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## BOARD OF DIRECTORS' REPORT FOR THE FIRST QUARTER ENDED 31 MARCH 2020

Dear Shareholders,

On behalf of the Board of Directors of National Aluminium Products Company SAOG (NAPCO), I am pleased to present you the unaudited financial reports for the first quarter ended 31 March 2020 and an overview of the performance of the Company.

### **Economic environment:**

Global economic activity started slowing notably since last one and half years, reflecting a confluence of factors affecting major economies. Global financial conditions have tightened, and industrial production has moderated. The trade tensions in 2020 elevated and most of the world economies have experienced significant financial market stress. Faced with these headwinds, the recovery in emerging market and developing economies has lost momentum. Downside risks have become more acute and include the possibility of disorderly financial market movements and an escalation of trade disputes denting global activity. Ramp-up in gas production was diluted by the deteriorating oil prices which resulting in decrease in government spending.

The aluminum industry in the GCC region has become a major non-oil industrial sector and contributor to the economic growth of the GCC countries. The region is now a key economic contributor to a growing global demand for aluminium. The drop of aluminium prices has put a direct impact on the profitability of downstream industries. The trade war between USA and China and tariff on Chinese imports has created an imbalance in the global supply and demand of LME. The aluminium prices were going down caused by China's overcapacity and its high aluminium semis exports. Further, the major unfortunate events happened, COVID-19 Pandemic worldwide and drop in oil prices, resulting into a further sever drop in the oil prices, hence the drop-in commodities prices and demand especially the nonferrous metals like aluminium.

### **Performance Review:**

The financial performance of the company during the first quarter ending 31 March 2020, as compared to first quarter ending 31 March 2019, is summarized in the table below:



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Summary of Income Statement		
	3-months 2020	3-months 2019
	Unaudited	Unaudited
RO in 000's		
Sales and other income	9,578	11,396
<b>Net (loss)/profit before taxation</b>	(411)	69
Income tax	62	(9)
<b>Net (loss)/profit after tax</b>	(349)	60

The Company realized top line revenue and other income of RO 9.58 million compared to RO 11.40 million during the previous period and achieved total production of 7,678 MT as compared to 8,481 MT during the previous period. Despite the weak economic conditions and uncertainty in the market due to LME fluctuation, the Company managed to maintain an acceptable production capacity as well as dispatches.

The drop-in revenue as compared to previous period and net loss during the current period is mainly due to decline in aluminium prices, increasing cost of energy, higher financing rates, increase in tariffs by the Government, scrap devaluation, increased competition and overall economic slowdown resulting a direct impact on the inventory and metal margin. Further, the unprecedented outbreak of COVID-19 Pandemic and declining oil prices also severely impacted the dropdown of aluminum prices and its demand. The LME prices have declined at a level lower than it was in 2008. The average LME prices have decreased from RO 716 to RO 650 as compared to previous period. The drop in LME prices has put a negative impact on the aluminium producers in GCC and worldwide. Since the Stock market drop is higher than the margin, the downstream companies are suffering from losses resulting a drop-in margins and negative impact on the scrap. The shrinkage of scrap demand globally has affected scrap prices and its margins negatively.

However, despite the difficult economic environment, the Company endeavor to maintain its business activities by continuing to implement its business strategy by fully optimizing the utilization of installed capacity of its existing plant, focusing on project-based customers instead of traders and enhancing its market share, widened its product offering / mix with focused marketing initiatives and improved client service.

#### Future outlook:

The aluminum extrusion industry in Oman shall continue facing a challenging environment characterized by intense competition due to additional capacities in the neighboring countries, fluctuation in LME prices, cheaper supplies from abroad and absence of regulations to control the low-quality imports of aluminium profile. The LME price fluctuation to remain major uncontrollable external factor and larger GCC players continue to be extremely





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aggressive in terms of pricing strategies. Challenges are also upfront, in the form of continued increase in energy prices, unseen corporate taxes, Government tariffs and high financing rates putting pressure on the margins.

To compete effectively, the company is quite vigilant on effective utilization of resources, cost cutting initiatives and improving efficiencies to sustain operating margins. Further efforts are on to reduce its exposure, limit its sales to only high end and high margins, focus on value added products & project-based customers in Oman and GCC. NAPCO will remain keen to meet all the challenges ahead, formulate strategies to enhance the Company's image and financial strength in the periods ahead to generate returns on the shareholder's funds.

### Compliance with internal regulations and control system:

The Company is committed to maintain a high standard of internal regulations and control system commensurate with the size and nature of the operations. A manual of financial authorities approved by the Board is in place, which specifies authority levels for various day to day operations. The system of internal control is monitored regularly by the Board, its Committees, Management and Internal Audit for its compliance.

### Acknowledgement and Appreciation:

I would like to extend my deep thanks to our honorable shareholders and to all my colleagues on the Board of Directors for their valuable contributions. I would also like to thank the Management and staff for their loyalty, hard work, dedication, and contribution in the achievement of our goals and acknowledges, with sincere gratitude, the support extended by all the investors, clients, vendors, banks, regulatory and government authorities, MSM and CMA and look forward to having the continued support from all of them.

I wish to place on record, personally and on behalf of the Board of Directors and employees, our sincere gratitude to His Majesty Sultan Haitham bin Tariq bin Taimour and his wise government for continued support, encouragement, and guidance for industrial sector.

For & on behalf of the Board of Directors  
National Aluminium Products Co. S.A.O.G.

Saud Sulaiman Al Riyami  
Chairman



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