

حديد الجزيرة Jazeera Steel

The One Source for World Class Steel Products

17th Annual Report
2014



Al Jazeera Steel Products Co. SAOG

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C.R.No.: 1550438

The Quality Standard in Steel



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Company Auditor

Ernst & Young

Internal Auditor

PricewaterhouseCoopers LLP

Legal Advisor

Mohammed Ibrahim Law Firm

Bankers

Bank Dhofar SAOG, National Bank of Oman SAOG, Ahli Bank SAOG, Gulf International Bank BSC, Bank Sohar SAOG, Oman Arab Bank SAOC, National Bank of Abu Dhabi, Barclays Bank Plc, Abu Dhabi Commercial Bank, HSBC Bank Oman SAOG

BOARD OF DIRECTORS

Mr. Sulaiman Mohammed Shaheen Al-Rubaie	Chairman
Mr. Rajeev Kulkarni	Vice-Chairman
Mr. Ghanem Sulaiman Al-Ghenaiman	Director
Mr. Taki Ali Sultan	Director
Mr. Sharad Deoraj Jain	Director
Mr. Ahmad Khamis	Director
Mr. Marco Botros	Director

Chairman's Report

Dear Shareholder,

With the grace and mercy of Allah, and on behalf of the Board of Directors of Al Jazeera Steel Products Co. SAOG, I would like to welcome you to the 17th Annual General Meeting of the Company to present the Annual Report, Audited Financial Statements and Auditors Report for the year ended 31 December 2014.

Key points of 2014 Operational Performance

During the year, there was a continuous fall in steel raw material prices and the 4th quarter was the most negatively impacted. Iron ore prices dropped nearly 50% from the price at beginning of the year due to a prevalent slackness in steel demand. Further drop in oil prices by 45% can have a potentially adverse effect on GCC government spending on infrastructure. This said, most governments have announced a continuation of their future infrastructure projects but it will be prudent to wait for the budgets announcements. If the drop in oil prices continues, most of the governments will be forced to curtail further less critical spending that might affect the steel demand. Fortunately, the US economy is doing well and we were able to do reasonably good in the non-GCC. With the currently low energy costs, we expect the US economy along with the EU to perform better in 2015, which is expected to enhance our operations in these countries.

In spite of all these adverse factors, your company was able to achieve a growth of 14% in net profits compared to the same corresponding period of last year, which is the highest profit ever made by your company. With the blessings of Allah all mighty, we are happy to celebrate the 4th consecutive year of record profits. The year 2014 has been a year of achieving the highest production and dispatch for both Tube Mill and Merchant Bar Mill. This was possible mainly due to the well planned sales and availability of raw materials. The drop in Iron ore and oil prices started in a noticeable way by the third quarter. The management was able to capitalize the positive trends and was able to achieve the improved results. It is indeed commendable to mention that the management's cost optimization initiatives and effective control to attain higher profits has reaped the benefits. Diversification of raw material suppliers has helped the company reduce concentration risk and control inventory holdings. In addition, better negotiations with banks lead to a significant saving on interest and financing costs, leading to improved margins.

The Company was able to achieve significant growth in its sales as well as net profits in 2014, compared to 2013. Production and sales' tonnages were also higher by 12% in 2014, compared to 2013. Even though there is an increase in the sales quantity by 12%, revenues have increased only by 8% mainly due to the progressive reduction in raw material costs.

Particulars	31 December 2014	31 December 2013	Growth %
Production – MT	319,551	286,111	12%
Sales – MT	324,473	290,899	12%
Sales – RO	95,331,203	88,370,890	8%
Profit – RO	5,206,570	4,553,033	14%

Future plans

With oil prices hovering around USD 50, the expected spending on the infrastructure may reduce and in turn the steel demand in this region could be lower. We are in the process of expanding further our geographic scope in order to compensate the lower demand from the GCC region. Even though with the awarding of 2020 world expo to Dubai and 2022 world cup in Qatar, we expect the real construction boom will start only by 2017. The surplus funds available with most of the GCC countries will act as a buffer for the next couple of years even though oil prices are to remain at the current levels. The Chinese government has withdrawn the tax rebates given to the exporters from January 2015 onwards, which will restrict the dumping to a larger extent to GCC. This will have some positive impact on the operations of the Company. We would have hoped that the GCC governments take a more active approach in preventing foreign dumping of products in their markets, which is harming local industries all across and curtailing their development.

The rebar making facility is ready and we are in the process of getting various certifications from different agencies. The test trials have already been successful. Once the certification is ready, we can start full commercial production. We expect the same by the first quarter of 2015. With this additional facility, the Merchant Bar Mill will be operating on 24 hours basis. We expect to produce and sell additional 4,000-5,000 MT of rebar products on a monthly basis. This excess production will lead to over 60% capacity utilization from the present level of 40% only.

On the cost optimization front, a close eye is being kept on the developing news to instill a higher minimum wage for locals and reduction of energy subsidies in the private sector. Though this might be a great positive step towards the further involvement

of professionals in the private sector, the expediency of such move will lower the margins which are already under severe pressures from regional competitors. The Company has been taking necessary precautions to keep costs under control. With regular investment in automation, improvement in production process and training, the Company will make all efforts to control operating costs.

Dividends

The Board of Directors is pleased to recommend a cash dividend of 22% amounting to Bz 22 for the year 2014 for every share held. The following table shows the dividend distributed during the past years.

Year	Cash Dividend	Stock Dividend (Bonus Share)
2013	20%	-
2012	16%	-
2011	15%	-
2010	9%	-
2009	-	-
2008	7%	-

Internal Control Systems and their adequacy

The Company has proper and adequate systems of internal controls required to ensure that all assets are safeguarded and protected against unauthorized use or disposition and that all transactions are authorized and reported correctly. The internal control system is supplemented by an extensive program of internal audits, review by management, documented policies, guidance and procedures. The internal control system is designed to ensure that all data is reliable for preparing and maintaining financial statements.

The Company has an audit committee comprising of non-executive directors to review the audit work which in turn is reviewed by the Board.

The greatest strength of your Company is the quality and spirit of its people. In addition, it enjoys a good reputation in the market for its quality and dependability, and all these contribute positively to its future prosperity.

M/S. Ernst & Young, the Company's Auditors have audited the accounts up to 31 December 2014, and their report is enclosed.

Finally, on behalf of the Company and the Board of Directors, I would like to express my heartfelt gratitude to His Majesty Sultan Qaboos Bin Said for the encouragement and support given by his Government for the industrial development in the Sultanate of Oman.

At this juncture, on behalf of the Board, I would like to thank our team and management, the Union, Bankers, Suppliers, Customers, Muscat Securities Market and all our shareholders for their support and cooperation, which in turn reflects the confidence placed in us. I would also like to express our sincere appreciation to the Management and Employees for their efforts towards achieving these results.

On Behalf of the Board



Sulaiman Mohammed Shaheen Al-Rubaie
Chairman
18 February 2015

MANAGEMENT DISCUSSION AND ANALYSIS

The Management of Al Jazeera Steel Products Co. SAOG is pleased to present the Management Discussion and Analysis Report for the year ended 31st December, 2014.

Global Economic Environment

The first three quarters of 2014 have been exceptionally well with the steady demand in the steel in the GCC region as well as the US market. The price fall of the Billets and HRC started in the late third quarter of 2014 and the same was reflected in our performance also. The significant drop in oil prices in the fourth quarter to a price below USD 50 further aggravated the situation. Iron Ore prices also plummeted from the level of USD 135 to USD 70, falling by almost 50%. The plunge in prices impacted demand and also affected the financial performance for the fourth quarter, albeit the overall 2014 performance was outstanding. The internal steel consumption of China was not sufficient to accommodate their production resulting in increase of 60% in exports from the previous year with low dumping prices.

Industry Structure and Company Development

Growth in the Chinese economy continues to be a determining factor for the global steel market in the medium to long term, as presently they produce 50% of the total steel globally. If urbanization projects continue, accompanied by a strong domestic economy and a growing middle class, the demand for steel will continue to grow. It will also shift the product range for more sophisticated consumer products, such as automobiles and home appliances to high-end and value-added products.

With China's GDP growth showing the weakest expansion in 24 years at 7.4%, steel products consumption tumbled by 25.7 million tons or 3.37% when compared with 2013. Construction, accounting for more than half of China's steel consumption, was a headwind in 2014. Subdued by a smaller scale of construction projects and mini-stimulus package giving only a modest support to the market, the total steel use stood at 738 million tons, compared to crude steel output of 823 million tons in 2014. Crude steel production is expected to modestly increase adding to the supply overhang, which will drag prices down.

In 2015, global demand for steel is forecast to grow at about 2%. However, more demand growth is expected to come from outside of China. Since the US economy is doing well, we expect the steel demand in US to improve on the back of residential construction, growing automotive production and energy investments. Other regions such as India, South East Asia and MENA are also expected to experience faster steel demand growth, and with Quantitative Easing, we expect Europe to do better.

Annual demand for steel in the Middle East is expected to grow by 7 per cent a year and hit 30 million tons by 2020, despite some serious challenges facing the industry. The large infrastructure projects like Dubai's Expo 2020, the Qatar World Cup in 2022 and huge construction projects in KSA will drive growth. The Middle East currently consumes 20 million tons per year of steel with 12 million being produced locally and the rest is imported.

Al Jazeera Steel witnessed robust sales since inception. The Company, sensing the growth potential in the steel market, has responded positively over the period by capacity expansion and wider reach. Management of Al Jazeera has been successful in cautiously managing inventory levels taking corrective actions as and when needed in order to counter the sensitivity and vulnerability of raw material pricing in light of the current global market scenario. This was effectively achieved through maintaining well-calculated economical inventory levels as a means of avoiding speculative piling of raw materials. Management was also able to improve its supply chain, implement more sourcing diversification, and strengthen its customer relationships.

Al Jazeera controlled production levels for the Tube Mill products during the current year to balance the demand from US market. In the case of Merchant Bar Mill (MBM), process of exploring new value adding products like galvanizing is being pursued. MBM has already reached the hourly rated production capacity for several sections. Total capacity utilization was 40% in 2014, which is expected to increase to 60% during 2015 with the commissioning of rebar mill by the beginning of the second quarter of 2015. We will be able to achieve this only with the hard work of all employees at the plant along with significant support of the marketing team.

Future Outlook

2015 will be a challenging year with oil prices hovering around USD 50, with predictions of further drop in prices by the end of first quarter of 2015. We feel that the reduction in Iron Ore price as well as oil prices will help the construction to be executed at affordable prices, since steel is a major component in the construction cost. With the awarding of 2020 world expo to Dubai, the ongoing projects for the World Cup in Qatar and the investment plans in infrastructure in the Middle East, we expect the demand for the Company's products to be healthy. We also hope new demand to emerge from Iraq and Africa.

Analysis of segments and product-wise performance

The Company sells four different types of steel products. The product wise performance is given below:

Sales Quantity in MT

Particulars	2014	2013	Growth %
Black pipes	87,444	74,409	18%
Galvanized pipes	87,822	76,654	15%
Hollow Sections	29,560	28,549	4%
Merchant Bar Mill Products	119,647	111,289	8%
Total	324,473	290,899	12%

Financial Review

The financial performance of the Company in 2014 as compared to that of 2013 is given below:

Particulars	(Amount in OMR)		
	2014	2013	Growth %
Sales	95,331,203	88,370,890	8%
Gross Profit	13,356,163	11,756,091	14%
Finance Cost – Net	889,744	1,043,679	15%
Administration Cost	7,259,849	6,159,379	(18%)
Net Profit	5,206,570	4,553,033	14%
Earnings Per Share	0.042	0.036	17%

Operational Review

The Company maintained an average monthly sale of 24,200T in 2013 while it was significantly higher at 26,200T in this year. Sales value has increased from OMR 88.4 million in 2013 to OMR 95.3 million in the year 2014. The increase in sales value is mainly due to the increased volumes by 12%.

The Tube Mill division currently has a production capacity of 300,000 MT of pipes, which includes 90,000 MT of galvanized products per annum. During the year, the Company was able to achieve a capacity utilization percentage of 68% compared to the previous corresponding period of 60%. The Tube Mill division produced and sold 204,826 MT in 2014 compared to 179,610 MT in the previous year. The increase in tonnages was mainly on account of the robust demand in the home market and improved sales in the US market. The Company focused its product mix to meet the high standards of customer requirements.

In our MBM division, we were able to sell 119,647 MT of products. The demand for our Merchant Bar Products had not picked up the way we expected and we kept producing with 12 hours operation. The rebar making facility is ready and we are in the process of getting various certifications from different agencies. Once the certification is ready, we can start full commercial production and the Merchant Bar Mill will be operating on 24 hours basis. We expect to produce and sell additional 4,000-5,000 MT of rebar products on a monthly basis. This excess production will lead to 60% capacity utilization from the present level of 40%.

Human Resources and Omanisation

Our total employee strength is 633. One of the ways in which the Company improves its competence in the present market is through employee training and personal development.

Our trained and skilled workforce, along with their hard work, has contributed towards the enhancement of productivity and sales. We are proud to have 36% Omanisation.

Health & Safety

The Company considers health and safety of its employees to be of the utmost importance. Adequate safety measures have been implemented at the plants of the Company for the prevention of accidents with formation of shop-floor level safety committees and an Apex Committee that meets every month.

The Company has an own clinic with facilities to provide basic medical assistance to the employees. The clinic employs a full time male nurse and a doctor is available every day on a part time basis.

The Company has also obtained group medical policy for its employees and eligible dependents from a reputed insurance company in Oman. Furthermore, the Company has also group life policy for all its employees.

Corporate Social Responsibility

The Company sees Corporate Social Responsibility as an important element of any corporate development. The Company sees itself as part of the wider Sohar and Omani society.

The Company promotes environmental protection by pollution-control initiatives, such as installing a waste water treatment plant and a neutralization plant.

We actively support the underprivileged in the areas of medical treatment, employability and education. During the year, the staff donated their half day's salary and an equal amount has been donated from the Company for the underprivileged and differently abled persons.

In addition, the Company sponsored events that support the promotion of various arts, cultural forums and sports.



CHAIRMAN

Auditor's Report on Corporate Governance



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Report of Factual Findings on the corporate governance reporting of Al Jazeera Steel Products Company SAOG and its application of the corporate governance practices in accordance with the Capital Market Authority Code of Corporate Governance

TO THE SHAREHOLDERS OF AL JAZEERA STEEL PRODUCTS COMPANY SAOG

We have performed the procedures prescribed in the Capital Market Authority (CMA) circular no 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of Al Jazeera Steel Products Company SAOG ('the company') and its application of corporate governance practices in accordance with the CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rules and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the company's compliance with the code as issued by the CMA.

We report our findings below:

We found that the company's corporate governance report fairly reflects the company's application of the provisions of the code and is free from any material misrepresentation.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Al Jazeera Steel Products Company SAOG to be included in its annual report for the year ended 31 December 2014 and does not extend to any financial statements of Al Jazeera Steel Products Company SAOG, taken as a whole.

18 February 2015
Muscat

Corporate Governance Report

Pursuant to Capital Market Authority (CMA) circular dated 3 June 2002 and subsequent amendments, the Board has adopted a set of Governance policies that cover its relationship with the shareholders and the conduct by the Board of its own affairs.

(A) Company's philosophy on Code of Corporate Governance

Al Jazeera Steel Products Co SAOG (Jazeera) believes that for a company to succeed on a sustainable basis, it must maintain high standards of corporate governance towards its employees, consumers and society. Al Jazeera has always focused on good corporate governance, which is a key driver of sustainable growth and profitability in the long-term and value addition for our shareholders.

In this report, Al Jazeera Steel Products Co SAOG confirms its compliance with the Code as required by Article 26.

(B) BOARD OF DIRECTORS

a. Composition of the Board

As of 31st December 2014, the Company had 7 members as its Board of Directors. During the year, the composition of the Board was as given below:

Period	No of Directors
January 1– December 31	7

All the directors were elected in their individual capacities except Mr. Sulaiman M. Al-Rubaie (Representing M/s Global Buyout LP)

Brief Profile of the Board of Directors

Mr. Sulaiman M. Al-Rubaie - Chairman

Sulaiman is a partner with Global Capital Management, the fully-owned alternative investments arm of Global Investment House. Sulaiman is a graduate of Cornell University, USA and a holder of an MBA from London Business School, UK. He started his career in Investment Banking and M&A with Brask and Company – UK (acquired by Kaupthing Bank), and later joined Global Investment House. In the latter, he has led and co-led the formation, placement, and strategic monitoring of companies in the following sectors: real estate development, construction, healthcare and fitness, Takaful, and consumer finance companies. He was also a member of National Commercial Bank of Saudi Arabia private equity arm, Eastgate Capital Group, based out of Dubai, UAE.

Mr. Rajeev Kulkarni – Vice Chairman

Mr. Kulkarni is a Chartered Accountant from India, and a Certified Public Accountant (CPA), from USA. He is a professional with more than 27 years of experience in the field of finance and has held Senior Management positions in companies in Oman

Mr. Ghanem S. Al-Ghenaiman – Director

A post graduate in International business with an experience of 29 years in the field of securities portfolio, Alternative investment, Management of equity funds, strategic planning, asset management and allocation and occupies various senior positions in companies. He is a non-executive and non independent director.

Mr. Taki Ali Sultan – Director

Mr. Taqi Ali Sultan holds Degree in Commerce from University of Kuwait. He has over 32 years of experience in banking sector out of which 28 years with National Bank of Oman and one year each in London with Bank of America and Bank of Credit & Commerce International. Mr. Sultan held various managerial positions in National Bank of Oman and last one being the General Manager before retiring in January 2011. He is currently acting as an Advisor to Towell Group. Before joining our company as Director, Mr. Sultan served as the Chairman of Al-Jazira Services Co. SAOG for 7 years and Al-Ahlia Converting Industries SAOG for 6 years.

Mr. Sharad Deoraj Jain – Director

Mr. Jain is a partner at Global Capital Management Limited (GCM). He has over 20 years of experience in investment analysis and valuation of unlisted stocks in various countries across MENA as well as Turkey and India. He has eight years of experience in private equity transactions. He currently oversees investments of PE Fund's managed by GCM. Some of the key transactions undertaken by him are Fon Leasing (one of the top ten leasing companies in Turkey), TAV (an airport construction and management company in Turkey), Dubai Financial Market, Parsvnath Developers (a real estate

and infrastructure company in India), Tasheed Real Estate Company (a real estate company in Qatar), a logistics company focused on over dimensional consignments and a component manufacturer in India. Prior to joining Global, he was a Senior Equity Research Analyst with Batlivala & Karani Securities India Pvt. Ltd. His role included research & analysis of infrastructure companies and conglomerates. Some of the companies covered are VSNL (owner of largest bandwidth capacity globally), Torrent Cables (the most efficient distribution cable manufacturer in India), KEC International (the largest transmission tower company in India with a presence in 20 countries). He was rated as the ‘Star Analyst’ on Indian equities market for the year 2004 by ‘The Week’ (a leading Indian business weekly). Mr. Jain received his Masters in Business Administration degree from the Middlesex University Business School (London, UK).

Mr. Ahmad Khamis – Director

Mr. Khamis is a Vice President at Global Capital Management Limited (GCM). He has over 11 years of experience in financial advisory and private equity investments in the MENA region and India. Prior to joining GCM, Ahmad was a consultant in the Financial Advisory Department at KPMG Kuwait. As part of his job in the private equity department at GCM, Ahmad sourced, structured and finalized various PE deals and conducted several financial due diligence exercises for various companies in the education, healthcare, F&B, real estate and other services industry sectors. He has helped portfolio companies in devising and implementing various strategies in order to enhance shareholders value. He is currently the Chairman of Model Restaurants Company in Jordan and also serves as a board member in Sabaek Leasing and Investment Company in Kuwait. Ahmad holds a BSc Economics from University College London, AC100 Accounting and Finance from London School of Economics and an MSc in Finance from the University of Leicester in the UK.

Mr. Marco Botros – Director

Marco is a Senior Director at Global Capital Management. Marco has 15 years of experience in transaction advisory, due-diligence, and private equity. Prior to joining Global, Marco has Co-headed the valuation team in PricewaterhouseCoopers Egypt and has been instrumental in evaluating several large deals across various industries, including the privatization projects by the Government of Egypt. In Global Capital Management, Marco manages the Global Opportunistic Fund II, in addition to his responsibilities in managing investments and exits from Global Buyout Fund and Global MENA Financials Assets. Marco is a Chartered Accountant and has a Masters in Finance from Cairo University and a bachelor from Hilwan University Faculty of Business Administration.

b. Directors’ attendance record at the Board meeting and Last Annual General Meeting

During the year 2014, four board meetings were held on the following dates:

1. 23 February 2014	2. 27 April 2014
3. 23 July 2014	4. 27 October 2014

The maximum interval between any two meetings in 2014 was 96 days. The interval between the last meeting in 2013 and the first meeting in 2014 was 117 days.

The attendance record of each director at the above board meetings and last AGM is given below:

Name of the Director	Category	Board Meeting				AGM
		23/02/14	27/04/14	23/07/14	27/10/14	20/03/14
Mr. Sulaiman M. Al-Rubaie	NE	√	√	√	√	√
Mr. Rajeev Kulkarni	NE & ID	√	√	√	√	√
Mr. Ghanem S. Al – Ghenaiman	NE & ID	√	Ab	Ab	√	Ab
Mr. Rajiv Nakani	NE & ID	√	ND	ND	ND	Ab
Mr. Taki Ali Sultan	NE & ID	√	√	√	Ab	√
Mr. Sharad Deoraj Jain	NE & ID	√	√	√	√	Ab
Mr. Ahmad Khamis	NE & ID	√	√	√	√	√
Mr. Marco Batros	NE & ID	ND	√	√	Ab	ND

NE: Non-Executive Director ID: Independent Director √ : Present Ab: Absent ND: Not a Director

The Board Secretary, under the guidance of the Board members, coordinated the meetings. The meetings were conducted with exhaustive agendas and proceedings were minuted. The Chief Executive Officer reports to the Board the operations of the Company and all related issues were discussed, ensuring the growth and progress of the Company.

c. Other Companies or Committees the Directors is a Director / Member / Chairman

No director is a member of the board for more than four public joint stock companies whose principal place of business is the Sultanate of Oman, or is a chairman of more than two such companies. No director is a member of the board of directors of a public and another joint stock company which carry-out similar objectives and whose principal place of business is in the Sultanate of Oman. Hereby, Al Jazeera Steel Products Co. SAOG confirms compliance to the article 95 (as amended) of The Commercial Companies Law No. 4/1974.

Company Management

The names, designations, description of the responsibilities of the Key Management staff in Al Jazeera Steel Products Co SAOG and a brief profile of them are as follows:

Dr. Bhaskar Dutta – Chief Executive Officer

B.Tech (Hons) from IIT, India, and has completed his master's and doctorate from UK; Has over 40 years of experience in steel industries in the field of operations and Project Management ranging in products of commercial quality to low and high alloy steels and stainless steel in both mini and integrated steel plant. Have served in Tata Steel and Arcelor-Mittal and held positions of Vice-President, President and Managing Director in previous organizations and he reports to the Board of Directors.

Mr. John Seshgiri Rao – Chief Operating Officer Merchant Bar Mill

Is a graduate engineer in Production Engineering and has an experience of over 35 years in the various steel plants at various levels, responsible for all the production, dispatch and plant related activities of Merchant Bar Mill for the Company and reports to Chief Executive Officer of the Company.

Mr. Arun Kumar Sinha – General Manager Marketing

Is a post graduate in Marketing Management and has an experience of 25 years in steel pipe industry at various management levels; responsible for all the marketing activities of the company in the GCC region and reports to the Chief Executive Officer of the company.

Mr. Bejoy John – Financial Controller

Chartered Accountant by profession with an experience of 17 years in the field of finance and accounts functions in various industries at the management level, responsible for all the finance related functions of the company and reports to Chief Executive officer and the Board of Directors.

Mr. Yousuf Al Kamali – Chief of HR & Administration

He holds graduate degree in History and has a total experience of 32 years. He retired from Ministry of Education as a School headmaster. He is with the company since its inception and is responsible for all HR & Administration related activities and reports to Chief Executive Officer.

Mr. Indranil Chowdhuri – Chief International Marketing

Post graduate in Economics and 31 years of experience in the steel industry in the field of marketing steel products globally, responsible for all the development and marketing activities in the non GCC countries and reports to Chief Executive Officer.

Mr. Virendra Kumar Sharma – Asst. General Manager - Merchant Bar Mill

Is a graduate Mechanical Engineer and has an experience of over 26 years in the various steel plants at various levels. Responsible for all the production, dispatch and plant related activities of Merchant Bar Mill for the Company and reports to Chief Operating Officer of the Company.

d. Information supplied to the board

Among others, this includes:

- Capital and operating budgets and quarterly updates
- Quarterly results of the Company before submission to MSM / CMA
- Monthly Management Reports
- Minutes of the Audit and Other Committees
- Information of recruitment, resignation and removal of senior executives along with the updated organization chart
- Legal cases which are material
- Serious accidents, dangerous occurrences and pollution problems, if any
- Material default in financial obligations to or by the Company

- Issues involving public or product liability claims of significance
- Joint Venture proposals and agreements
- Transactions involving payment towards intellectual property/goodwill/brand equity
- Any significant industrial relations problem including new wage agreements
- Sale of investments, assets and divisions which are not in the normal course of business
- Non-compliance with any regulatory requirement
- Details of any foreign exchange exposure and steps taken to hedge the risk

The Board of Al Jazeera Steel Products Co. SAOG is routinely presented with all the above information and whenever applicable and are materially significant. These are submitted either as part of the agenda well in advance of the board meetings or are being tabled during the course of the board meetings.

e. Directors with materially significant related party transactions, pecuniary or business relationship with the company

During the year, there were no materially significant related party transactions of pecuniary nature between Al Jazeera Steel Products Co SAOG and its directors who may have potential conflict with the interests of the Company at large. The normal contracts and transactions in ordinary course of business are decided at arms length basis based on competitive quotes and on transparent mode of tendering.

f. Remuneration of Directors:

All directors are eligible for sitting fees of OMR 250 for every board meeting attended during the year. The Company also pays OMR 350 to the Chairman of the Audit Committee and OMR 175 to the other members towards sitting fees for every audit committee. The remuneration committee members are paid OMR 175 for every meeting attended during the year.

An amount of OMR 42,000 was paid during the year as Director Remuneration for the year ended 31st December 2013.

Director remuneration payable as per CMA regulation and subject to the approval of Shareholders in the forth coming Annual General Meeting amounting to OMR 45,000 for 3 directors for the year ended 31st December 2014.

Sitting fees payable to individual directors for the year (in OMR) are as set below:

Name of the Director	Board Meetings	Audit Committee	Remuneration Committee	Total – OMR
Mr. Sulaiman M. Al-Rubaie	1,000	-	175	1,175
Mr. Rajeev Kulkarni	1,000	1,400	175	2,575
Mr. Ghanem S. Al- Ghenaiman	500	-	175	675
Mr. Rajiv Nakani	250	-	-	250
Mr. Taki Ali Sultan	750	-	-	750
Mr. Sharad Deoraj Jain	1,000	700	-	1,700
Mr. Ahmad Khamis	1,000	700	-	1,700
Mr. Marco Botros	500	-	-	500
Total	6,000	2,800	525	9,325

During the year, Mr. Suleiman M. Al-Rubaie, Mr. Rajiv Nakani, Mr. Ahmed Khamis, Mr. Sharad Jain and Mr. Marco Botros have not claimed Board sitting fees and Directors remuneration; Mr. Ahmed Khamis & Mr. Sharad Jain has not claimed Audit Committee Sitting Fees; Mr. Suleiman M. Al-Rubaie has not claimed Remuneration Committee Sitting Fees;

g. Process of nomination of the Directors

The Company adheres to the process as has been laid down in the Commercial Companies Law and by the Capital Market Authority in conjunction with the Articles of Association of the Company, which stipulate that the nomination of the Directors is usually done through AGM.

h. Audit Committees

The Board has established an Audit Committee comprising of three independent members. In compliance with the requirements of Article 7 of the Code, two members of the Audit Committee are knowledgeable in finance, industry and laws / regulations governing SAOG companies.

- i Terms of Reference of the audit committee are as set below
- To recommend to the Board, name of the independent auditors to audit the financial statements of the Company.
 - To evaluate the performance of the independent auditors and where appropriate, replace such auditors.
 - To review the audited financial statements and discuss them with management and the independent auditors. Based on such review, the Committee shall make its recommendation to the Board as to the inclusion of the Company's audited financial statements in the Company's Annual Report.
 - To monitor all reporting, accounting, control and the financial aspects of the executive management's activities.
 - To investigate any activity within the Company.
 - To seek information from any employee.
 - To discuss with a representative of management the interim financial information contained in the Company's Quarterly Report prior to its filing (These discussions may be held with the Committee as a whole, with the Committee chair in person, or by telephone.)
 - To oversee internal audit activities, including discussing with management and the internal auditors the internal audit function's organization, objectivity, responsibilities, plans, results, budget, and staffing.
 - Discussing with management, the internal auditors, and the independent auditors the quality and adequacy of and compliance with the Company's internal controls and provide assurance to the Board of Directors regarding the adequacy of the internal control environment within the Company.
 - Discussing with management and/or the Company's lawyer any legal matters (including the status of pending litigation) that may have a material impact on the Company's financial statements and any material reports or inquiries from regulatory or governmental agencies.

It may be clarified that the role of the Audit Committee includes matters specified under Annexure 3 of the Code of Corporate Governance for MSM listed companies issued by Circular no. 11 / 2002 dated 3 June 2002.

- ii Four Audit Committee meetings were held during the financial year ended 31 December 2014, the dates of the meeting and the member's attendance are as follows.

Name of the Director	Position	Audit Committee Meeting			
		23/02/14	27/04/14	23/07/14	27/10/14
Mr. Rajeev Kulkarni	Member	√	√	√	√
Mr. Sharad Deoraj Jain	Member	√	√	√	√
Mr. Ahmad Khamis	Member	√	√	√	√

√: Present, Ab: Absent, ND: Not a Director

Total sitting fees payable to the audit committee members is OMR 2,800 for the year 2014.

i. Internal Control

The Audit Committee, on behalf of the Board regularly reviewed the internal control prevailing in the Company. The Company has an internal audit firm for reviewing and reporting on the various issues of the Company along with recommendations and Management comments thereupon. The audit committee reviews the internal auditor's reports on a regular basis. The Internal Controls prevailing in the Company are adequate. The Audit Committee has appointed a full time in house internal auditor from August 2011 onwards. However, the internal audit activities for the whole year were carried out by an Audit firm PriceWaterhouseCoopers, Chartered Accountants, Muscat and the total Audit Fees paid / payable for the whole year 2014 was amounting to OMR 13,500.

(C) MANAGEMENT REMUNERATION

The remuneration package of the executives is made up of a fixed and a variable component. The fixed component includes a salary, valued perquisites and retirement benefits. The variable component is a performance-linked incentive, which is calculated based on pre determined parameters of performance.

During the year 2014, the total cost of the top 7 executives of the Company was OMR 386,038 (Salary & others OMR 373,438 Gratuity OMR 12,600).

The severance notice period of these executives is one month with end of service benefits payable as per the Omani Labour Law.

Employment Contract

Jazeera enters into a formal Contract of Employment with each employee and such contracts are in line with the regulation of Ministry of Manpower and Omani Labour Law.

(D) DETAILS OF NON-COMPLIANCE BY THE COMPANY

CMA has imposed penalty on the company in the year 2012 for delay in disclosing the information pertaining to antidumping and countervailing duties litigation in United States. Other than this, there were no penalties or strictures have been imposed by MSM/CMA or any other authorities on the company for any matters related to capital market during the last three years.

(E) MEANS OF COMMUNICATION WITH THE SHAREHOLDERS AND INVESTORS

Al Jazeera Steel Products Co SAOG has its own web site at the URL www.jazeerasteel.com, which was built for our worldwide customers and partners. The website contains detailed specifications on the various product ranges manufactured, along with timely updates on all the vital information relating to the Company, yearly financial results, official press releases and presentation to analysts.

The quarterly/annual results were published in the local newspapers both in Arabic and English. Also, results were uploaded in the Muscat Security Market (MSM) website. The results were not sent individually to the shareholders in view of the above. Shareholders wishing to acquire a set of results can download from the MSM website or were advised to contact our offices directly.

A copy of the Management Discussion and Analysis is circulated along with the financial statements.

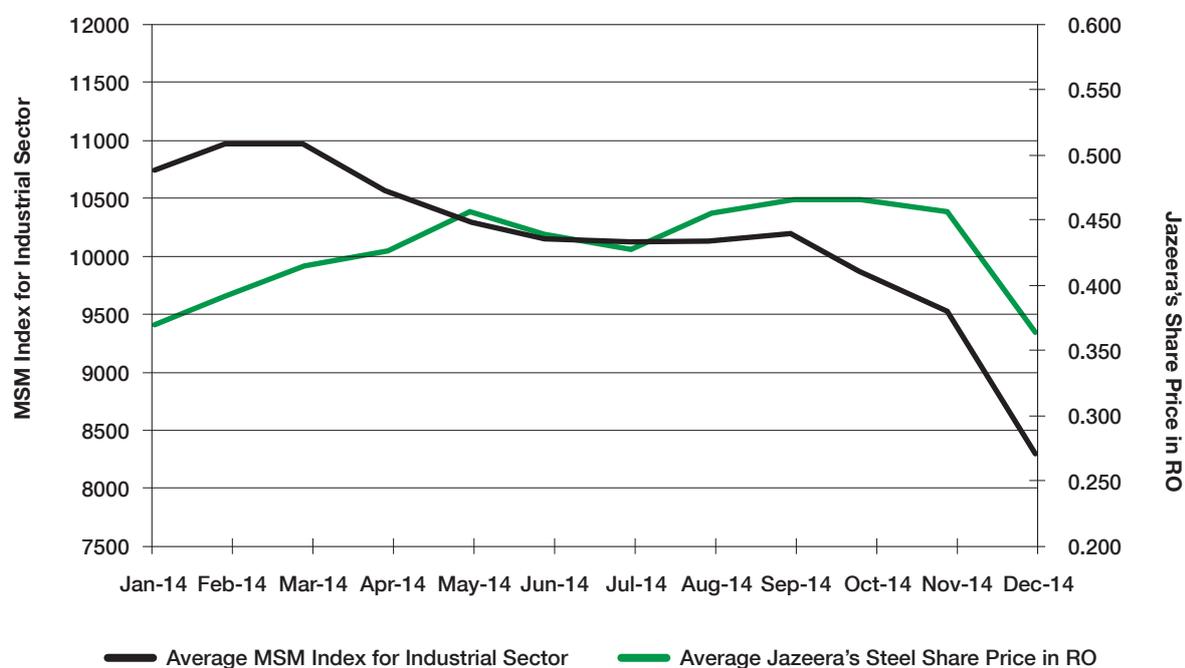
(F) MARKET PRICE DATA

Market Price Data – High / Low during each month in the Year 2014

Month	Company Share Price (Values in OMR)		MSM Index (Industrial)	
	High	Low	High	Low
January/2014	0.400	0.342	11,092	10,407
February/2014	0.400	0.384	11,099	10,858
March/2014	0.444	0.388	11,402	10,534
April/2014	0.458	0.396	10,648	10,466
May/2014	0.464	0.448	10,484	10,147
June/2014	0.456	0.420	10,256	10,076
July/2014	0.440	0.416	10,218	10,008
August/2014	0.480	0.430	10,254	10,059
September/2014	0.474	0.460	10,275	10,164
October/2014	0.480	0.454	10,246	9,502
November/2014	0.460	0.452	9,726	9,317
December/2014	0.414	0.310	9,338	7,256

Performance of the Company's share price in comparison to the broad based MSM Index of the Industrial sector in Oman during the year 2014 is illustrated in the below chart:

Performance of Company's Share vis-à-vis MSM Broad Based Index



Distribution of shareholding

Distribution schedule of each class of equity security with number of holders and percentage in the following categories

Categories	No. of Shares	No. of Shareholders	% of Total Outstanding Shares
Less than 1%	23,179,963	758	18.56%
1% to less than 5%	23,440,709	11	18.77%
5% to less than 10%	14,579,328	2	11.67%
More than 10%	63,697,960	1	51.00%
Total	124,897,960	772	100.00%

The shareholding pattern more than 5% as on 31st December 2014 was:

Name of the Shareholders	Total Shares	% of Share Capital
Global Buyout Fund LP	63,697,960	51.00%
Civil Service Employees Pension Fund	7,345,799	5.88%
State General Reserve	7,233,529	5.79%
Total	78,277,288	62.67%

The Company does not have any GDRs, ADRs, warrants or any convertible instruments as of 31 December 2014 and hence the likely impact on equity is NIL.

(G) PROFESSIONAL PROFILE OF THE STATUTORY AUDITOR

EY is the statutory auditors of the Company. EY has been operating in the Sultanate of Oman since 1974 and is the largest professional services firm in the country. EY Oman, forms part of EY's EMEIA practice, with 4,015 partners and over 90,500 professionals in 462 offices throughout the EMEIA geographical area. Globally, EY operates in more than 150 countries and employs 190,000 professionals. Total Audit Fees paid / payable for the whole year 2014 was amounting to RO 15,600.

(H) DETAILS OF NON COMPLIANCE WITH THE PROVISIONS OF CORPORATE GOVERNANCE.

This Corporate Governance Report is prepared in compliance with Code of Corporate Governance issued by Capital Market Authority.

(I) BOARD OF DIRECTORS ACKNOWLEDGES THAT:

The company has all its systems and procedures formally documented and in place. The company has "Internal Regulations" separately compiled as per regulatory requirements. The Board of Directors have reviewed this manual and approved it. The "Internal Regulations" has all the necessary and prescribed procedures. The Board has reviewed these regulations.

The Board of Directors are responsible to ensure that the financial statements have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the requirements of the Commercial Companies Law of the Sultanate of Oman 1974 (as amended) and the rules for disclosure requirements prescribed by the Capital Market Authority.

There are no material events affecting the continuation of Al Jazeera Steel Products Co and its ability to continue its production operations during the next financial year.



CHAIRMAN



DIRECTOR

FINANCIAL STATEMENTS



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P.R. No. MH/4

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL JAZEERA STEEL PRODUCTS COMPANY SAOG

Report on the Financial Statements

We have audited the accompanying financial statements of Al Jazeera Steel Products Company SAOG (the "Company"), which comprise the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, and the Rules and Guidelines on disclosure issued by the Capital Market Authority, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

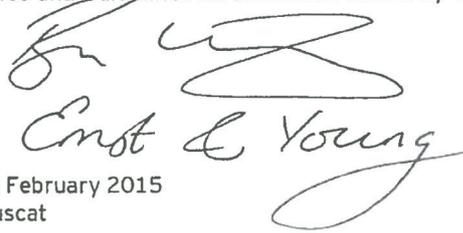
Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL JAZEERA STEEL PRODUCTS COMPANY SAOG (Continued)**

Report on Other Legal and Regulatory Requirements

In our opinion the financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the Rules and Guidelines on disclosure issued by the Capital Market Authority.



Ernst & Young

18 February 2015
Muscat



AL JAZEERA STEEL PRODUCTS COMPANY SAOG
STATEMENT OF FINANCIAL POSITION
At 31 December 2014

	Notes	2014 RO	2013 RO
ASSETS			
Non-current assets			
Property, plant and equipment	6	<u>23,219,941</u>	<u>23,902,287</u>
Current assets			
Inventories	7	22,908,601	18,272,601
Trade and other receivables	8	26,157,895	24,949,203
Bank balances and cash	9	<u>2,502,337</u>	<u>2,275,655</u>
Total current assets		<u>51,568,833</u>	<u>45,497,459</u>
Total assets		<u>74,788,774</u>	<u>69,399,746</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	10	12,489,796	12,489,796
Share premium	10	13,856,484	13,856,484
Legal reserve	11	3,171,835	2,651,178
Retained earnings		<u>10,520,958</u>	<u>8,333,004</u>
Total equity		<u>40,039,073</u>	<u>37,330,462</u>
LIABILITIES			
Non-current liabilities			
Borrowings	13	2,002,502	4,002,502
Employees' end of service benefits	14	317,768	214,615
Deferred tax liability	21	<u>697,295</u>	<u>697,295</u>
Total non-current liabilities		<u>3,017,565</u>	<u>4,914,412</u>
Current liabilities			
Borrowings - current portion	13	19,492,289	17,448,147
Trade and other payables	15	10,937,533	8,756,422
Income tax payable	21	<u>1,302,314</u>	<u>950,303</u>
Total current liabilities		<u>31,732,136</u>	<u>27,154,872</u>
Total liabilities		<u>34,749,701</u>	<u>32,069,284</u>
Total equity and liabilities		<u>74,788,774</u>	<u>69,399,746</u>
Net assets per share	23	<u>0.321</u>	<u>0.299</u>

These financial statements were approved and authorised for issue in accordance with a resolution of the directors on 18 February 2015.



Chairman



Director

The attached notes 1 to 27 form part of these financial statements.

AL JAZEERA STEEL PRODUCTS COMPANY SAOG
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2014

	Notes	2014 RO	2013 RO
Revenue		95,331,203	88,370,890
Cost of sales	16	<u>(81,975,040)</u>	<u>(76,614,799)</u>
Gross profit		13,356,163	11,756,091
Selling and distribution expenses	17	(4,653,974)	(3,851,999)
General and administrative expenses	18	(1,690,787)	(1,545,776)
Other operating expenses		<u>(34,008)</u>	<u>(39,020)</u>
Operating profit		6,977,394	6,319,296
Net finance costs	20	<u>(889,744)</u>	<u>(1,043,679)</u>
Profit before taxation		6,087,650	5,275,617
Income tax expense	21	<u>(881,080)</u>	<u>(722,584)</u>
Profit and total comprehensive income for the year		<u>5,206,570</u>	<u>4,553,033</u>
Earnings per share - basic and diluted	22	<u>0.042</u>	<u>0.036</u>

The attached notes 1 to 27 form part of these financial statements.

AL JAZEERA STEEL PRODUCTS COMPANY SAOG
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2014

	Share capital (note 10)	Share premium (note 10)	Legal reserve (note 11)	Retained earnings	Total
	RO	RO	RO	RO	RO
At 1 January 2013	12,489,796	13,856,484	2,195,875	6,233,641	34,775,796
Profit and total comprehensive income for the year	-	-	-	4,553,033	4,553,033
Dividends paid (note 12)	-	-	-	(1,998,367)	(1,998,367)
Transfer to legal reserve (note 11)	-	-	455,303	(455,303)	-
At 31 December 2013	12,489,796	13,856,484	2,651,178	8,333,004	37,330,462
Profit and total comprehensive income for the year	-	-	-	5,206,570	5,206,570
Dividends paid (note 12)	-	-	-	(2,497,959)	(2,497,959)
Transfer to legal reserve (note 11)	-	-	520,657	(520,657)	-
At 31 December 2014	12,489,796	13,856,484	3,171,835	10,520,958	40,039,073

The attached notes 1 to 27 form part of these financial statements.

AL JAZEERA STEEL PRODUCTS COMPANY SAOG
STATEMENT OF CASH FLOWS
For the year ended 31 December 2014

	Notes	2014 RO	2013 RO
Operating activities			
Profit before taxation		6,087,650	5,275,617
Adjustments for:			
Interest income	20	(5,234)	(5,236)
Interest on borrowings	20	894,978	1,048,915
Depreciation	6	1,972,933	2,175,124
Allowance for inventories	7	1,283,094	214,515
Release of doubtful debts	8	(15,937)	(103,769)
Loss on sale of property, plant and equipment		36,199	48,015
Accrual for end of service benefits	14	110,723	98,846
Operating cash flow before movement in working capital		10,364,406	8,752,027
Changes in working capital :			
Inventories		(5,919,093)	9,318,143
Trade and other receivables		(1,192,760)	1,122,221
Trade and other payables		2,120,399	(6,358,407)
Cash from operations		5,372,952	12,833,984
Interest paid during the year		(834,262)	(1,027,037)
Tax paid during the year		(529,069)	-
End of service benefits paid		(7,570)	(6,392)
Net cash from operating activities		4,002,051	11,800,555
Investing activities			
Purchase of property, plant and equipment	6	(1,331,121)	(376,744)
Proceeds from sale of property, plant and equipment		4,335	3,000
Interest received	20	5,234	5,236
Net cash used in investing activities		(1,321,552)	(368,508)
Financing activities			
Dividend paid		(2,497,959)	(1,998,367)
Net change in borrowings		44,142	(8,546,896)
Net cash used in financing activities		(2,453,817)	(10,545,263)
Increase in cash and cash equivalents		226,682	886,784
Cash and cash equivalents at the beginning of the year		2,275,655	1,388,871
Cash and cash equivalents as at end of the year		2,502,337	2,275,655
Cash and cash equivalents at the end of the year comprise:			
Cash at bank		2,488,400	2,267,235
Cash on hand		13,937	8,420
Cash and bank balances	9	2,502,337	2,275,655

The attached notes 1 to 27 form part of these financial statements.

AL JAZEERA STEEL PRODUCTS COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

1. Legal status

Al Jazeera Steel Products Company SAOG (the "Company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The registered address, principal office and the manufacturing facility is located at P O Box 40, Sohar Industrial Estate, Postal Code 327, Sultanate of Oman. The Company's shares are listed in the Muscat Securities Market. The principal activities of Company are the manufacture and sale of steel products including associated works.

The Company has two plants namely tube mill and merchant bar mill. The commercial operations of the tube mill commenced in May 1999 and the merchant bar mill commenced in October 2009.

2. Summary of significant accounting policies

2.1 Basis of preparation

These financial statements are prepared on the historical cost basis.

These financial statements are presented in Rials Omani (RO) since that is the currency in which the majority of the transactions are denominated.

2.2 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards, and applicable requirements of the Commercial Companies Law and the Capital Market Authority (the CMA) of the Sultanate of Oman.

2.3 Changes in accounting policy and disclosures

(a) Standards and amendments effective in 2014 and relevant for the Company's operations:

For the year ended 31 December 2014, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2014.

- IAS 32, Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32:
- IAS 39, Novation of Derivatives and Continuation of Hedge Accounting -Amendments to IAS 39:
- Investment Entities - (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Recoverable amount disclosure for non – financial assets – Amendments to IAS 36

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current and prior periods.

(b) Standards, amendments and interpretations to existing standards that are relevant to the company and not yet effective and have not been early adopted by the Company:

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) but are not yet mandatory for the year ended 31 December 2014:

- IFRS 14, Regulatory Deferral Account : effective for annual periods commencing 1 January 2016;
- IAS 19, Defined Benefit Plans: Employee Contributions -Amendments to IAS 19: effective for annual periods commencing 1 July 2014;
- IFRS 9, Financial Instruments- The Company has not adopted any phase of IFRS 9, which is currently not mandatory.
- IFRS 8, Operating Segments- Amendments to IFRS 8: effective for annual periods commencing 1 July 2014.
- IAS 16 & IAS 38, Property, Plant and Equipment & Intangible Asset - Amendments to IAS 16 & 38: effective for annual periods commencing 1 July 2014.
- IAS 24, Related Party Disclosures- Amendments to IAS 24: effective for annual periods commencing 1 July 2014.
- IFRS 15, Revenue from contracts with customers: effective for annual periods commencing 1 January 2017.

IFRS 15 Revenue from contracts with customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual

2. Summary of significant accounting policies (continued)

periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

The adoption of the above standards is not expected to have any significant changes to the Company's financial statements.

A summary of significant accounting policies is set out below:

2.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. All other expenditures are recognised in the profit or loss as an expense when incurred.

The cost of the property, plant and equipment is written down to residual value in equal installments over the estimated useful lives of the assets. The estimated useful lives are:

	Years
Buildings	20
Plant and equipment	15 - 20
Tools and spares	4
Motor vehicles	5
Furniture and fixtures	5
Computer and other equipment	3 - 5

Capital work-in-progress is not depreciated until it is transferred into one of the above categories at the time when it is brought into use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Where the carrying amount of an asset is greater than its estimated recoverable amount it is written down immediately to its recoverable amount.

Gains or losses on disposals of items of property, plant and equipment are determined as the difference between the sales proceeds and their carrying amounts and are taken into account in determining the operating result for the period.

2.5 Impairment of non- financial assets

At each reporting date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

2.6 Inventories

Inventories, which include goods-in-transit, are valued at the lower of cost and net realisable value. Cost is determined on the weighted average cost basis and consists of the direct cost of materials and, in the case of finished goods and work-in-progress, an appropriate share of labour and direct overheads. Net realisable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of completion and realisation. Provision is made where necessary for obsolete, slow moving and defective items.

AL JAZEERA STEEL PRODUCTS COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

2. Summary of significant accounting policies (continued)

2.7 Trade and other receivables

Trade receivables are stated at their amortised cost less impairment losses. An allowance for impaired debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less from the date of placement and bank overdrafts.

2.9 Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.10 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting year, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.11 End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Company's qualifying employees at the reporting date, having regard to the requirements of the Oman Labour Law, as amended. Employee entitlements to annual leave are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits are disclosed as a non-current liability.

Contributions to a defined contribution retirement plan and occupational hazard insurance for Omani employees in accordance with the Omani Social Insurances Law of 1991 are recognised as an expense in the profit or loss as incurred.

2.12 Trade and other payables

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

2.13 Impairment and uncollectibility of financial assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

- (a) For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognised in the statement of comprehensive income;
- (b) For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- (c) For assets carried at amortised cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

2. Summary of significant accounting policies (continued)

2.14 Derecognition of financial assets and financial liabilities

Financial assets:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or
(b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities:

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

2.15 Fair values

The fair value of interest bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

2.16 Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight line basis over the lease term.

2.17 Taxation

Taxation is provided for in accordance with the tax laws and regulations of the Sultanate of Oman.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax liability is recognised on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset only when there is a legally enforceable right to set off.

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

2.19 Dividend on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's shareholders.

AL JAZEERA STEEL PRODUCTS COMPANY SAOG

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

2. Summary of significant accounting policies (continued)

2.20 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. The specific recognition criteria described below must also be met before revenue is recognised :

Sales of goods

Revenue from the sale of goods, net of trade discount is recognised in the statement of comprehensive income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue is not recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Interest

Interest revenue is recognised as the interest accrues using the effective interest rate method, under which the rate used exactly discounts, estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

2.21 Interest income and expense

Interest income and expense are accounted on accrual basis.

All interest and other costs incurred in connection with borrowings are expensed as incurred, as part of financing costs and are accounted on an accrual basis, except that the interest expense on borrowings specifically undertaken to finance the construction of qualifying assets are capitalised along with the cost of the asset.

2.22 Foreign currency transactions

Functional and presentation currency

Items included in the Company's financial statements are measured using Rials Omani ("RO") which is the currency of the Sultanate of Oman, being the economic environment in which the Company operates (the functional currency). The financial statements are prepared in RO, rounded to the nearest RO.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2.23 Director's remuneration

The Company follows the Commercial Companies Law 1974 (as amended), and other latest relevant directives issued by the CMA, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the profit or loss account in the year to which they relate.

2.24 Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3.1 Financial risk management

Financial instruments carried on the statement of financial position comprise cash and cash equivalents, trade and other receivables, trade and other payables and borrowings.

Financial risk factors

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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3.1 Financial risk management (continued)

The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company. Risk management is carried out by the management under policies approved by the Board of Directors.

(i) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the reporting date was on account of:

	2014	2013
	RO	RO
Trade receivables	25,706,409	24,135,466
Other receivables	916,333	1,309,946
Bank balances	<u>2,488,400</u>	<u>2,267,235</u>
	<u>29,111,142</u>	<u>27,712,647</u>

Credit risk on trade receivables is limited to their carrying values as management regularly reviews these balances to assess recoverability and makes provision for balances whose recoverability is in doubt. Credit risk is managed mainly through credit terms to customers backed by confirmed letters of credit. There is no concentration of credit risk with respect to trade receivables as the Company has a large number of customers, internationally dispersed.

As for each potential customer there is no independent rating, the Company's credit committee assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board of Directors. The utilisation of credit limits is regularly monitored. Relevant details about the trade receivables are set out in note 8.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The management maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Company's financial liabilities into relevant maturity groupings based on the remaining years at the reporting date to the contractual maturity date.

	Total	Less than 1 year	1 to 2 years	3 to 5 years
	RO	RO	RO	RO
At 31 December 2014				
Borrowings	21,494,791	19,492,286	2,002,505	-
Interest on borrowings	179,811	114,930	64,881	-
Trade and other payables	<u>10,937,533</u>	<u>10,937,533</u>	-	-
	<u>32,612,135</u>	<u>30,544,749</u>	<u>2,067,386</u>	-

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NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2014

3.1 Financial risk management (continued)

	Total	Less than 1 year	1 to 2 Years	3 to 5 Years
	RO	RO	RO	RO
At 31 December 2013				
Borrowings	21,450,649	17,448,147	2,000,000	2,002,502
Interest on borrowings	251,657	118,814	66,380	66,463
Trade and other payables	<u>8,756,422</u>	<u>8,756,422</u>	-	-
	<u>30,458,728</u>	<u>26,323,383</u>	<u>2,066,380</u>	<u>2,068,965</u>

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. It is managed by continuous review and adjustments in sales strategy.

Foreign exchange risk

The Company operates internationally, however, the Company is substantially independent of changes in foreign currency rates as its foreign currency dealings are principally in US Dollars (USD) and UAE Dirhams (AED) which are pegged to the Rials Omani.

Commodity price risk

The Company is affected by the volatility of steel prices. Its operating activities require the ongoing purchase and manufacturing and therefore require a continuous supply of steel. Due to the significantly increased volatility of the price of the underlying, the Company's Board of Directors has developed and enacted a risk management strategy regarding commodity price risk and its mitigation.

To manage metal price fluctuation risk, the management cautiously manages the inventory at economical levels. The company is having a robust supply chain with diversified supplier base to achieve competitive prices and reduce the cycle time for procurement. The Company's existing production facility is also flexible in terms of reacting to the customer demands.

Cash flow and fair value interest rate risk

The Company has call deposits, term deposits and long term borrowings. The deposits with banks and borrowings carry interest on commercial terms. The Company is exposed to interest rate risk resultant from its borrowings. The risk is managed by maintaining an appropriate mix between fixed and floating interest rate balances at the start of the financial year, if required.

For every 0.5% change in interest rate, the impact on the statement of comprehensive income will be approximated to RO 94,962 (2013 – RO 95,875) based on the level of borrowing at the reporting date.

3.2 Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

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At 31 December 2014

3.2 Capital Management (continued)

	2014	2013
	RO	RO
Borrowings (note 13)	21,494,791	21,450,649
Less: cash and cash equivalents (note 9)	<u>(2,502,337)</u>	<u>(2,275,655)</u>
Net debt	18,992,454	19,174,994
Total equity	<u>40,039,073</u>	<u>37,330,462</u>
Total debt and equity	<u>59,031,527</u>	<u>56,505,456</u>
Gearing ratio	<u>32%</u>	<u>34%</u>

3.3 Fair value estimation

The carrying values of financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of non-current financial liabilities are considered to approximate their carrying amounts.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

4. Critical accounting estimates and judgments

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities and assets.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

Allowance for doubtful debts

An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade accounts receivable were RO 25,706,409 (2013: RO 24,135,466), and the provision for doubtful debts was RO 545,118 (2013: RO 561,055). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

Allowance for slow moving and obsolete inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. Due to volatility in the steel prices, the company also regularly assesses the net realizable value and makes adjustment to carrying value, if required. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices.

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NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2014

4. Critical accounting estimates and judgments (continued)

Key sources of estimation uncertainty (continued)

Allowance for slow moving and obsolete inventories (continued)

At the reporting date, inventories were RO 26,390,538 (2013: RO 20,471,444) with provisions for old and obsolete inventories of RO 3,481,937 (2013: RO 2,198,843). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charge would be adjusted where the management believes the useful lives differ from previous estimates.

Taxation

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of Company. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

5. Segment information

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity; whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available. The accounting policies of the reportable segments are the same as the Company's accounting policies described under note 2.

Information regarding the Company's operating segments is set out below in accordance with IFRS 8 - Operating segments. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Products and services from which reportable segments derive their revenues

The Company operates in one business segment that of manufacture and sale of steel products. All relevant information relating to this primary segment is disclosed in the statement of financial position, statement of comprehensive income and notes to the financial statements.

The following geographical analysis has been compiled based on the location of the customers of the Company:

	2014		2013	
	Revenue RO	Trade receivables RO	Revenue RO	Trade receivables RO
GCC countries including Oman	79,032,116	19,880,609	76,251,330	20,549,442
North America	15,823,213	5,809,995	10,761,045	3,214,486
Others	475,874	15,805	1,358,515	371,538
	<u>95,331,203</u>	<u>25,706,409</u>	<u>88,370,890</u>	<u>24,135,466</u>

Revenue and trade receivables are allocated based on the country in which the customer is located.

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6. Property, plant and equipment

	Buildings		Plant and equipment		Tools and spares		Motor vehicles		Furniture and fixtures		Computer and other equipment		Capital work-in-progress		Total	
	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO	RO
Cost																
At 1 January 2014	8,041,380	25,914,569	2,068,669	147,490	253,422	372,222	461,551	37,259,303								
Additions	37,327	19,058	-	14,850	10,258	25,303	1,224,325	1,331,121								
Transfers	-	96,301	149,024	-	-	-	(245,325)	-								
Disposals / write off	-	-	(126,718)	(10,600)	(21,656)	(10,695)	-	(169,669)								
At 31 December 2014	8,078,707	26,029,928	2,090,975	151,740	242,024	386,830	1,440,551	38,420,755								
Depreciation																
At 1 January 2014	2,883,327	8,333,405	1,557,318	78,429	224,686	279,851	-	13,357,016								
Charge for the year:																
Cost of sales (note 16)	403,056	1,294,420	182,114	-	-	-	-	1,879,590								
General and administrative (note 18)	-	-	-	22,453	16,902	53,988	-	93,343								
Disposals	-	-	(86,258)	(10,598)	(21,586)	(10,693)	-	(129,135)								
At 31 December 2014	3,286,383	9,627,825	1,653,174	90,284	220,002	323,146	-	15,200,814								
Net carrying value																
At 31 December 2014	4,792,324	16,402,103	437,801	61,456	22,022	63,684	1,440,551	23,219,941								

AL JAZEERA STEEL PRODUCTS COMPANY SAOG
NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2014

6. Property, plant and equipment (continued)

Cost	Buildings	Plant and equipment	Tools and spares	Motor vehicles	Furniture and fixtures	Computer and other equipment	Capital work-in-progress	Total
	RO	RO	RO	RO	RO	RO	RO	RO
At 1 January 2013	7,975,209	25,515,506	1,951,962	146,040	245,285	356,554	794,157	36,984,713
Additions	66,171	71,112	-	7,400	8,137	20,433	203,491	376,744
Transfers	-	327,951	192,978	-	-	345	(521,274)	-
Disposals / write off	-	-	(76,271)	(5,950)	-	(5,110)	(14,823)	(102,154)
At 31 December 2013	8,041,380	25,914,569	2,068,669	147,490	253,422	372,222	461,551	37,259,303
Depreciation								
At 1 January 2013	2,483,932	7,049,836	1,203,151	59,318	204,718	232,071	-	11,233,026
Charge for the year:								
Cost of sales (note 16)	399,395	1,283,569	394,643	-	-	-	-	2,077,607
General and administrative (note 18)	-	-	-	24,663	19,968	52,886	-	97,517
Disposals	-	-	(40,476)	(5,552)	-	(5,106)	-	(51,134)
At 31 December 2013	2,883,327	8,333,405	1,557,318	78,429	224,686	279,851	-	13,357,016
Net carrying value								
At 31 December 2013	5,158,053	17,581,164	511,351	69,061	28,736	92,371	461,551	23,902,287

(a) Buildings included in property, plant and equipment are built on land leased from the Public Establishment for Industrial Estates - Sohar Industrial Estate. The initial lease expires on 13 April 2022, with an option to renew the lease at the end of the lease term.

(b) Property, plant and equipment of the Company are subject to a first charge favouring Bank Dhofar SAOG and a second charge for borrowings from other commercial banks (Note 13).

(c) Capital work-in-progress represents mainly rolls under grooving and rebar manufacturing facility under construction.

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At 31 December 2014

7. Inventories

	2014	2013
	RO	RO
Raw materials	11,758,316	8,018,863
Finished goods	7,693,228	7,511,715
Stores and spares	2,603,240	2,400,458
Goods-in-transit	2,901,608	1,137,092
Work-in-process	<u>1,434,146</u>	<u>1,403,316</u>
	26,390,538	20,471,444
Less: Provision for inventory	<u>(3,481,937)</u>	<u>(2,198,843)</u>
	<u>22,908,601</u>	<u>18,272,601</u>

Inventories of the Company are subject to a charge favouring the lenders of borrowings, as disclosed in note 13.

The movement in the inventory provision account balance was as follows:

	2014	2013
	RO	RO
At 1 January	2,198,843	1,984,328
Charge for the year	<u>1,283,094</u>	<u>214,515</u>
At 31 December	<u>3,481,937</u>	<u>2,198,843</u>

8. Trade and other receivables

	2014	2013
	RO	RO
Trade receivables	25,706,409	24,135,466
Provision for doubtful debts	<u>(545,118)</u>	<u>(561,055)</u>
	25,161,291	23,574,411
Advances to suppliers	840,779	1,139,274
Prepaid expenses	80,271	64,846
Other receivables	<u>75,554</u>	<u>170,672</u>
	<u>26,157,895</u>	<u>24,949,203</u>

The movement in provision for doubtful debts is given below:

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NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2014

8. Trade and other receivables (continued)

	2014	2013
	RO	RO
At 1 January	561,055	664,824
Charge during the year (note 18)	(15,937)	(103,769)
At 31 December	<u>545,118</u>	<u>561,055</u>

- (a) Trade receivables of the Company are subject to a charge favouring the lenders of borrowings, as disclosed in note 13.
- (b) The amounts are considered by the Company to be due after 120 days from the date of invoice.

The age analysis of trade receivables is as follows:

	2014	2013
Age	RO	RO
Less than 120 days	22,229,697	20,956,918
Between 121 - 180 days	2,989,018	2,506,365
Between 181 - 270 days	308,839	547,545
Between 271 - 365 days	22,384	3,908
Between 366 - 730 days	44,359	15,480
More than 730 days	<u>112,112</u>	<u>105,250</u>
	<u>25,706,409</u>	<u>24,135,466</u>

- (c) Other receivables include dumping duties amounting to RO 55,751 (2013: RO 148,137) paid on export to United States of America (US). US Department of Commerce (DOC) imposed antidumping and countervailing duties on the Company's export to US. However the US International Trade Commission on 14 November 2012 has nullified the DOC's decision based on the Company's appeal and the amount so paid is now fully refundable.

9. Bank balances and cash

	2014	2013
	RO	RO
Cash at bank	2,488,400	2,267,235
Cash on hand	13,937	8,420
	<u>2,502,337</u>	<u>2,275,655</u>

Bank balance include RO 550,442 (2013: RO 673,939) held in a call account in the United Arab Emirates and RO 1,356,579 (2013: RO 949,613) in US Dollars in to which customers make deposits.

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10. Share capital

The share capital comprises 124,897,960 (31 December 2013: 124,897,960) ordinary shares of RO 0.100 (2013: RO 0.100) each fully paid.

	Authorised		Issued and fully paid	
	2014	2013	2014	2013
	RO	RO	RO	RO
Share capital	<u>15,000,000</u>	<u>15,000,000</u>	<u>12,489,796</u>	<u>12,489,796</u>

The share premium is stated net of share issuance costs.

The details of shareholders who own 10% or more of the Company's shares are as follows:

	2014		2013	
Name of the shareholder	No. of	Holding	No. of	Holding
	shares	%	shares	%
Global Buyout Fund LP	63,697,960	51	63,697,960	51

11. Legal reserve

In accordance with the Commercial Companies Law of Oman 1974, as amended, annual appropriations of 10% of the profit are made to this reserve until the accumulated balance of the reserve is equal to one third of the value of the Company's paid-up share capital. This reserve is not available for distribution.

12. Proposed dividend

Dividend is not accounted for until it has been approved at the Annual General Meeting. At the Board of Directors meeting held on 18 February 2015, cash dividend of RO 0.022 per share amounting to RO 2,747,755 was proposed. The financial statements for the year ended 31 December 2014 do not reflect this resolution, which will be accounted for in shareholder's equity as an appropriation of retained earnings during the year ending 31 December 2015.

During the period, a cash dividend of RO 0.020 (31 December 2013: RO 0.016) per share totaling RO 2,497,959 (31 December 2013: RO 1,998,367) was paid as approved by shareholders in their annual general meeting held on 20 March 2014.

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13. Borrowings

	2014	2013
	RO	RO
Non-current		
Bank Dhofar SAOG – term loan (a)	4,002,502	6,002,502
Less: current portion included under current liabilities	<u>(2,000,000)</u>	<u>(2,000,000)</u>
	<u>2,002,502</u>	<u>4,002,502</u>
Current		
Loans against trust receipts	17,492,289	15,448,147
Current portion of term loan	<u>2,000,000</u>	<u>2,000,000</u>
	<u>19,492,289</u>	<u>17,448,147</u>
Total borrowings	<u>21,494,791</u>	<u>21,450,649</u>

(a) Term loan from Bank Dhofar SAOG was sanctioned for RO 10 million. The total draw down amounted to RO 9,502,501. The loan carries an annual interest rate of USD 3 month LIBOR plus 3%. This loan is secured by a first charge on the property, plant and equipment of the Company. The loan is payable in 20 equal quarterly installments of RO 500,000 each starting from June 2012.

(b) The maturity profile of the non-current borrowings is as follows:

	2014	2013
	RO	RO
From 1 to 2 years	2,002,502	2,000,000
From 3 to 5 years	-	2,002,502
	<u>2,002,502</u>	<u>4,002,502</u>

(c) Loans against trust receipts obtained from the commercial banks are at annual interest rate ranging from 2% to 3% (2013 - 2.5% to 3.5%). The Company's main bank facilities have been secured by a pari-pasu charge on the current assets of the Company.

(d) The carrying amount of the Company's borrowings are denominated in the following currencies:

	2014	2013
	RO	RO
Rials Omani	4,500,000	5,748,818
US Dollars	16,994,791	15,701,831
	<u>21,494,791</u>	<u>21,450,649</u>

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14. Employees' end of service benefits

	2014	2013
	RO	RO
At 1 January	214,615	122,161
Charge for the year	110,723	98,846
Payments during the year	<u>(7,570)</u>	<u>(6,392)</u>
At 31 December	<u><u>317,768</u></u>	<u><u>214,615</u></u>

15. Trade and other payables

	2014	2013
	RO	RO
Trade payables	9,154,487	7,007,132
Accrued expenses	1,635,842	1,525,257
Advances from customers	139,239	191,441
Other payables	<u>7,965</u>	<u>32,592</u>
	<u><u>10,937,533</u></u>	<u><u>8,756,422</u></u>

16. Cost of sales

	2014	2013
	RO	RO
Cost of materials consumed	74,795,713	69,766,627
Direct labour (note 19)	3,865,983	3,471,423
Depreciation of property, plant and equipment (note 6)	1,879,590	2,077,607
Other direct expenses	<u>1,433,754</u>	<u>1,299,142</u>
	<u><u>81,975,040</u></u>	<u><u>76,614,799</u></u>

17. Selling and distribution expenses

	2014	2013
	RO	RO
Packing and despatch charges	4,481,206	3,659,906
Commission on sales	114,603	88,318
Sales promotion expenses	5,245	48,290
Advertisement and publicity	22,339	34,100
Other selling and distribution expenses	<u>30,581</u>	<u>21,385</u>
	<u><u>4,653,974</u></u>	<u><u>3,851,999</u></u>

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18. General and administrative expenses

	2014	2013
	RO	RO
Employee costs (note 19)	1,229,340	1,128,090
Other expenses	159,371	178,385
Depreciation of property, plant and equipment (note 6)	93,343	97,517
Legal and professional charges	77,236	85,694
Travelling and conveyance	72,974	86,891
Communication expenses	63,856	62,717
Insurance	10,604	10,251
Allowance for impaired debts	<u>(15,937)</u>	<u>(103,769)</u>
	<u><u>1,690,787</u></u>	<u><u>1,545,776</u></u>

19. Employee costs

The employee costs, included under cost of sales and general and administrative expenses comprise the following:

	2014	2013
	RO	RO
Basic salaries and allowances	4,572,966	4,128,403
Employee welfare expenses	229,201	217,061
End of service benefits	110,723	98,846
Social security costs	102,033	62,140
Staff accommodation expenses	<u>80,400</u>	<u>93,063</u>
	<u><u>5,095,323</u></u>	<u><u>4,599,513</u></u>
Allocated to :		
Cost of sales (note 16)	3,865,983	3,471,423
General and administrative expenses (note 18)	<u>1,229,340</u>	<u>1,128,090</u>
	<u><u>5,095,323</u></u>	<u><u>4,599,513</u></u>

20. Net finance costs

	2014	2013
	RO	RO
Interest on borrowings	894,978	1,048,915
Interest income	<u>(5,234)</u>	<u>(5,236)</u>
	<u><u>889,744</u></u>	<u><u>1,043,679</u></u>

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21. Taxation

	2014	2013
	RO	RO
Statement of comprehensive income		
Current tax:		
Tax on profit for the year	881,080	651,475
Adjustment in respect of prior years	-	298,828
Deferred tax:		
Origination and reversal of other temporary differences	-	(227,719)
Total tax charge for year	<u><u>881,080</u></u>	<u><u>722,584</u></u>
Statement of financial position		
Non-current liability		
Deferred tax	<u><u>697,295</u></u>	<u><u>697,295</u></u>
Current liability		
Current year	881,080	651,475
Prior years	<u><u>421,234</u></u>	<u><u>298,828</u></u>
	<u><u>1,302,314</u></u>	<u><u>950,303</u></u>

- (a) Tax assessments for all the years up to 2011 have been completed and agreed with the Oman taxation authorities. The management believes that any taxation for the unassessed years for 2012 and 2013 will not be material to the financial position of the Company as at the reporting date.
- (b) The reconciliation of the tax on accounting profit at the applicable rate of 12% (2013 - 12%) after the basic exemption of RO 30,000 and the taxation charge in the financial statements is as follows:

	2014	2013
	RO	RO
Profit before taxation	<u><u>6,087,650</u></u>	<u><u>5,275,617</u></u>
Taxation at the applicable tax rate	726,918	629,474
Add / (less) tax effect of:		
Non – deductible expenses	395,752	298,619
Deductible expenses	<u><u>(241,590)</u></u>	<u><u>(276,618)</u></u>
Taxation expense	<u><u>881,080</u></u>	<u><u>651,475</u></u>

- (c) Deferred taxation relates to the temporary differences. Deferred income taxes are calculated on all temporary differences using a principal tax rate of 12%. The net deferred tax liability and deferred tax charge in the statement of comprehensive income are attributable to the following items:

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21. Taxation (continued)

Deferred taxation	1 January 2014	Released to profit or loss	31 December 2014
	RO	RO	RO
Asset			
Provision	(210,000)	-	(210,000)
Liability			
Accelerated tax depreciation	907,295	-	907,295
	<u>697,295</u>	<u>-</u>	<u>697,295</u>
	1 January 2013	Released to profit or loss	31 December 2013
	RO	RO	RO
Asset			
Provision	-	(210,000)	(210,000)
Liability			
Accelerated tax depreciation	925,014	(17,719)	907,295
	<u>925,014</u>	<u>(227,719)</u>	<u>697,295</u>

22. Earnings per share – basic and diluted

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2014	2013
	RO	RO
Profit attributable to shareholders (RO)	5,206,570	4,553,033
Weighted average number of shares outstanding	124,897,960	124,897,960
Earnings per share - basic and diluted (RO)	0.042	0.036

For the purpose of calculating diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. As there are no dilutive potential shares, the diluted earnings per share is identical to the basic earnings per share.

23. Net assets per share

	2014	2013
	RO	RO
Net assets (RO)	40,039,073	37,330,462
Number of shares at the reporting date	124,897,960	124,897,960
Net assets per share (RO)	0.321	0.299

Net assets per share are calculated by dividing the shareholders' equity at the reporting date by the number of shares outstanding.

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24. Related party transactions

Related parties comprise the shareholders, directors and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions. The Company has entered into transactions with entities related to the significant shareholders or directors. In the ordinary course of business, such related parties provide goods and render services to the Company. During the year, the following transactions were carried out with related parties:

	2014	2013
	RO	RO
Compensation of key management personnel		
Basic salaries and allowances	<u>386,038</u>	<u>345,735</u>
Remuneration to directors	<u>45,000</u>	<u>42,000</u>
Directors' sitting fees	<u>9,325</u>	<u>9,525</u>
	<u>440,363</u>	<u>397,260</u>

25. Commitments

(i) Lease commitments

At 31 December 2014, the future minimum lease commitments under the lease agreement in respect of the land, referred to in note 6(a) amounted to RO 1,212,751 (2013 : RO 1,240,959) for the total remaining lease period. Under the terms of the operating lease the future aggregate minimum lease payments are as follows:

	2014	2013
	RO	RO
Not later than 1 year	81,400	67,046
Between 2 and 5 years	366,114	317,148
Later than 5 years	<u>765,237</u>	<u>856,765</u>
	<u>1,212,751</u>	<u>1,240,959</u>

(ii) Purchase commitments

At 31 December 2014, the value of outstanding purchase commitments amounted to RO 10,089,951 (2013: RO 7,528,383).

(iii) Capital commitments

At 31 December 2014, the value of outstanding capital commitments amounted to RO 142,904 (2013: RO 101,811).

26. Contingent liabilities

	2014	2013
	RO	RO
Bank guarantees	<u>78,300</u>	<u>95,943</u>

The above guarantees were issued in the normal course of business.

27. Comparative information

Comparative figures have been adjusted or reclassified to conform to the presentation adopted for the current year. These are not material and have no impact on the previously reported profit or equity position of the company.