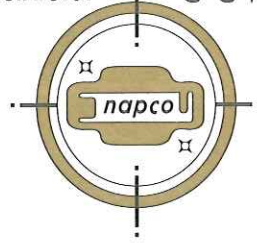


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MANAGEMENT DISCUSSION AND ANALYSIS REPORT **FOR THE YEAR ENDED 31 DECEMBER 2020**

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 2020.

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.

His Majesty's Award for Industrial Excellence, 2020:

I am proud to inform you that NAPCO was adjudged as one of the FIVE BEST INDUSTRIAL ESTABLISHMENTS in the Sultanate by the Ministry of Commerce, Industry and Investment Promotion. As a testimony of this achievement, His Majesty's Cup for Industrial Excellence for governance of performance and achievements was awarded to the company at a ceremony presided by Dr. Ali Bin Masoud Al Sunaidy, Chairman of the Public Authority for Special Economic Zones and Free Zones (OPAZ) on 09.02.2021 coinciding with the celebration of Oman Industry Day.

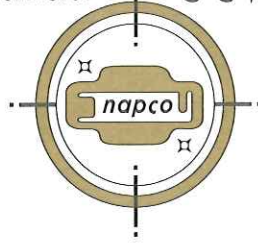
1. Industry Structure and Developments:

The 2020 was a year of unprecedented challenges driven by decline in oil prices and the COVID-19 pandemic. From the industry perspective, this translated into a sharp decline in demand largely resulting decreased business activities and impact of the restrictions imposed to reduce the spread of disease. This has put a direct impact on the profitability of downstream industries and negatively impacted its producers in GCC and worldwide. The aluminum industry is under continued pressure in terms of its margins. To deal with all these, has become a real challenge for the aluminium industry worldwide.

NAPCO, remains 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. 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, the continuity of trade war between major economies has left its burden on the commodities markets especially the aluminum industry. In addition to above, significant drop of aluminium prices in year 2020 has direct impact on the



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profitability of downstream industries. To deal with it has become a real challenge for the aluminium industry worldwide.

2. SWOT analysis

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 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:

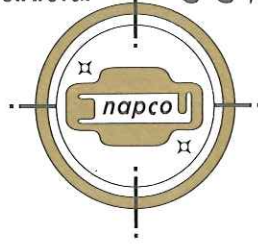
Competition in the immediate region, particularly in the GCC markets, is quite severe with supply exceeding prevailing demand. Although, the Company enjoys a strong position in its home market, but this market is relatively small and open to all low-quality products, therefore, it relies heavily on export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

- high operational cost.
- 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.
- absence of government support (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 in the export markets.



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Opportunities:

Economic slowdown in the GCC countries in the building and construction sectors is projected to continue in 2021. 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. NAPCO is taking the advantage of the above to compensate the drop in the building and construction sectors by alternative overseas markets such Canada, Australia and UK. The retail segment is still considered stable in the GCC, where NAPCO is leveraging to maintain its volumes. 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:

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.

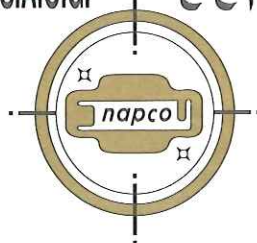
Threats:

The aluminum extrusion industry shall continue to face a very challenging environment in the year ahead characterized by intense competition, cheaper supplies from other GCC producers, and uncertainty due to new variants of the COVID-19 virus. 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 are upfront 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 government strategy in terms 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 GCC extruders / competitors resulting lower prices charged.
- imbalance in the supply and demand and volatility in aluminium prices.

Above mentioned factors are the 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. 20&28).

4. Risks and concerns:

The most important risks in the Company's business are listed here below:

- The increasing financing costs and the absence of proactive plan due to statutory laws in Oman to study and engineered financial ways to lower the financing costs.
- 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.
- Increasing tariffs and taxes by the regulators.

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

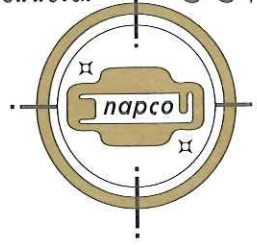
5. Internal control systems and their adequacy:

Your Company is committed to maintain high standards of internal control, commensurate with the size of the business. Regular internal audit undertaken 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.

6. Discussions on financial and operational performance

During the year 2020, the Covid-19 pandemic has taken a toll on business activities throughout the globe. Due to closure of economic activities and lockdowns during the year; aluminium industry amongst other industries, had also suffered severe setback. The Pandemic has brought various challenges to the Company in the form of less demand, dropdown of aluminum prices, regulatory restrictions, logistic issues etc., which has resulted a drop in revenue and loss to the Company. Further, increasing cost of energy, tariffs rates, financing rates, as well as declining aluminium prices, increasing competition, dumping of the aluminum extruded profiles in the

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Omani market without any control resulting a direct impact on the inventory and metal margin. The Company realized revenue of RO 35.48 million as compared to RO 42.99 million during the previous period which is RO 7.51 million (17.47%) reduction. The Company managed to dispatch 28,079 MT as compared to 32,853 MT during the last year which is less by (14.53%). The drop of revenue is mainly because of drop in production and dispatches along with lower aluminium prices. The average LME prices have decreased from RO 690 to RO 655 as compared to previous year which has put a negative impact on the margins. However, despite the difficult economic environment, the Company endeavor to maintain its business activities by continuing to implement its business strategy to minimize the negative impact of above-mentioned factors.

7. Outlook:

Following a drastic decline in year 2020, the world economy is forecasted to improve in 2021 as per IMF, vaccine approvals have raised hopes of a turnaround in the pandemic later this year, renewed waves and new variants of the virus pose concerns for the outlook. Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022. With regards to GCC and central Asia the economy is projected to grow by 3 % in 2021 and 4.2% in 2022.

The aluminum extrusion industry in Oman shall also continue facing a challenging environment with added impacts of pandemic on the economy for an uncertain period of time. Much of the uncertainty of 2020 is expected to continue into 2021, with the speed of economic recovery, both domestically and globally shall remain uncertain. The LME price fluctuation to remain major uncontrollable external factor and larger GCC players continue to be extremely aggressive in terms of pricing strategies. Challenges are also upfront, in the form of continued increase in energy prices, unseen corporate taxes, tariffs and high financing rates putting pressure on the margins.

To compete effectively, the company shall remain vigilant on effective utilization of resources and improving efficiencies to sustain operating margins. Company focus will remain on to reduce its exposure, limit its sales to only high end and high margins, concentration on value added products in Oman and GCC. NAPCO will remain keen to meet all the challenges ahead to enhance the Company's image and financial strength to generate returns on the shareholder's funds.

Ihab Mouallem
 Chief Executive Officer

