

MANAGEMENT DISCUSSION AND ANALYSIS REPORT **FOR THE YEAR ENDED 31 DECEMBER 2018**

The Management of National Aluminium Products Co. SAOG ("NAPCO") is pleased to present the Management Discussion and Analysis Report for the year ended 31 December 2018.

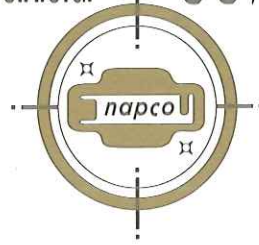
This report contains forward-looking statements, which reflect Management's current views and estimates. The forward-looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.

1. Industry Structure and Developments:

The year has been eventful with challenges for the GCC region, in terms of continued economic retrenchment and its reflection on business. The aluminium industry is under continued pressure in terms of its margins. However, with a robust strategy, the Company has adapted to external conditions and has improved in term of its performance despite the prevailing economic challenges. GCC countries are expected to benefit from a combination of improved oil prices and elevated oil production levels. A slight increase in oil prices will result in more Govt. spending and new capital projects are expected in the market.

NAPCO, has become a prime extruder and reasonably well positioned in GCC in terms of its enlarged capacity, premium quality and strong base of delighted customers to face the increased competition in the future. Production, sale volumes and margins have increased during 2018 through aggressive marketing locally and abroad, focus on value added products, implementation of its diversification strategies to enhance the customer base by penetrating to the existing and entering new geographical areas. However, USA sanctions on Rusal (a Russian based world's second largest aluminium Company), 50% cut in production of Norsk Hydro Brazil due to Govt. policy to control pollution have put a heavy burden on aluminium. The tariff on Chinese imports are creating imbalance in the global supply and demand of aluminium resulting a record level of volatility in LME prices. Over 40% of smelters are losing money at current LME price. Further, significant drop of aluminium prices since the start of 2nd half of 2018 has put a direct impact on the profitability of downstream industries. To deal with it has become a real challenge for the aluminium industry worldwide.





2. Strengths, Weaknesses, Opportunities and Threats:

Strengths:

The Company is currently the only manufacturer and exporter of aluminum extrusion products in Oman with its existing brand name in the market and enhanced production capacity. Its products are perceived to be of superior quality. The Company is professionally managed and its personnel at all levels are well qualified and experienced with technical expertise. It has proximity to the other GCC and Asian regions and ports where it can take the benefit of competitive pricing and high-quality profiles as compared to local extrusion Companies. Further custom free operations in UAE and zero import duties in KSA are helpful for the company to continue its strong market base in these markets.

The Management Team is also committed to continuous development of new markets and products offering better value addition. NAPCO started implementation of its export strategy towards MENA region and beyond. NAPCO believes that, as a reputed supplier of quality aluminum extrusion products, it will maintain its position in the markets. Customer delight will also continue to be assured by the strength of the Company's systems, processes and key staff, which is the core competence of the Company.

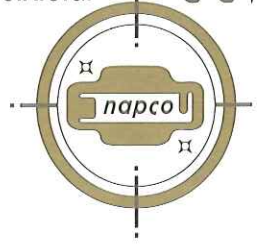
Weaknesses:

Competition in the immediate region, particularly in the GCC markets, is quite severe with supply exceeding prevailing demand. Although, the Company enjoys a strong position in its home market, but this market is relatively small and open to all low-quality products, therefore, it rely heavily on export markets which bring more challenges in the form of:

- high operational cost;
- significant sales and marketing costs;
- high price as compared to local GCC and Asian extruders;
- logistic challenges as well as border charges;
- high landing cost and custom duties for Indian and other Asian and African markets;
- limited size of extruded profiles; and
- lack of implementation of In Country Values (ICV).

Competing with a pricing strategy aligned with competition outside Oman will not be easy with higher operation costs and other challenges mentioned above. However, Management believes that the Company, by utilizing its strengths, will overcome these weaknesses and convert them into opportunities.

P.O. Box : 15, Rusayl, P. Code : 124
 Sultanate of Oman
 C.R. : 1/22025/0
 E-mail : info@napco.co.om
 Website : www.napcooman.com
 Tel. : +968 24446450
 Fax : +968 24446453/24446449



ص.ب : ١٥ الرسيل، الرمز البريدي : ١٢٤
 سلطنة عمان
 س.ت : ١/٢٢٠٢٥/٠
 بريد الكتروني : info@napco.co.om
 ويب سايت : www.napcooman.com
 تليفون : +٩٦٨ ٢٤٤٤٦٤٥٠
 فاكس : +٩٦٨ ٢٤٤٤٦٤٤٩/٢٤٤٤٦٤٥٣

Opportunities:

Economic growth prospects of the GCC countries are projected to improve in 2019. The aluminium industry in the GCC region has become a major non-oil industrial sector and contributor to the economic growth of the GCC countries. The building and construction sectors are expected to grow with a higher pace. The Oman, UAE and KSA markets are driven by large upcoming construction and infrastructure projects. The award of EXPO 2020 to Dubai, will bring vast investment in the infrastructure projects which will increase the aluminium demand in the region. Further, international Industrial Companies are producing in the GCC where they have demand of aluminium. Apart from this further opportunity are at upfront which will help to enhance our business and profitability:

- opportunity to enter and explore new markets in Asia, India, Middle East, Iraq and Africa;
- aluminium being used in new application such as scaffolding;
- growing uses of aluminium extruded profiles in industrial and transportation sectors;
- requirement of special profiles for big projects; and
- focus on the value-added extrusion products;

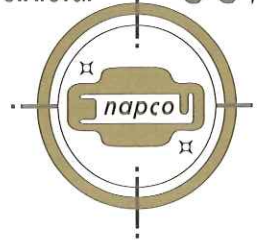
NAPCO is well positioned and established due to its proven product quality, international accreditations, and excellent customer service levels. The Company with its diversified export markets and continued focus on value added products, will be better positioned to sustain in the coming years.

Threats:

The aluminum extrusion industry continued to face a very challenging environment in 2018 characterized by intense competition and cheaper supplies from abroad. The aluminium price volatility remained major uncontrollable external factor and larger GCC players continue to be extremely aggressive in terms of pricing strategies that effected the whole downstream industry in GCC and have a direct impact on the margins. Challenges have also come in the form of increased energy prices, corporate tax and financing rates putting pressure on the margins. Apart from it, NAPCO facing more threats listed below:

- absence of regulations to control the low-quality imports of aluminium profile;
- lack of unified architectural building code for the extruded aluminium profile;
- low entry barrier and threat of new entrants in foreign markets;
- lower production cost by the other extruders / competitors resulting lower prices charged;
- increased capacity by the competitors;
- political instability and Govt. import policies resulting increased currency fluctuation against USD, insurance and shipping charges in Asia, Iraq and African markets; and





- imbalance in the supply and demand and volatility in aluminium prices due to trade war between USA and China.

These factors are main drivers behind the pressure on the Company in terms of operation and profitability.

3. Analysis of segment and product-wise performance:

Segment reporting has been given separately in this annual report under notes to the financial statements (note no.25).

4. Outlook:

The reduction in primary capacity in China created opportunity for the extruders and rest of the world to explore the new markets. The local GCC, Indian and African consumers once sourcing from China are expected to divert their requirements to the Local GCC extruders. Diversification of products and markets are expressed in the management five-year strategy plan. The slight increase in the oil prices will result in more Govt spending and new capital projects are expected in the market. Whereas on the other side, additional capacities have been introduced in the market which will continue to put pressure on the margins. The trade war between USA and China is expected to affect the metal prices negatively. It has created a new environment which is very challenging one which is creating pressure on the margins that has induced several extruders in the GCC region to change management. Major players have been forced to reduce their production to the extent of 35% due to the new market situation caused by price volatility and drop in the demand.

5. Risks and concerns:

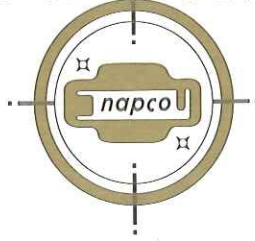
One of the most important risks in the Company's business is the ability to pass on fluctuations in the aluminum premium to the market.

The volatility on growth dynamics in the construction industry is increasing pressure. Further challenges are also come in the form of increased energy prices, increased corporate tax, increase in utility costs, high financing cost, fluctuation in the exchange rates and drop in primary production in China bringing more pressure on the prices of commodities.

The Company formulated strategies to cope with these risks mainly by:

- natural hedging process and committing contracts with customers on required basis;
- more vigilant on improving the costs and operational efficiencies;
- expanding the customer base by market expansion; and

P.O. Box : 15, Rusayl, P. Code : 124
 Sultanate of Oman
 C.R. : 1/22025/0
 E-mail : info@napco.co.om
 Website : www.napcooman.com
 Tel. : +968 24446450
 Fax : +968 24446453/24446449



ص.ب: ١٥ الرسيل، الرمز البريدي : ١٢٤
 سلطنة عمان
 س.ت : ١/٢٢٠٢٥/٠
 بريد الكتروني : info@napco.co.om
 ويب سايت : www.napcooman.com
 تليفون : +٩٦٨ ٢٤٤٤٦٤٥٠
 فاكس : +٩٦٨ ٢٤٤٤٦٤٤٩/٢٤٤٤٦٤٥٣

- ensuring a secure mix of purchases by signing contracts with several raw material suppliers.

6. Internal control systems and their adequacy:

Your Company is committed to maintain high standards of internal control, commensurate with the size of the business. Regular internal audit undertaken by internationally reputed professional firms to ensure high standards of internal control and to ensure that actions in day to day Management are exercised as per authority levels prescribed at each level as per Operating Manuals.

Independence of the audit and compliance function is ensured by direct reporting to the Audit Committee of the Board. Details on the composition and functions of the Audit Committee can be found in the chapter on Corporate Governance of the Annual Report.

7. Discussions on financial and operational performance

The company realized top line revenue of RO 47.797 million compared to RO 34.834 million during the last year which is 37% higher and achieved a net profit after tax of RO 814K as compared to a net loss of RO 455K during the previous year. The Company achieved total production of 34,097 MT as compared to 26,189 MT during the last year which is 30% higher and achieved its budgeted revenue and production despite the uncertainty in the market due to high fluctuation in the LME prices.

The increase in sales, production and profit is due to the result that the Company managed to enhance its business activities by fully optimizing the utilization of installed capacity of its existing plant, widened its product offering, increase in market share, deeper penetration into the existing markets as well as diversification into the new markets, and improved client service with slight increase in margins as compared to previous year. This was also due to more focused marketing initiatives, focusing on project-based customers instead of traders, materializing the customer base in the GCC as well as in Oman by enhancing the target market share which resulted the NAPCO to place at number 2 in ranking in terms of its production and number 5 in terms of its capacity in the GCC region. However, the net profit for the year was less than expectation due to sharp drop in aluminium prices during 2nd half of 2018 as well as increased competition which resulted direct impact on the inventory.

Mr. Ihab Mouallem
 Chief Executive Officer

Page 5 of 5

