.5% to RO 17.8 Mn compared to RO 21.3 Mn in 2013. The company has incurred a net loss of RO 14.1 Mn for the period compared to a net loss of RO 9.7 Mn in the corresponding period, an increase of 45.2%.

Cognizant of the Company's dwindling operational and financial performance, Omantel stepped up its efforts to revive the Company during through increased involvement in its strategic matters.

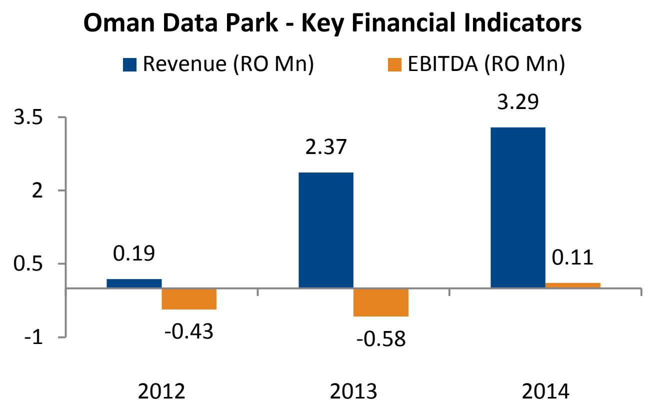
Structural changes have been introduced in Worldcall to match the internal controls that are maintained in Omantel Group's domestic operations. Deployment of funds towards capital expenditure is being surgically directed through capex implementation committee, comprising of key management personnel from Omantel.

Worldcall has embarked upon some key strategic projects during 2014. Some of the initiatives taken during the year such as the operational re-structuring, upgradation of HFC and Metro Fiber Networks, launch of HD TV services, spectrum and infrastructure sharing deals with key operators, are expected to yield positive results for Worldcall going forward.

Oman Data Park:

In 2012, Omantel Group rolled out a domestic commercial venture in the field of disaster recovery, business continuity and cloud based IT services.

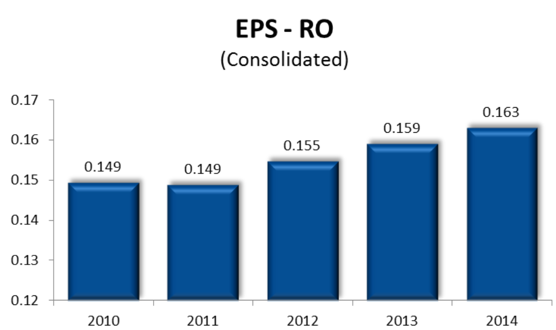
A subsidiary Oman Data Park commenced commercial operations in mid-2012 to undertake the operations of a tier-III data center. Omantel holds 60% shareholding in ODP.

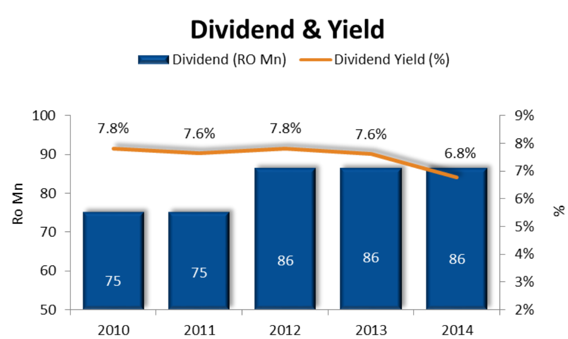


We are pleased to report that ODP has reported a healthy revenue growth and a positive EBITDA just in the 3rd year of its operations. The Company posted a revenue of RO 3.3 Mn in 2014, up from RO 2.3 Mn in 2013. The current operational and financial indicators, as well as the outlook of ODP growth are promising for a newly incorporated venture.

Omantel Group EPS, Dividend & Dividend Yield

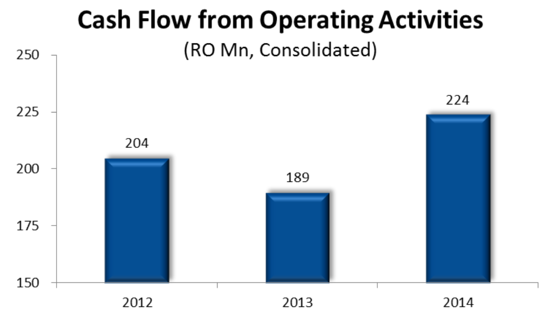
The Group continues to please its shareholders by maintaining a healthy distribution policy. In line with the dividends declared in the previous year, a dividend of RO 86.25 Mn has been assumed for 2014, which amounts to 115% of the share capital. Omantel share price has gained 13% in value and closed at RO 1.7 as of 31st Dec'14 compared to RO 1.5 as of 31st Dec'13.



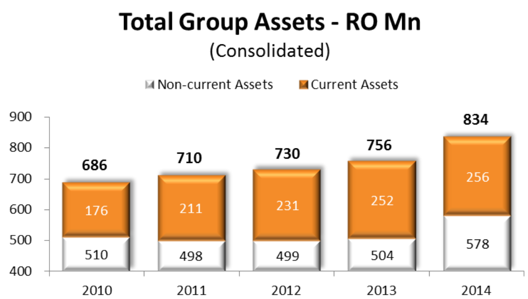


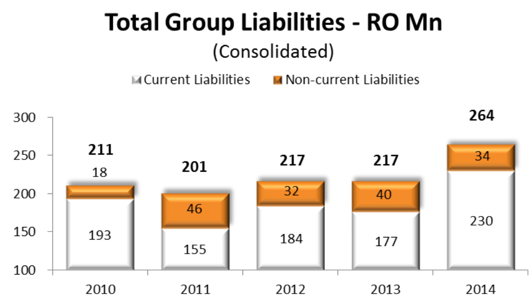
Omantel has been generating sufficient cash though its domestic operations to comfortably meet its working capital and capital expenditure requirements.

Cash flow from operating activities amounts to RO 223.6 Mn, which is 46% of revenue.

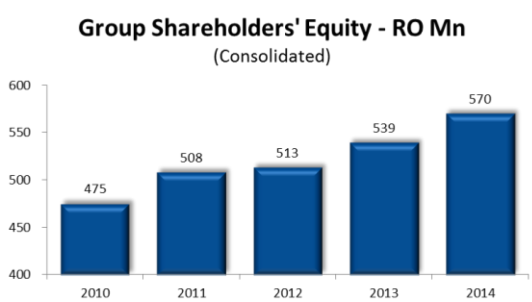


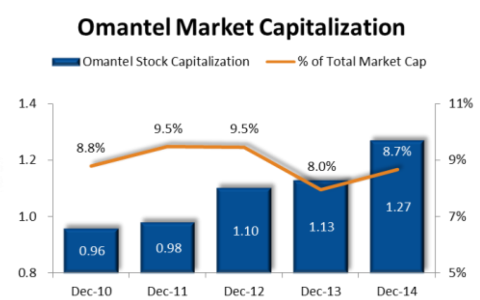
Group Financial Position Analysis:



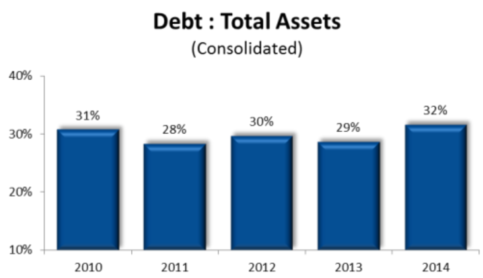


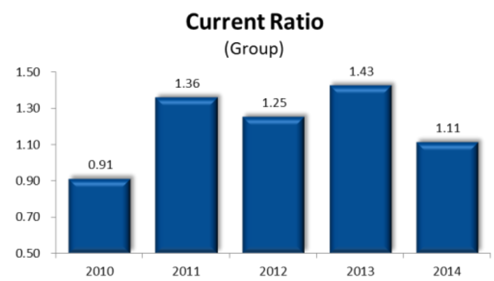
The overall assets of the Group have been constantly increasing, depicting the capital investments that Omantel is committing to upgrade and expand its network in both mobile and fixed line services. Fixed assets (including intangible assets), principally telecom equipment and facilities currently account for 59% of the Group's overall asset base.





Group's consolidated shareholders' equity posted a growth of 5.7% over 2013. The Shareholders' equity increased from RO 539 Mn in 2013 to RO 570 Mn in 2014. Omantel's market capitalization stood at RO 1.27 Billion as at 31st December 2014, up from RO 1.1 Billion at the corresponding date in 2013. This accounts for 8.7% of the overall market capitalization of Muscat Securities Market.





The Group's Debt to Total Assets ratio was recorded at 32% as at 31st Dec 2014, compared to 29% on the corresponding date in 2013. The Group's current ratio was recorded at 1.11, representing a healthy financial position.

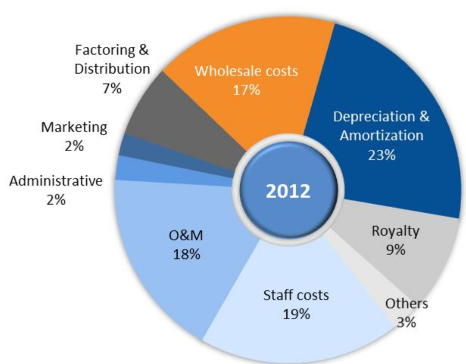
Investor Rating:

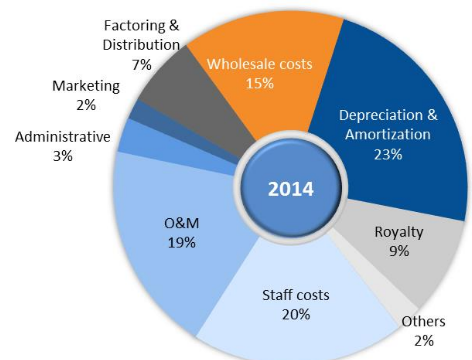
Omantel carries healthy and investment grade financial ratings assigned by Standard and Poor's at 'BBB', and 'A3' by Moody's. This high financial ratings of Omantel reflects the sustainable financial strength and performance of the Company and follows many international awards and recognitions Omantel received in the previous years.

Operating Cost Analysis:

Total operating expenses ('opex') of the Omantel Group amounted to RO 350.7 Mn in 2014, i.e. an increase of RO 9.3 Mn over 2013. As a percentage of total service revenue, the Group's Opex to revenue ratio decreased to 72.9% in year 2014 compared with 73.8% in year 2013.

Evolution of operating expenditure over the years – Consolidated



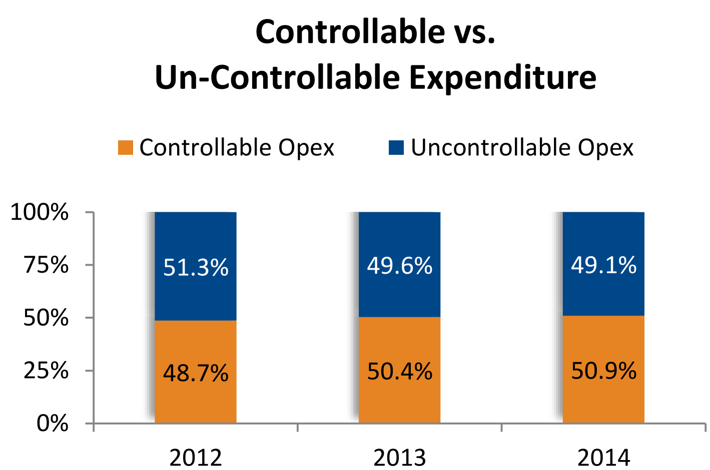


The increase in operating expenditure was posted mainly due to the increase in O&M, royalty & license fee, depreciation and staff costs.

Financial year ended 31 December			*Figures in RO Mn*
Omantel Group Opex	**2012**	**2013**	**2014**
Staff costs	63.0	66.3	69.3
O&M (including cost of IRU sales)	58.9	63.8	67.4
Administrative	7.6	10.1	11.0

Marketing & Advertising	7.0	7.1	6.8
Factoring, Collection & Distribution	22.6	22.6	22.9
Charge of impairment of receivables	3.5	2.1	1.2
Total Controllable Opex	162.6	172.0	178.6
Cost of content services	2.9	2.5	2.9
Cost of Roaming operator	7.1	5.5	4.6
External Administration	21.8	31.2	31.5
Interconnection expenses	29.0	18.6	16.3
Depreciation	71.1	71.5	74.5
Amortization of intangible assets	6.6	6.5	6.7
Annual License Fees to TRA	3.1	3.1	4.0
Royalty	29.8	30.5	31.5
Total Uncontrollable Expenses	171.3	169.4	172.1
Total Operating Expenses	**333.9**	**341.4**	**350.7**

Analysis of the Group's Controllable vs. Uncontrollable expenses as classified above shows the composition of controllable expenses out of total expenses has increased over 2 percentage points during 2 years i.e. from 48.7% in the year 2012 to 50.9% in year 2014.



Staff Costs

Staff costs include salaries and allowances, social security costs, end of service benefits, and other benefits. Staff costs have recorded a 5% increase compared to Year 2013 due annual increments as per the law and also the salary adjustments implemented as per market studies / regional benchmark analysis.

Operating & Maintenance expenditure

Operating & Maintenance ("O&M") expenditures increased by 6%, mainly due to increase in asset maintenance cost and frequency rentals.

Administrative expenditure

Administrative expenses have increased by 8% due to increase in legal fee.

Impairment of receivables

Impairment of receivable cost decreased by 41% and is mainly due to recoveries on old debts.

Royalty charges

Royalty charges recorded an increase of 3% compared to Year 2013 which is in line with the increase in revenue.

Finance Cost/Income:

For the year ended December 31 2014, the consolidated net finance income stood at RO 0.582 Mn as compared to net finance income of RO 2.468 Mn, a decrease of RO 1.886 Mn. This was mainly due to an increase of RO 5.543 Mn on account of unwinding of discount on long term receivables of WTL. This is offset by increase in exchange gain by RO 3.518 mn on account of conversion of foreign currency denominated loans and liabilities of WTL. Further there was a decrease in fair value gain on investment by RO 1.012 mn. .

Employee Status:

Total number of employees in the group (Domestic Operations) as of Dec'14 stood at 2691.

With total number of Omanis of 2,441, compared to 250 Non-Omani employees, the Group's Omanization achievement stands at 90.7%.