

BOARD OF DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Dear Shareholders,

On behalf of the Board of Directors of National Aluminium Products Company SAOG (NAPCO), it gives me great pleasure to present to you the Annual Report containing the audited financial statements for the year ended 31 December 2019 and an overview of the performance of the Company.

Economic environment

The aluminium industry in the GCC countries is considered as one of the key economic drivers for the Gulf region. It not only supports the development of respective countries and secure supplies, but also act as a major diversification move and a future revenue stream. The region has become a key economic contributor to the growing global demand for aluminium over a period of time. However, US China trade war has left its burden on the commodities markets especially the aluminum industry in the Middle East. Many of the aluminum producers in the region have closed the year with significantly negative results. The continued drop of aluminium prices caused by China's overcapacity and its high aluminium semis exports has put a direct impact on the profitability of downstream industries and negatively impacted its producers in GCC and worldwide. Further, softening in the architectural projects in the GCC countries has also put a major impact on the construction materials production in the region, leaving a surplus in aluminum extrusion supply. Momentum remains weak and policy space is limited. To deal with all these, has become a real challenge for the aluminium industry worldwide.

Performance Review

The financial performance of the company during the year 2019, as compared to 2018, is summarized in the table below:

Summary of Income Statement		
Particulars	Year 2019	Year 2018
	RO in 000's	
Sales	42,999	47,797
Net (loss)/profit before taxation	(919)	975
Income tax	145	(161)
Net profit / (loss) after tax	(774)	814

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The Company realized top line revenue of RO 42.999 million compared to RO 47.797 million during the previous year and achieved total production of 33,605 MT as compared to 34,097 MT during the previous year.

Despite the weak economic conditions and uncertainty in the market due to LME fluctuations, the Company managed to maintain its production as well as dispatches during year. The metal margins remained at par in comparison with the previous year, however, the company incurred losses mainly due to the following major elements:

- Decline in aluminum prices;
- Increase in financing cost;
- Impact of IFRS-9 provisioning;
- Increase in utility costs due to increasing tariffs by the Government;
- dumping of the aluminum extruded profiles in the Omani market without any control;
- scrap devaluation; and
- increased competition and overall economic slowdown resulting a direct impact on the inventory and metal margin.

The average LME prices have decreased from RO 813 to RO 690 as compared to previous year. 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.

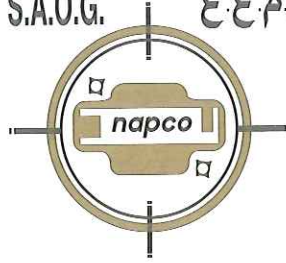
However, despite the difficult economic environment, the Company endeavor to maintain its business activities by continuing to implement its business strategy by fully optimizing the utilization of installed capacity of its existing plant, aggressive marketing locally and abroad, widening its customer base in GCC and overseas markets by penetrating to the existing and entering new geographical areas, focusing on project-based customers instead of traders, widened its product offering / mix with focused marketing initiatives and improved client service to and enhancing its market share.

Future outlook

The aluminum extrusion industry in Oman shall continue facing a challenging environment characterized by the factors adversely affected the company during the current year as explained above. 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



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corporate taxes, Government tariffs and high financing rates putting pressure on the margins.

To compete effectively, the company is quite vigilant on cost cutting initiatives and improving efficiencies to sustain operating margins. 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. Efforts are on to expand the customer base, focus on value added products & project-based customers, diversifying market by entering into new industrial and automobile segments and new countries contributing better profit margins.

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.

Dividend

Recognizing the challenging business environment and conscious of preserving resources to meet unforeseen difficulties ahead in market conditions, and that the Company did not make profit the Board has not recommended dividend for the financial year 2019.

Corporate Governance

Your Company has a sound corporate governance culture manifested with strong emphasis on transparency, accountability and integrity and our governance system is integrated with ethical business practices meeting the high standards expected by the Authorities.

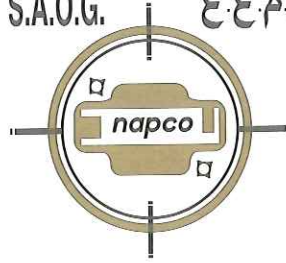
This Report contains a separate section confirming compliance with the Code of Corporate Governance issued by Capital Market Authority.

Health, Safety and Environment

In line with our commitment to the safety of our people, HSE continues to receive the highest priority in our organization and daily business activities have been carried out successfully without any Lost Time Injury (LTI) incident.



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Omanisation

Your company has always paid special attention for the recruitment and training of Omani employees and is committed to progressively attain high levels of Omanisation at all levels of hierarchy and skill sets within the organization. The company employing 120 Omani Staff.

Corporate Social Responsibility (CSR)

Social responsibilities are one of the pillars that contribute in social development and strengthen the relationships between the corporate world and the surrounding society. NAPCO realized this important key factor and its General assembly supported this initiative by approving the spending of ten thousand Rials 10,000 and the company spent RO 207 for corporate social responsibility (CSR) activities by conducting blood donation campaign, donation of water bottles to Azaiba health Centre in "water on us" initiative, charity by public Iftar etc. The company will continue to support the local community in upcoming years with similar initiatives that plant the seeds of goodness in the society.

Compliance with internal regulations and control system:

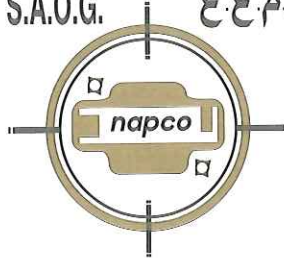
The Company is committed to maintain a high standard of internal regulations and control system commensurate with the size and nature of the operations. A manual of financial authorities approved by the Board is in place, which specifies authority levels for various day to day operations. The system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



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I wish to place on record, personally and on behalf of the Board of Directors and employees, our deepest and heartfelt sadness for the death of late Sultan Qaboos Bin Said may his soul rest in peace and our sincere gratitude to His Majesty Sultan Haitham bin Tareq bin Taimour and his wise government for continued support, encouragement, and guidance for our company and wish him all success in leading Oman to achieve greater progress and prosperity.

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


Rashad Ali Abdullah Al Musafir
Chairman

