

MANAGEMENT DISCUSSION AND ANALYSIS REPORT-2016

The Management of National Aluminium Products Co. SAOG is pleased to present the Management Discussion and Analysis Report for the year ended 31st December, 2016.

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:

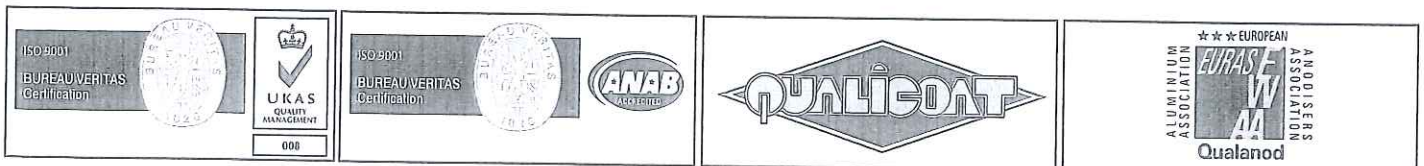
The GCC economies have recorded a sharp slowdown in 2016 amidst public sector spending cuts, tightening liquidity, and investor uncertainty. At the same time, there has also been a continuous increase in manufacturing capacity due to entry of newer players and expansion by existing manufacturers. Installed capacity in the region is expected to witness further increases during 2017.

The Company is reasonably well positioned in terms of its order pipeline and in terms of its strong base of delighted customers to face the increased competition in the future. With two additional extrusion presses and a vertical powder coating plant being installed and started commercial operations during the second quarter of 2016, the company expected to increase production and sale volumes in 2017.

2. Outlook:

The aluminum extrusion business in the GCC is a mature industry and is extremely competitive. Existing capacities coupled with those under implementation will be well in excess of projected demand. This has held true for the past several years. Consequently, margins will continue to be under pressure. The aluminum price trends, which have a bearing on margins, depend on the pace of recovery of major global economies.

With subdued oil prices, the construction industry in the GCC is remained on a reduced off take during 2016 and expected to remain same till half of 2017, thereby indicating a decline of demand for aluminium extrusions.





Nevertheless the expansion program undertaken will enable the Company to capture larger volumes from 2017 onwards as and when demand for aluminum extrusions improves.

3. Strengths, Weaknesses, Opportunities and Threats:

Strengths:

The Company is currently the only manufacturer and exporter of aluminum extrusion products in Oman. Its products are perceived to be of superior quality. The Management Team is committed to continuous development of new markets and products offering better value addition. The Company is professionally managed and personnel at all levels are well qualified and experienced.

The market however, continues to be extremely competitive with new entrants in the domestic sector and with additional capacities coming on stream in the GCC region. Despite this NAPCO firmly believes that, as a reputed supplier of quality aluminum extrusion products, it will maintain position in its markets. Going forward 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.

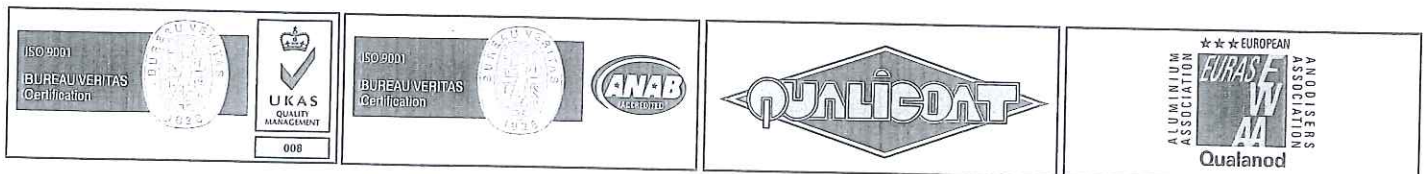
While the Company enjoys a strong position in its home market, this market is relatively small and, therefore, it must rely heavily on export markets which requires a much focused branding and image building drive, at significant marketing costs, amidst highly competitive environments. Competing with a pricing strategy aligned with competition outside Oman will not be easy with higher internal costs.

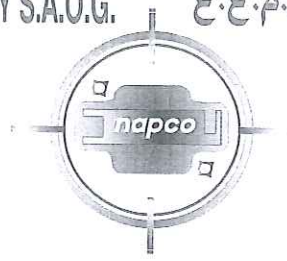
Management perceived the Company requires more of branding of its position and products and is formulating its marketing plan to generate more awareness in the market.

Opportunities:

Given the outlook of the construction industry described above, the Company with its diversified export markets and continued focus on value added products, will be better positioned to sustain in the coming years.

The demand for aluminium extrusions in the local, regional and international markets in 2016 were below our expectation. However there still will be a demand in infrastructure building either for





replacement and development which will drive Company's 2017 sustainability. NAPCO is well positioned and established due to its proven product quality, international accreditations, and excellent customer service levels.

Threats:

By and large, aluminium price volatility will remain major uncontrollable external factor, and which very often has no relation with underlying fundamentals of supply and demand.

Furthermore, larger GCC players continue to be extremely aggressive in terms of pricing strategies and the recent past has also witnessed the entry of newer players in the field.

Even though still some high value projects are being implemented, extrusion caters to the end period of those projects. These factors will result in continued pressure on margins.

Continuing the pattern of the recent year, global growth remains fragile and highly uneven. The decline in oil prices still continuing and creating major budget deficits for the GCC countries, public sector spending cut still in place.

Governments are creating conditions for the industry which put a heavy impact on the financial stability and results. Banks are rapidly increasing their interest rates causing a severe impact on the company's profitability and financial stability.

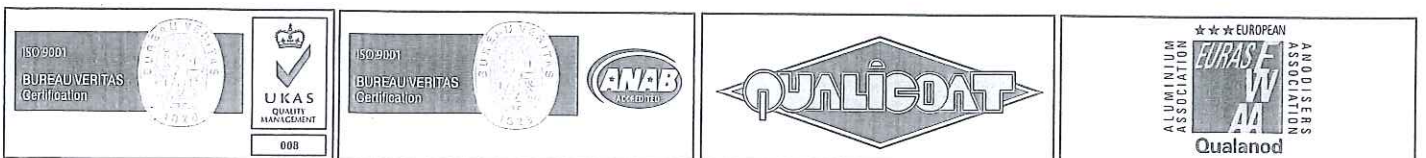
4. Analysis of segment and product-wise performance:

Segment reporting has been given separately in this annual report under notes to the financial statements (note no.29).

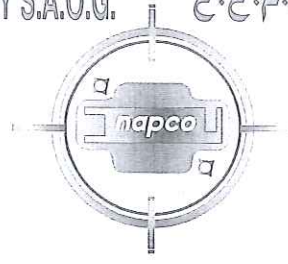
5. Risks and concerns:

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 recent decline on growth dynamics in the construction industry are increasing pressure. Interest rates began to rise toward the beginning of 2016 which will put pressure on the prices of commodities in the shorter time. The Company manages the risk mainly by natural hedging process and having contracts with customers on required basis.



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As a policy to manage this risk and to ensure a secure mix of purchases the company has signed contracts with several raw material suppliers.

The GCC economies could grow very marginally with more supply from the region than the demand side as projects have been put on hold. This will put severe pressure on the margin. Another risk include the major fluctuations in exchange rates.

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 fiscal year 2016 has seen downward trend in aluminum extrusion sector in GCC as there were no major projects available in the market. Accordingly all extrusion companies in the region has witnessed decline in sales quantity between 10 to 20%. In Napco the decline is only 6%. This decline has further coupled with low Aluminum price in 2016 by 3.5% as compare to 2015.

Sales recorded during the year stood at RO 20.2 million. The Company continued its focus on value added products. Profit after Tax of RO 0.019 Million was achieved in 2016.

Having sustained profitability in a very difficult business environment during the past years, Management remains keen to meet the challenges ahead, formulate strategies to enhance the Company's image and financial strength in the coming years to generate returns on the shareholder's funds.

Chairman

Chief Executive Officer