Management Discussions and Analysis

Business & objectives

The Company is primarily engaged in the marketing & distribution of petroleum products viz. Gasoline (M91 & M95), diesel, aviation fuel, kerosene & lubricants.

The Company operates with the following objectives:
1) Improving shareholders net-worth and payment of consistent and fair returns
2) Increasing the overall market share in all business areas & effectively addressing the prevailing competition
3) Improving the corporate image through better customer service and brand recognition
4) Recruiting and empowering Omani youths
5) Total commitment to the protection of Health, Safety and Environment (HSE)

Business operations

The Company operates its business through the following segments:
1) Retail sales
2) Commercial sales
3) Other sales (including Aviation & lubricant sales).

The performance of these major segments are discussed below:

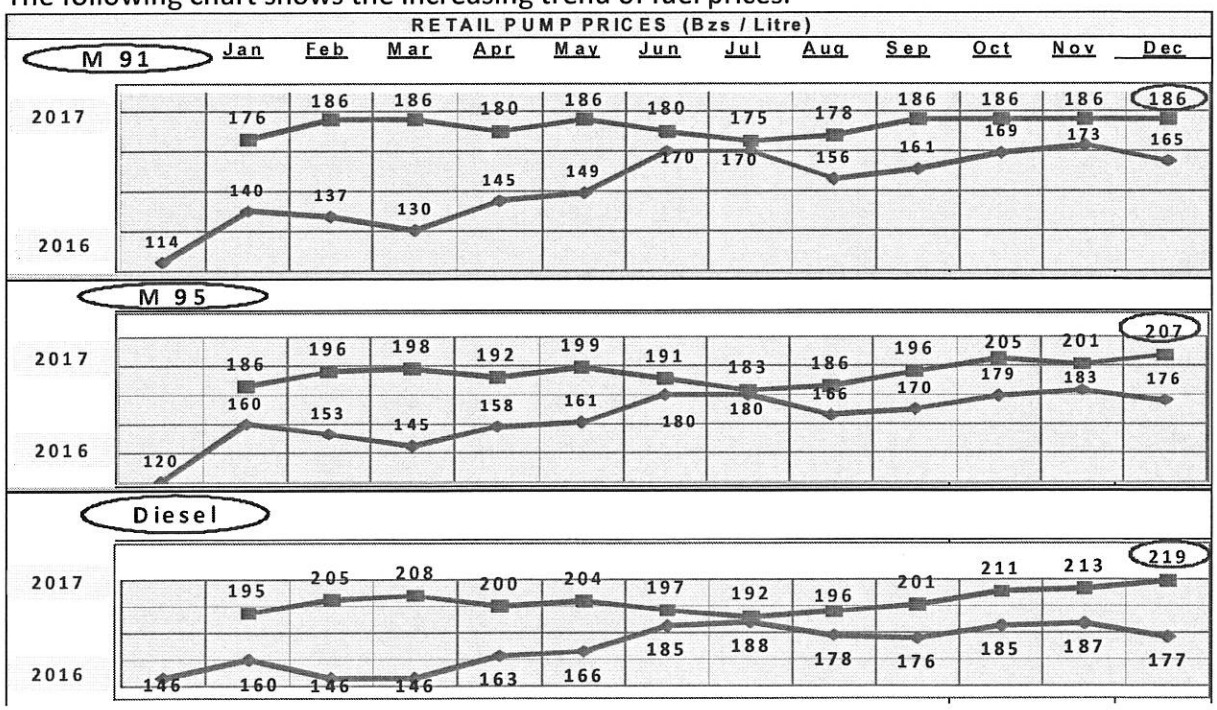
1) Retail sales

Retail Sales segment forms the backbone of our business.

Retail sales volume fell by 6%, largely due to higher fuel prices, which led to consumers rationalizing their consumption, thereby reducing demand & change in the Consumers pattern in 2017.

With the introduction of subsidy reforms in mid Jan 2016, fuel prices are adjusted every month based on international crude oil prices.

The following chart shows the increasing trend of fuel prices.



The main developments in the Retail Business segment are listed below:

- Opening of 6 filling stations that took the total number of filling stations to 206 at the end of 2017.
- 13 new filling stations, which are in the final stages of completion as at Dec 2017, will be opened in early 2018.
- Launching of Al Maha Call Centre in the middle of the year for better customer attention and quicker resolution of customers grievances.
- Exclusive family "Reemas" fuel cards were launched in Mar 2017 which received wide public appreciation.
- To facilitate non-cash transactions at filling stations and for the acceptance of all the banks' debit cards & VISA credit cards, new POS terminals were installed at most of the filling stations in Oct 2017.

In line with the expected growing demand, the marketing and distribution infrastructure for petroleum products is being expanded and modernised as part of our rebranding programme. Non-fuel sales, in particular convenience store sales, car service centres and other facilities at filling stations are becoming increasingly important factors in boosting Retail sales business. Accordingly, fuel stations have been getting a comprehensive makeover aimed at enhancing customer convenience and service.

Going forward, with the development of new roads, residential areas and comprehensive development of rural areas, Al Maha continues to lay emphasis on Retail infrastructure development and will continue to invest in several projects across the country.

2) Commercial sales

Al Maha has a major share in the Commercial sales segment. During the year, the Company has improved and developed the rules and regulations of credit and credit guarantee and customer selection to suit the prevailing economic conditions.

Due to the lower demand from the Construction & other industrial sectors of the economy, our Commercial Sales volume has decreased during the year.

On the positive note, we won the prestigious 10 year contract from MWASALAT and also some major contracts from the Government sector.

The Company is adapting itself to the changing business scene, it is relentlessly working on making its logistics most cost-effective.

3) Other sales

Other sales comprise aviation fuel and lubricants sales.

Aviation sales segment has registered a growth of 5% in sales volume in 2017, mainly on account of increased fuel supplies to Oman Air and other commercial airlines at the Muscat International airport. Further increased supplies to our major customer in the Government sector also contributed to the growth of the Aviation segment during the year 2017.

The introduction of Al Maha branded lubricants have showed positive results in 2017 and their demand is expected to increase in 2018 and beyond.

Financial performance

	2017 RO-Million	2016 RO-Million	Increase / (decrease) RO-Million	%
Sales	**430.5**	402.2	28.3	7%
Expenses	**(24.0)**	(21.5)	2.5	12%
Net Profit after tax	**5.0**	8.1	(3.1)	(38%)
Net assets	**49.5**	51.4	(1.9)	(4%)

Earnings Per Share – RO	**0.073**	0.118
Net assets per share – RO	**0.718**	0.745
Return on equity - %	**10.1%**	15.8%

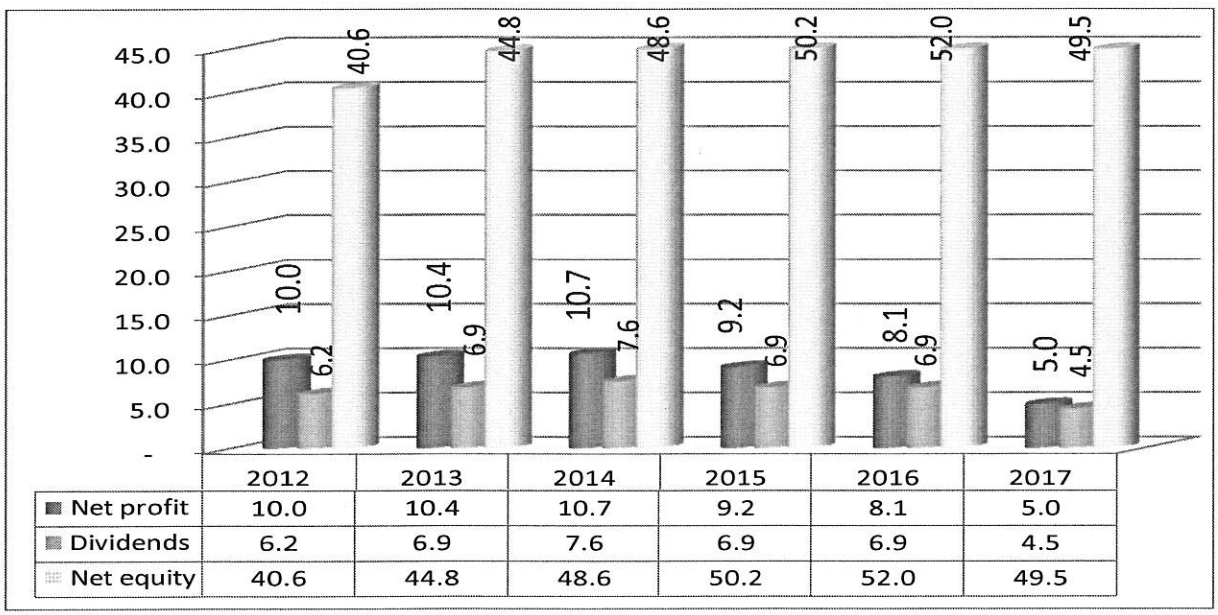
Sales have increased to RO 430.5 million in 2017 (2016: RO 402.2 million), an increase of RO 28.3 million (7%) mainly on account of increase in retail and aviation businesses after setting off decrease in commercial & lubricant sales.

Expenditure rose by RO 2.5 million (12%) mainly due to the increase in employees cost, depreciation, license fees, maintenance expenses, provision for impairment of receivables due to the effect of current economic position on our customers, as Your Company adopts cautious and prudent approach.

Net profit after tax decreased to RO 5 million in 2017 (2016: RO 8.1 million), a decrease of RO 3.1 million (38%) mainly due to the increase in operating & administration expenses as mentioned above.

Return on equity decreased in 2017 when compared with 2016 due to decrease in net profit in 2017.

Below is a chart which indicates the net profit, dividend and net equity since 2012 :



Cashflow Managament

Cashflow from operations have showed positive growth due to improved collections from our major customers. Further efficient working capital management helped cost reduction and streamline operations.

Opportunities, Obstacles / Risks

During the year, global output growth slowed down, but it picked-up towards the end of the year. We are optimistic about the future. Energy demand remains strong and we expect the need for oil and natural gas to continue to grow over the next 20-plus years.

Going forward, we're committed to continuing to improve our cash flow and returns by focusing on investments that are profitable.

The Company is focussing on several priority areas in order to fully exploit the emerging opportunities for growth, expansion and diversification.

HSE

Your Corporation accords top-most priority to conducting its business with a strong environment conscience, safe workplaces and enrichment of the quality of life of its employees, customers and the community at large. Compliance with safety systems and procedures and environmental laws is monitored at the unit, division and corporate levels. During the year, safety audits were carried out at various offices and locations and various training programmes were also conducted across the Company covering safety-related topics.

Human Resources

Al Maha believes that its human resource is its most valuable asset and is committed to investing in the growth and empowerment of its work-force. Accordingly, employees are acquiring cutting-edge conceptual, inter-personal and leadership skills through appropriate training & leadership development programmes.

Al Maha is a people-centric company and believes in the importance of progressively harnessing human potential in an organisational setting. The intense hard work of each employee has enabled Al Maha to establish itself as a successful corporate entity.

The employee strength of the Company was 275 as at 31 Dec 2017 with Omanisation ratio of 77%. Besides, the Company has a network of dealers, transporters, contractors and vendors, who partner with us in our daily operations, are another major strength of the Corporation.