

## **REPORT OF THE BOARD OF DIRECTORS**

**Dear Shareholders,**

On behalf of the Board of Directors, I welcome you to the 22nd Annual General Meeting of your Company to present and discuss the Annual Report and Audited Financial Statements for the year ended on 31<sup>st</sup> December 2017.

The world today is facing diverse challenges and slowdown in some of our markets. In these times of uncertainty, we are gearing up and management has taken decisive steps to face the challenges and reenergize our business.

### **Financial Results and Company Performance:**

**Sales Volume** for the year 2017 were at 203.269 million of Empty Glass Containers as against Sales Volume of 204.983 million during year 2016, a decrease in sales volume by 0.84%.

The key reasons affecting the sales volume are:

- a. Lower production output due to limitations of the production up to Q3 2017.
- b. Consumer's demand influenced by global economic and regional challenges.

**Sales Revenue** recorded at RO 6.644 Million versus RO 7.430 Million during year 2016, a decrease in sales by 10.58%.

The key reasons affecting the sales revenue are:

- a. Product mix, selling smaller sized and lightweight bottles in 2017.
- b. Excise tax applied in the region for carbonated soft drinks and energy drinks has resulted in cautious and very conservative demand by some of our customers.
- c. Focused on reconfiguring our customer base, produce to order and safeguarding the highest quality standards.

**Production** for year 2017, was 239 million of Empty Glass Containers against production of 253 million during year 2016 (decrease in production by 5.63%).

Key factors affecting the production are:

- a. Reduced production in Q3 2017 due to planned shutdown of Furnace 1 for overhauling and repair, notably extending the future life of the furnace, resulting to lower production during August and September 2017. This resulted to not any production for 45 days on the largest furnace, out of two furnaces operating, affecting the production and cost absorption adversely.
- b. Lower production output in 1<sup>st</sup> half of year as the furnace life has reached its end.
- c. Implementation of Overhauling of production lines and other support equipment during the extended project work, resulting to extended downtime in order to perform these overhauls.

During our last Quarter, Q4, post rebuild of Furnace 1 and major maintenance performed, there has been a significant improvement in the operating efficiencies resulting in production of 85 million bottles as against 69 million bottles, a 24% increase as compared to previous period in year 2016. The same is also recognized as the highest production in any quarter for the last three years.

**Earnings before Interest, Depreciation, Tax, and Amortization (EBIDTA)** is RO 608K for the period ended 31 Dec 2017 as against RO 341 K same period last year.

The impact of Electricity tariff increase as announced by Majan Electricity Company S.A.O.C. at the beginning of this year is unavoidable and resulted to an additional RO 219K cost in current period ended 31 December 2017 versus same period, in 2016.

Major maintenance projects were carried out resulting to higher maintenance costs.

**Net Loss before tax** for the year is RO 1,359K as against a Loss before tax of RO 1,687k in the previous year 2016.

**Net loss after Tax** for the current year is RO 1.143K as against Loss after tax of RO 1.487 K for the same period in the previous year 2016.

### **Dividend**

After taking into consideration the financial performance and taking account of the cash flow requirements of the company for various capital expenditure envisaged for the year 2018 your directors **do not recommend any dividend for the financial year ended 31 December 2017.**

Our Company, during 2017, invested heavily on production-related machinery, representing a historical high in terms of investment. I am pleased to confirm that our management has successfully implemented all projects as per submitted and duly approved turnaround strategic plan. The strategy behind this year's plant renovation is in line with our principle of providing continuous customer satisfaction.

Collectively, these upgrades will further safeguard our quality standards, as we continue to focus on output optimisation, cost leadership, quality and flexibility.

During the year, we also made significant steps in introducing our Q.U.E.S.T. methodology and standards. We aim to intensify training and work together with our people to increase awareness on quality, operational efficiency and safety. This methodology focuses on 4 main pillars and standards.

1. Securing and improving our **Quality** Standards
2. Increasing and optimizing our production **Efficiency**
3. Ensuring **Safety** of plant and our people
4. Continuous on Job and off Job **Training** for all our staff

Most importantly, at the centre of our Q.U.E.S.T. standards is Customer Satisfaction being our leading principle.

### **Customers and Suppliers**

The Company is currently catering for all of the Empty Glass Container requirements of the Sultanate and exporting its products to Middle East and Asia but is also in the process of expanding its demographical base with new customers.

Majan Glass gives utmost importance to the quality of its products and is committed to supply top quality Glass Containers to its customers and ensure that the customers' requirements are met with and fulfilled.

We support, encourage and develop suppliers within the Sultanate of Oman. Supply base is extended to other major international suppliers always targeting competitive pricing and high quality standards.

### **Future Outlook**

With the implementation of the turnaround project our company is equipped with upgraded and latest technology for producing quality bottles with NNPB light weighting technology in majority of its production lines.

The Board is aiming to further strengthen our company and remain assertive that all Majan Glass team members and Management will further improve the efficiency and effectiveness of our business.

### **Corporate Social Responsibility**

Company believes that giving back to society is extremely important. We provide monetary as well as intangible support and guidance to the organisations that are dedicated to improve the quality of life for the concerned people in the society and will continue to do so.

### **Internal Control**

The Management is regularly reviewing the effectiveness of internal controls in discussion with the Audit Committee, Statutory Auditors and Internal Auditors, in line with the approved company policy and the charter. The company is having an in-house internal audit department which keeps on reviewing internal controls in various areas of operations under the guidance of the Audit Committee. The Board of Directors are pleased to inform the shareholders that, in their opinion, an adequate and effective internal control system is in place.

### **Omanisation**

The Company is committed to recruiting and providing training to Omani employees so as to enable them to undertake responsibilities in various areas of Operations and Administration. During the year, the company committed and hovered at an Omanization percentage of around 35 %, however the omanisation percentage as at the end of 31 December 2017 was at 32.94%. The company has been organizing various training programs (On the Job and Off the Job) to increase the knowledge of employees on various relevant areas of operation.

### **Acknowledgements**

On behalf of the Board of Directors and Management of the Company, I once again express my sincere gratitude to His Majesty Sultan Qaboos Bin Said Al Said and his Government for their continuous assistance and kind support extended to the company over the years.

The Company also acknowledges the continuous support and commitment from its Shareholders, Customers, Suppliers, Bankers and also the continuous efforts of the Management & the Employees.

**Ali Saif Al Hadi**

**Dy. Chairman**

**Dated: 14 February 2018**