Final 26/2/17

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

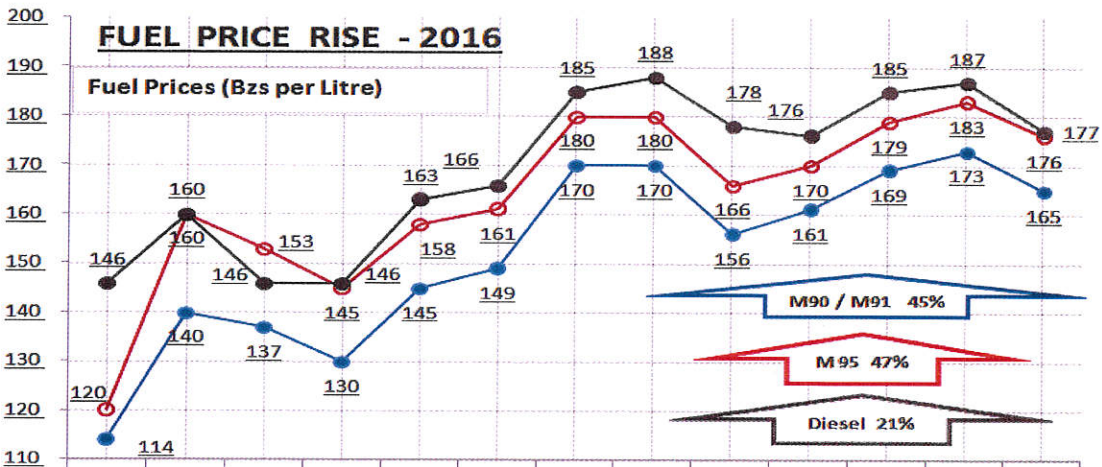
The Company operates its business through the following segments:
1) Retail sales
2) Commercial sales
3) Other sales (including Aviation & lubricant sales).

The performance of these major segments are discussed below:

1) Retail sales

The retail business unit of Al Maha is oriented towards delivering better and faster service to its customers. With a network of 200 retail stations, Al Maha reaches every corner of the country, emerging as a one-stop destination for retail customers with ever-changing needs. Al Maha's ubiquitous presence across the country makes it one of the Oman's top corporate brands.

Fuel prices were deregulated/market-linked in mid Jan 2016, phasing out subsidies and brought uniformity in fuel prices throughout Oman. This presented many challenges and opportunities to your Company and we are working in close coordination with the Government to face these challenges which are critical to maintain the growth in this segment.
The increasing trend of fuel prices during the year is represented below:



	Jan (1-15)	Jan (16-31)	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Regular (M 90 / 91)	114	140	137	130	145	149	170	170	156	161	169	173	165
Super (M 95)	120	160	153	145	158	161	180	180	166	170	179	183	176
Diesel (Gasoil)	146	160	146	146	163	166	185	188	178	176	185	187	177

Despite the decrease in sales volume due to decrease in demand, the retail sales value has increased by 15% in 2016 when compared with 2015 due to the increase in fuel unit prices during the year, post subsidy removal in mid Jan 2016, as indicated above.

Higher retail fuel prices affected our retail sales volume growth in 2016 and rising inflation next year might hit consumer demand. However, Al Maha sees immense potential for growth in retail business in the years ahead and is strategically positioned to increase market share in this segment by opening more new stations and renovating / rebranding existing stations.

2) Commercial sales

Al Maha continued its growth in the Commercial & Industrial segment, driven by increased demand from the public utility sector and other major customers. Further, increase in fuel unit prices from mid Jan 2016, significantly pushed up Commercial sales, as the new commercial pricing is linked to the retail pump rates announced by the Government on a monthly basis. Overall, we achieved an increase of 24% growth in this business segment in the year 2016 over 2015.

Deregulation of fuel prices from mid Jan 2016 has brought up exposures which resulted in higher volume in Accounts receivables. A review of new credit policy & procedures to reduce the time of "Order to Cash Cycle" has been done and will be implemented.

3) Other sales

Other sales comprise aviation fuel and lubricants sales.

Aviation sales segment has seen a reduction of 11% in 2016 mainly on account of significant drop in international oil prices, despite increased fuel supplies to other commercial airlines at the Muscat International airport.

Although, we encounter aggressive competition in lubricants business, plans are in place to improve lubricants business in 2017.

Financial performance

	2016 RO-Million	2015 RO-Million	Increase / (decrease)	
			RO-Million	%
Sales	402.2	349.3	52.9	15%
Expenses	21.5	19.96	1.54	8%
Net Profit after tax	8.1	9.2	(1.1)	(12%)
Net assets	51.4	50.2	1.2	2%

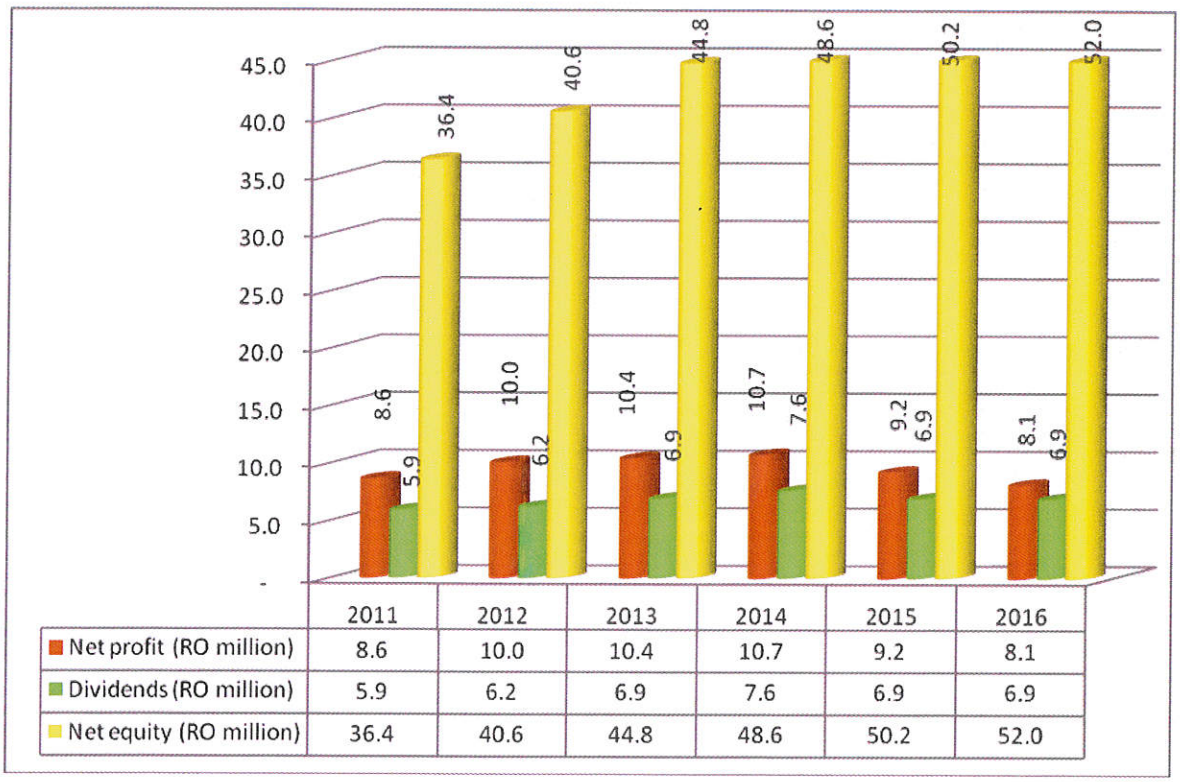
Earnings Per Share – RO	0.118	0.133
Net assets per share – RO	0.745	0.727
Return on equity - %	15.8%	18.3%

Sales have increased to RO 402.2 million in 2016 (2015: RO 349.3 million), an increase of RO 52.9 million (15%) on account of increase in retail and commercial businesses after setting off decrease in aviation & lubricant sales.

Expenditure rose by RO 1.54 million (8%) mainly due to the increase in transportation expenses, employees cost, depreciation, License fees, maintenance expenses, technical fees, provision for impairment of receivables and other expenses offsetting the decrease in filling stations operating expenses.

Net profit after tax decreased to RO 8.1 million in 2016 (2015: RO 9.2 million), a decrease of RO 1.1 million (12%) mainly due to the increase in operating & administration expenses.

Return on equity decreased in 2016 when compared with 2015 due to decrease in net profit in 2016 despite increase in net assets during the same period.
Below is a chart which indicates the net profit, dividend and net equity since 2011 :



	2011	2012	2013	2014	2015	2016
Net profit (RO million)	8.6	10.0	10.4	10.7	9.2	8.1
Dividends (RO million)	5.9	6.2	6.9	7.6	6.9	6.9
Net equity (RO million)	36.4	40.6	44.8	48.6	50.2	52.0

Cashflow Managament

The continued economic down turn and the resultant liquidity crunch caused by delay in payments by some of our major customers, resulted in decreased cash inflow from operations and increased receivables . To bridge the gap between decreased cash in flow from operations and the increased payment to Oman Refinery (ORPIC) due to increased domestic fuel prices from mid Jan 2016, short term borrowings from banks were utilized which led to increase in finance charges during the year.

Opportunities, Obstacles / Risks

After, the turbulent economic environment posed by declining international oil prices in 2016, the prospects for 2017 looks better for the business of fuel distribution, as evidenced by higher oil price increase.

Each year brings its own set of changes and challenges, we are confident in our organisation's ability to face them effectively and continue the success path. Our performance during difficult times testifies the strength of our core values. Over the last year, we have worked together to sharpen our strategy and ensure there is alignment in our aspirations and goals.

HSE

HSE always remain the Company's foremost priority due to the critical nature of the Company's operations & commitments.

On environmental aspect, the Company always works towards complying with national regulations and applicable international codes and standards in designing, construction, and operations of our fueling facilities all over the Sultanate .

HSE training continues to remain as one of Company's paramount objectives and in 2016 training was handled through in-house and third party sources to equip our employees and all associated contractors with excellent level of HSE knowledge and techniques towards continuously achieving highest HSE standards.

Human Resources

The human resources are considered to be one of the critical elements in the Company's overall growth strategy. Effective planning for different skills and constant review and upgrading the various training requirements of employees constitutes the Company's main objective in the human resources development plan. The Company is also in the process of implementing new & innovative system to effectively manage its human resources.

Our Omanisation level was 76% at the end of 2016 and the number of employees as at 31 Dec 2016 stood at 254.