

## **Management Discussion & Analysis Report**

### **1. Industry Structure and Development**

Omani Packaging Co. SAOG, established in 1993, continues to be the market leader in Sultanate of Oman for selling high quality paper corrugated packaging products, and is one of the leading manufacturers of the corrugated cartons in GCC countries.

The product range includes regular slotted cartons, telescopic top and bottom box, die cut trays, assembled partitions and single face corrugated rolls for cushioning and protection and wax lined cartons for frozen products. Among the various modes of packaging, paper corrugated packaging is the most versatile, eco friendly, secure, and cost effective, which makes it preferred choice for majority products.

All Types of corrugated board consist of at least one layer each of liner boards and fluted corrugating material.

In general, larger flutes offer greater strength to boxes. B & C flutes are the most popular sizes. Presently, after expansion, the new corrugator produces B flute while double wall board of B & C and E & C is manufactured at the old corrugator by adding the twin facer.

#### **Installed Capacity**

Company is able to increase the volume and service level to the customers with increase in installed capacity during year 2010-11.

Development efforts are towards manufacturing cartons and paper corrugated products that are custom designed to suit every product requirement and services to the satisfaction of customers.

### **2. Opportunities**

The Company is utilizing the plant capacity increase by adding volumes from various market segments.

The corrugated cartons being a high volume to weight ratio commodity, it is not very cost effective to export to distant countries due to high cost of freight. Company is always trying to broaden its market base in local and exports to GCC and Asian countries with consistent quality, improved service and concerted marketing efforts with strong focus on customer satisfaction.

### **3. Threats, Risks and Concerns**

Company's main raw material is paper which is mainly imported from GCC, European, Russian and American sources. The international price of paper is highly volatile and increase in paper price affects the Company's profitability. Due to competition and the market being very price sensitive, it is difficult to increase the selling price in proportion to the increase in paper price which affects the profitability of the Company.

The intense competition from local and neighboring countries especially UAE affects the Company's sales volume, and margins remain under pressure.

Also, as a paper carton manufacturing industry, substitution by alternate packaging materials shall affect the sales volumes.

In line with market practice in the region, company is constrained to extend credit to customers. Management continuously monitor customer credit with prior appraisals, however non recovery may affect the profitability of company.

### **4. Analysis of segment and product wise performance**

The Company primarily caters to the local market and exports to GCC and Asian countries. The market segments include mainly Food stuff, Detergent, Mineral Water, Beverages, Agriculture, Fisheries, Ceramic and other sectors. The Company has steadily expanded its local market share over the years and exploring the possibilities of broadening its share in local and penetration in export market.

Presently company operates from Factory and Office located in Rusayl Industrial Estate, consisting of 165 employees. Company has established sales office at UAE for export sales.

### **5. Internal Control systems and their adequacy**

Internal control systems are built up commensurate with the size and nature of operations. The company has also laid down 'internal regulations and policies & procedures manual' which has been approved by the Board of Directors.

Company has well structured reporting system to its management and the Board. Monthly performance reports against Budget are prepared and monitored.

Company uses Oracle networking system to strengthen the Computerized Control mechanism.

### **Discussions on financial and operational performance.**

The total assets as at 31 December 2014 amount to RO11,551,891.

### **6. Sales and profitability**

Company reported net sales revenue is RO12,286,937 comparing sales revenue of RO 11,660,764 for year 2013. Net profit before tax provision is RO 302,951 comparing RO 512,509 for year 2013

Company performance has been affected, due to increased competition resulting in reduction in unit selling prices to retain the market share in local market. Margins were reduced because of increased paper price could not be passed on to the customers, resulting in reduction in net profit.

Shifting of Cargo Port from Muscat to Sohar Industrial Port from August 2014 has further increased the cost of Clearing and Transportation for imports, mainly paper by about Rial 8000 per month.

The following table highlights profitability, dividend and shareholders' equity for the last six years.

YEAR		2008	2009	2010	2011	2012	2013
Profit before Tax		510,694	1,151,982	142,535	602,502	1,642,765	512,509
Total shareholders' equity		4,432,782	5,125,768	4,602,006	4,811,420	5,774,007	5,255,450
Dividend		10	20	10	15	30	10
	STOCK (Bonus) (%)	--	--	--	--	--	--
	TOTAL (%)	10	20	10	15	30	10

## 7. Resources

Following Assets added during the year.

### 7.1 Civil Construction

Extension of storage shed for storing paper reels, reducing the risk of adverse weather affect on paper.

7.2 Stacking machine (Load former) and other machineries for productivity improvement.

7.3 Addition of Dies and Stereos for new jobs.

7.4 Computers and Furniture & Fixtures for office and employees accommodation

7.4 Replacement of Forklifts for increased requirements

## 8. Outlook

Company expects to sustain the growth achieved during the past years.

Natural Gas, being used for Boilers, Price increased from 20.5 baisa to 41 baisa per standard cubic meter from January 2015, with an additional 3% increase annually thereafter. This will affect company cost of production for year 2015 by about Rial 60,000.

The challenges shall be met by increased market share in local and exports markets through customer focus, value engineering, continuous improvement and cost reductions in all spheres of operation with economy of scale after capacity expansion.

Barring unforeseen circumstances, management shall strive to sustain the good performance.