OMAN CABLES INDUSTRY (SAOG)

MANAGEMENT DISCUSSIONS AND ANALYSIS REPORT

Industry Structure and Development

Oman Cables Industry (SAOG) (OCI) develops, manufactures and markets a totally integrated variety of electrical cables and conductors. OCI product portfolio includes Medium voltage power cables, Low voltage power and control cables, Fire Resistant Cables, Instrumentation cables, Pilot cables, Overhead power transmission line conductors and Building wires.

The Cable Industry, in which OCI is present, is a part of Electrical Industry catering to Infrastructure sector of economy. Infrastructure development is long term, capital intensive and is dependent upon sources and strategy of governments, and growth of economy.

In the markets OCI operates, Copper is used in majority of power cables however there is a trend towards using aluminum in some market sectors. OCI is carefully monitoring the situation. OCI is capable of processing both materials.

There is trend towards consolidation in the Industry. Prysmian, number 1 cable company in world, owns a majority stake in OCI.

Opportunities and Threats

In the markets OCI operates, Infrastructure development is linked to Oil Prices and Govt. revenue. These market having favorable demography and growing population present a long term opportunity for Cable Industry

Oil prices which has seen the bottom in end 2015 have since, been on steady increase. Accordingly it is expected that, the shelved projects will start getting implemented as well as the austerity measures will be relooked at

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 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 first half of 2017 executing the orders received during 2016. The Oil price fall and its effect on shelving of new projects manifested fully in the second half of 2017, thru the intense competition due to shrinking market which eroded the profitability substantially.

The margin erosion which started in third quarter 2017, accelerated in fourth quarter of 2017 and is a serious challenge facing the company

OCI subsidiary, OAPIL, has this year reported loss due to disruption caused as effect of declaration of Force Majeure in August 2017 by Sohar Aluminum, the only supplier of input materials to OAPIL.

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 it is hoped that this situation may reverse slowly. The various measures being taken by the authorities to face this situation may 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 2018. 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 2017, the company invested for capacity expansion for Fire Resistant cables and state of the art testing facilities for the same

Sales and Profitability

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

	2013	2014	2015	2016	2017
Sales (RO' 000)	306,058	303,146	283,470	228,639	242,632
Profit after Tax (RO' 000)	16,886	17,718	18,507	15,254	6,845
Equity (RO' 000)	72,461	83,498	92,738	102,000	100,057
Dividend (%)	88%	90%	90%	85%	45%*

*recommended by the Board of Directors

Conclusion

2017, has been a challenging year, Oman cables have responded with vigorous cost control efforts working capital management, to counter the difficult market circumstances. OCI has well planned long term marketing efforts for utilization of production capacity and overall emphasis on operational excellence.

Oman Cables performance 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. Ali Habaj
Chief Executive Officer
Oman Cables Industry (SAOG)
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