OMAN CABLES INDUSTRY (SAOG)

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

Industry Structure and Development

Oman Cables Industry (SAOG) develops, manufactures and markets a totally integrated variety of electrical cables and conductors for diverse applications, including medium voltage power cables, low voltage power and control cables, instrumentation cables, pilot cables, overhead power transmission line conductors and building wires.

The company offers cables with special features suitable for different types of application, environmental conditions or as per customer requirement. The manufacturing facilities are situated within the largest industrial complex in Muscat. Equivalent facilities are available in Sohar where the Aluminum manufacturing facility is based.

Achieving economies of scale combined with operational excellence is an important dynamic for success within the very competitive cable business environment. Copper conductor is the most dominant metal used in power cables however there is a trend towards aluminum cables in some market sectors. Oman Cables is carefully monitoring the partial substitution of Copper with Aluminum and is capable of processing both materials.

Oman Cables is a well-known internationally accredited power cable manufacturer and operates predominantly within the GCC region with an extensive distribution and office network throughout the region. Offices are based in Oman, the United Arab Emirates, Qatar and Saudi Arabia. Oman Cables is serving customers in the Utility, Construction, Oil, Gas and Petrochemical Industries, Mining, Transportation and Industrial manufacturing sector.

The company has positioned itself as a recognized power cable manufacturer following international standards and accreditations to ensure that the highest quality products are delivered to its customers on time. Through constantly researching the demands and trends within the different market sectors the company provides a specialized service for each customers need.

During December 2015, the Prysmian Group, thru its wholly owned subsidiary, enhanced its stake from 34.78% to 51.17%. This action by the Prysmian Group, which is the world's number one cable company as a leading provider of energy and telecom systems, has endorsed Oman Cables as a cable company

with tremendous potential. Through the year the company has been working together in different fields with the purpose to improve the Oman Cables product portfolio by introducing products and services and by expanding the customer base.

Opportunities and Threats

For Oman cables products, the GCC region, where OCI is predominantly operating, in spite of recent downtrend in oil prices still continues to be a growth area compared to rest of the world. With recent OPEC efforts the oil price and the economies of GCC countries are likely to return to health state. In the medium term this oil related economic growth and demographics of the region will spur projects in the residential, commercial, infrastructure, oil and gas, power, and Industrial sectors. This will generated the demand for the company's cable products.

Oman Cables and the Prysmian Group, now has an opportunity to mutually tap into each other strengths and to have a successful commercial approach regionally and globally.

The effect of the cyclical downtrend in oil price levels is having a lingering impact on the business sectors. The uptick in the economic activity will take some time in spite of the recent stabilization of oil prices. Countries and businesses are adapting and realigning their budgets in line with their capital spend to the current levels of the main income revenue e.g. oil and gas. We observed that the market in general is affected by cancellations and projects are put on hold due to the governmental budget deficits. This affects contractors which have to cancel orders and reduce their workforce. The delay of payments is in many markets felt. These effects are strongly influencing the business within the GCC where payment terms, risk and negotiations took on a new approach.

The demand for cables in the region continue to attract many regional and international cable manufacturers creating a very competitive environment.

Oman Cables has plans and strategies in place to counter this thru market development and product diversification. The capabilities and positioning can be leveraged swiftly to seize the growth opportunities that may emerge for large projects or for an increase in the demand for power cables within its markets.

Segment Performance

The approach of Oman Cables of operating in diverse markets with a varied product range and targeting a wide spectrum of consumers has served well for the company.

Oman Cables has performed well across all geographical segments and product categories in 2016. The company has developed a sustainable customer base within the various market sectors thru a combination of branch offices and associations spanning all markets. The company has managed to obtain and sustain a good market share at all main utilities within the region. Oman Cables have invested in the latest technology for manufacturing and testing. Oman Cables is firmly established with International EPC companies doing business within the MENA region. Projects have been executed successfully with adhering to stringent quality and delivery parameters.

The subsidiary company in Sohar, supplying aluminum products, has this year reduced its contribution to the Oman Cables results. The aluminum operation will continue to integrate with Oman Cables' strategic outlook.

Outlook

While in the short run, the lower oil prices, the volatile copper price and the geo-political situation is effecting the overall economic situation in the markets where Oman Cables operates. However there are indications that this situation may reverse slowly. The various measures being taken by the authorities to face this situation will start giving results and stabilize the economy.

Oman Cables expects to maintain its presence in the market and is well equipped to face the challenges based on operational excellence executed by a customer focused performance, efficient resource utilization, managing the cost structure, perform a market driven expansion, and sound financial discipline.

The outlook for Oman Aluminum Industries LLC (OAPIL) is challenging and the aluminum market is facing a critical phase.

Risk and Concerns

Oman Cables main markets were heavily influenced by the declining oil price. This may impact capital spend on major projects in the current year affecting the local economies and GDP. This may have a cascading effect on the demand for power cables. This coupled with the established capacity in the region may result in pressure on pricing.

The domestic market may remain active based on the government's spend as indicated in the State Budget for 2017. Oman Cables Industry will remain vigilant and ensure that supplying a superior product with competitive pricing is maintained.

Oman Cables Industry works carefully to monitor the developments in the potential countries for future business. The company strives to find the balance between the business opportunities and the potential risks involved and cautiously builds market confidence

Internal Control Systems and their adequacy

The company has sound internal control systems and operating procedures in place. The operations are audited by a professional internal audit team, external statutory financial auditors and ISO auditors. Oman Cables is routinely audited in depth by multinational corporations as a part of their stringent pre-qualification processes and product approvals.

These audits include the compliance of the operational activities and Health, Safety and Environmental (HSE) aspects. Oman Cables Industry is driven by Corporate Governance through its strict ethical policies and emphasis on customer satisfaction.

Expansion

During 2016, the company invested in programmes which resulted in the increase of the efficiency for the manufacturing of specific wires and cables. This includes the introduction of the latest technological systems and upgrades of machinery.

Sales and Profitability

The operational performance of the Group for the last 5 years is as below:

	2012	2013	2014	2015	2016
Sales (RO' 000)	257,160	306,058	303,146	283,470	228,639
Profit after Tax (RO' 000)	11,908	16,886	17,718	18,507	15,254
Equity (RO' 000)	61,745	72,461	83,498	92,738	102,000
Dividend (%)	70%	88%	90%	90%	85%*

*recommended by the Board of Directors

Conclusion

Though 2016, has been a challenging year, Oman cables have responded with satisfactory results in terms of volumes and working capital management, in spite of difficult market circumstances. This was possible through the well planned and long term marketing efforts, utilization of production capacity and overall emphasis on operational excellence.

Oman Cables has shown consistent growth in performance. This is possible due to its excellent relationship and support of the prestigious customer base, other stakeholders and dedicated employees.

The Executive Management with the guidance of the Board of Directors is confident that the company is on a sound footing and will strive to improve its market position and stakeholder's value.

Mr. Gert Hoefman
Chief Executive Officer
Oman Cables Industry (SAOG)
Date: 25 January 2017