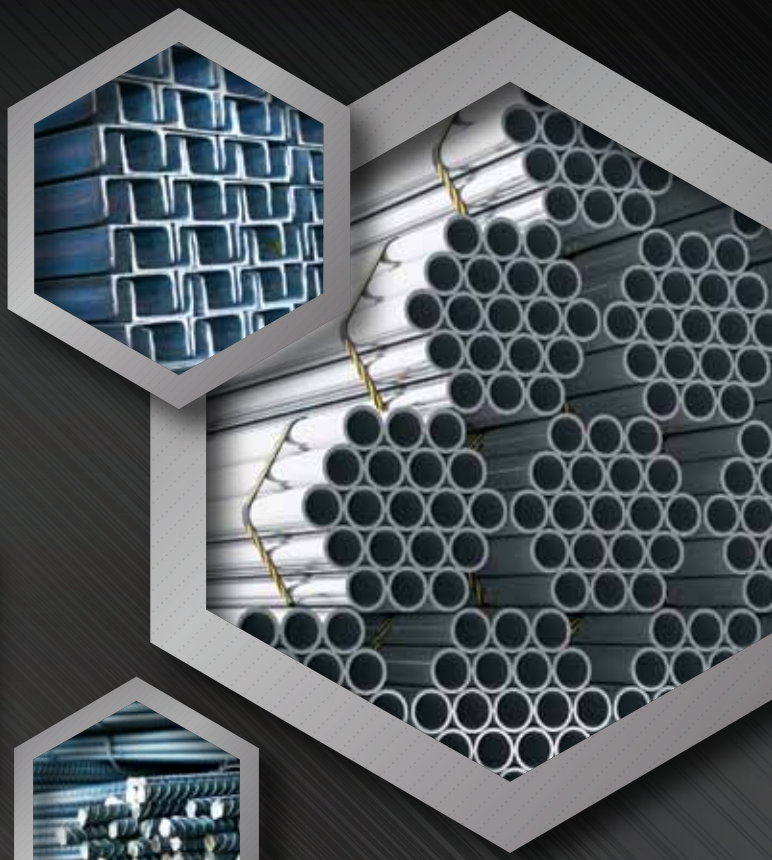
Jazeera Steel حديد الجزيرة

THE ONE SOURCE FOR WORLD CLASS STEEL PRODUCTS



21st Annual Report 2018

Al Jazeera Steel Products Co. SAOG
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The Quality Standard in Steel

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Company Auditor

KPMG Oman

Internal Auditor

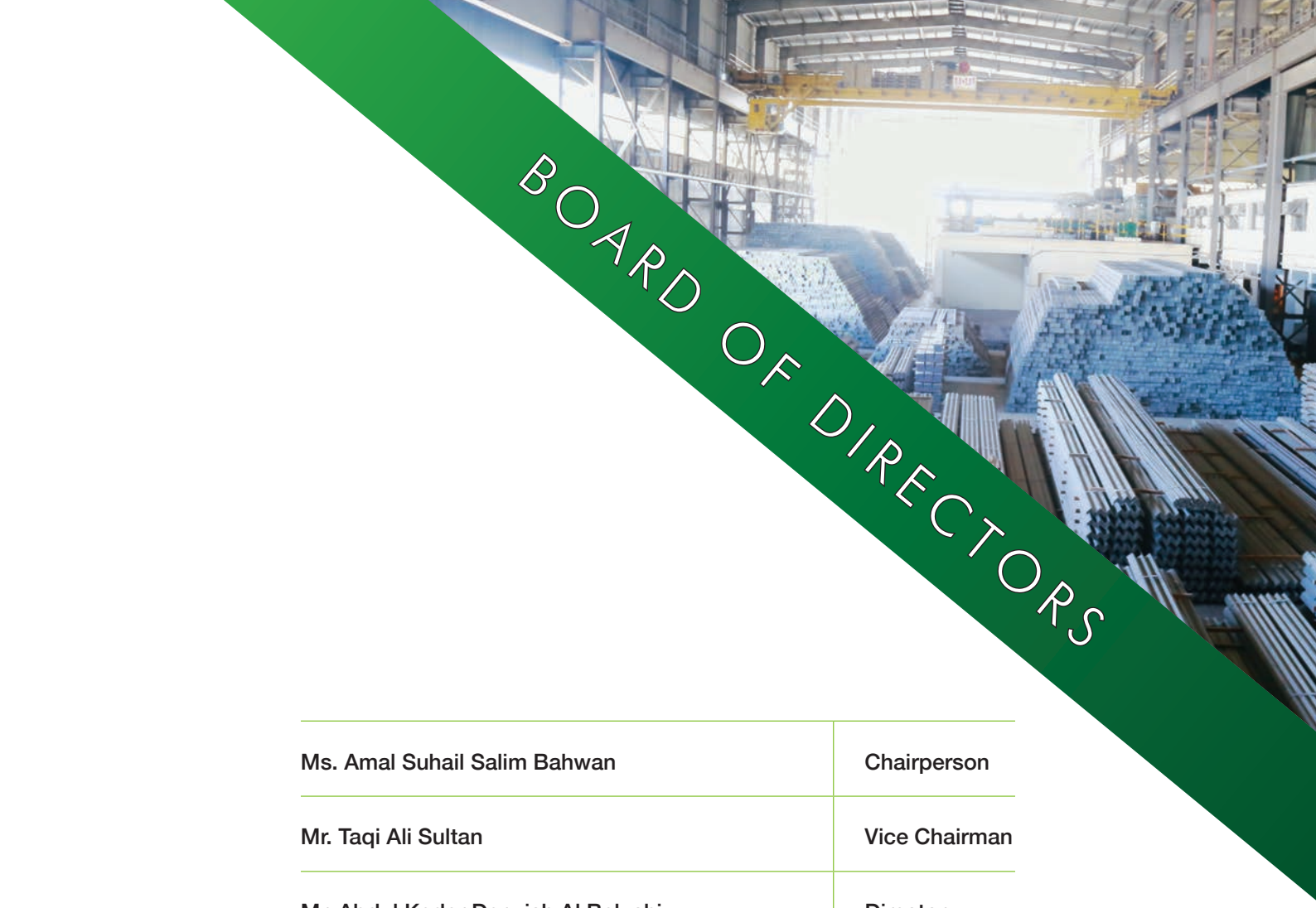
Deloitte & Touche (M.E.)

Legal Advisor

Dr. Omar Al Balushi Law Firm &
Legal Consultants

Bankers

Ahli Bank, Bank Dhofar, Bank Muscat, Bank Sohar, Gulf International Bank, National Bank of Oman, Oman Arab Bank, Abu Dhabi Commercial Bank, Emirates NDB Bank



BOARD OF DIRECTORS

Ms. Amal Suhail Salim Bahwan	Chairperson
Mr. Taqi Ali Sultan	Vice Chairman
Mr. Abdul Kader Darwish Al Balushi	Director
Mr. Rahul Kar	Director
Mr. Yasser Abdullah Salim Al Rashdi	Director
Mr. Abdullah Salim Said Al Araimi	Director
Mr. Pradeep P. Navre	Director

Chairperson'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 21st Annual General Meeting of the Company to present the Annual Report, Audited Financial Statements and Auditors Report for the year ended 31 December 2018.

Key points of 2018 Operational Performance

2018 was a year characterized by a very good first half followed by an extremely challenging second half in all aspects of the business. The market saw a sharp softening both in terms of demand & pricing in the second half. Conditions akin to a trade war, increased protection in various markets, tight liquidity situation in markets such as GCC & markedly lower demand in second half of the year, put enormous pressure on margins in the steel business. Import offtake in Euro zone slowed substantially in the second half awaiting the final shape of the quantitative restrictions which were being discussed. All this led to a substantial erosion in price of finished products, while raw material prices did not drop as fast, due to supply disruptions caused by sanctions etc. This seriously impacted margins in the second half of the year. In terms of the local GCC economy, while there were positive signals in terms of better oil prices as compared to FY 17, the governments were prudent in terms of their spending, so as to maintain fiscal discipline. Oman maintained its prudent approach to managing its budget & hence there was no major increase in expenditure and hence steel demand. The other main driver UAE, faced an issue of excess real estate inventory, which resulted in a substantial slowdown in the construction markets in Q3 & Q4, resulting in a sudden drop in demand for construction steel. Further due to increase in LIBOR rate, our interest costs shot up YOY by almost 50%.

Therefore, while the company managed to increase overall volumes by 4% in a very challenging environment, the margins were seriously impacted due to the various reasons as mentioned above.

However with 1 year of reasonably good Oil prices, an expected thaw in trade relations between US & China and an expected reduction of tariffs by US on Turkey, we expect the global steel markets and hence the GCC markets to start making a recovery by Q2-2019. Further with the local GCC governments making commitments to increased infrastructure spending on the back of better oil prices, we feel the situation should improve as the year passes on. All the same the company is extremely conscious that maintaining cost competitiveness & improving efficiency is the mantra to success and has been constantly focusing on the same. We have endeavored to constantly diversify our customer segments both in terms of products and markets and have been slowly diversifying into export markets such as Africa etc. The year also saw the Saudi operation turn to profitability, albeit marginal. This augurs well, as in our opinion the Saudi Market will eventually grow exponentially due to the demographic dividend of fairly large young population. The company also commissioned its first coil processing line to process sheets in Q4 – 2018; this will add another product to our existing portfolio, diversifying our sales portfolio. We expect this to give us another 15,000 MT of sales in 2019 with its associated profitability. Our Dubai stockyard also became operational in 2018, we are constantly building our portfolio of business through our yard, but being careful not to compete with our own distributors for the traditional products.

Particulars	Group			Parent		
	2018	2017	Growth %	2018	2017	Growth %
Production in MT	**412,370**	399,323	3%	**412,370**	399,323	3%
Sales in MT	**414,541**	399,732	4%	**415,568**	400,895	4%
Sales Value in RO	**116,145,843**	96,620,476	20%	**116,194,987**	96,682,747	20%
Net Profit in RO	**2,780,311**	4,713,189	(41%)	**2,727,961**	4,857,662	(44%)

Future plans

With reasonable levels of oil prices, we expect sustained investment in infrastructure & other projects. This combined with fiscal prudence & VAT revenue should spur growth and liquidity as the year 2019 progresses. All this should augur well for the construction sector and hence the steel sector.

While the market is expected to be challenging in 2019 , therefore we on our part will continue to focus on improving mill utilizations, maintaining tight cost controls and increasing sustainable margins through diversifications both in Market segments as well Geographies.

Dividends:

The Board of Directors is pleased to recommend a cash dividend of 16% amounting to Bz 16 for the year 2018 for every share held. The following table shows the dividend declared during the past years.

Year	2013	2014	2015	2016	2017
Cash Dividend	20%	22%	9%	23%	24%

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. KPMG, the Company's Auditors have audited the accounts up to 31 December 2018, 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

Amal Suhail Salim Bahwan

Chairperson

31 January 2019

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, 2018.

Global Economic Environment

Global economy started on a positive note on 2018 on the back of good manufacturing & trade performance in 2017. However the same lost steam by mid of the year due to drop in investor confidence. The world economy registered an almost 6 point drop in manufacturing PMI as per IMF reports from end of 2017 to 2018. This in absolute terms is a steep fall indicating economic contraction; this led to a slowdown in demand of all products especially base commodities like steel & others. One of the main reasons behind this loss in momentum was the imposition of tariffs by the major economies, especially by the United States. This led to counter measures from the countries which were affected by the tariffs, which quickly led to a loss of investor confidence due to the uncertainty created in the market. Despite the protectionist situation in the market, the US economy grew at a fast pace in 2018 . This was partly due to tax cuts & added spending which fueled demand. The spinoff effect was the strengthening of the US dollar against many currencies of the world. This led to depreciation of various currencies against the US dollar, especially the Turkish Lira which depreciated appreciably YOY. The increasing interest rates in the US & appreciations in the US Dollar, also resulted in increased borrowing costs in GCC & markets like Turkey. This resulted in interest costs(LIBOR) going up by almost 50% for our company during the course of the year, putting further pressure on net margins. While VAT implementation in UAE & KSA is a positive for the overall economy, it however has led to short term liquidity tightening as the market still relies on extended credit periods, which falls beyond the reconciliation period of the VAT refunds. Another negative factor for the year was the US withdrawing from the JCPOA deal with Iran. This created regional uncertainties & disruptions in trade flow. This was further compounded by Section 232 Tariffs on steel & aluminum imports into the US. All the above factors put brakes on the pace of economic development we saw in late 2017 & early 2018 and led to a cautious and in fact pessimistic end to 2018.

Industry Structure and Company Development

The imposition of section 232 tariffs of steel imports to US caused substantial ripples in the steel trade flow & a later hiking of the duty on Turkish steel imports to 50% led to steep drop in construction steel pricing, which had a contagion effect on other steel products. The finished product prices fell sharply, whereas raw material prices did not drop as fast, squeezing margins of steel manufacturers especially steel re-rollers. The situation was further complicated with USA walking out of the JCPOA agreement which caused disruptions in supply of steel raw materials from Iran, which prior to this development was one of the major suppliers of raw materials & semi-finished steel to GCC region. As mentioned earlier this led to a loss of investor confidence & as a result dramatically slowed buying especially in the GCC region in the second half of the year. This led to a very rapid decline in finished goods prices, even though raw material prices dropped slower, due to disruptions on the supply side due to sanctions on Iran. China in spite of its stated objective to have a “Zero growth policy “ on overall steel production volumes for 2018, ended up with approx. 8.3% increase on steel production YOY for the period January and November 2018. However the country’s PMI fell to below 50 indicating a contraction in the economy & hence steel consumption was also affected. However as the steel production actually rose YOY at +8%, the additional material obviously found its way to export markets, further impacting steel pricing world over. All the above factors led to a tremendous squeeze on margins especially in the second half of 2018, so much so that it is understood that many of the re-rollers in the GCC found the year to be very challenging. Our company however was able to manage the situation, albeit with lower profitability during this period by using best practices on cost & inventory and market management. The company however is committed to making incremental CAPEX in order to diversify its market mix both in terms of products & markets and ensure that we remain profitable. Incremental market moves like further strengthening outreach to the markets through our distribution facilities both in KSA & Dubai will gradually turn out to be profit centers and fuel further growth. Additional facilities such as the coil processing facility will add to the top and bottom lines of the company as well as enhance customer engagement as we will be able to service customers with a wider basket of currencies.

Future Outlook

Most of the economist’s & financial analysts seem to concur that risks related to policy and politics as the most pressing threats to economic growth. IMF projects that the world GDP growth will temper down to 3.5 % in 2019, a 0.2% drop YOY. While Chinese economy will continue to slow as the economy matures, we will see a new star rising in the form of India, which is expected to grow by 7.7% in 2019 as against 7.5 % in 2018. The GCC economies are expected to increase their budgeted spending in order to spur the economies, which had slowed down towards the end of the year 2018. As a result KSA a key driver of the GCC economy is expected to grow by 2.6% in 2019 an increase of 0.2% YOY. UAE in the short term is expected to spend 9.2 billion AED prior to the EXPO 2020 to fund infrastructure projects. Oman on the back of slightly better oil prices will continue its commitment to various projects in its pipeline in order to support its demography of a very young and aspirational population. All this will augur well for the GCC economies. However most of these measures will start bearing fruit at the end of second quarter of 2019 & thereon improve incrementally. Therefore while the future holds hope for the steel industry and the economy at large in the GCC, the company is well aware that continued emphasis on efficiency, cost control & market/product diversifications are the way forward in order to maintain sustainable profitability.

Cost pressures will continue to dominate the steel industry in 2019 with utility costs such as electricity & gas not being subsidized to the levels in the past. Local GCC governments have to seriously look at self-imposed tariffs such as border clearance charges, which have grown multifold over the last year or so, these are having serious impact on the bottom line of the steel companies and will make the going very difficult.

Analysis of segments and product-wise performance

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

(Quantity in MT)

Particulars	Group			Parent		
	2018	2017	Growth %	2018	2017	Growth %
Black Pipes	93,745	79,305	18%	94,121	79,460	18%
Galvanized Pipes	72,201	80,370	(10%)	71,968	80,483	(11%)
Hollow Sections	28,383	30,045	(6%)	28,383	30,045	(6%)
Merchant Bar Mill	220,212	210,012	5%	221,096	210,907	5%
Total	**414,541**	**399,732**	**4%**	**415,568**	**400,895**	**4%**

Financial Review

The financial performance of the Company in 2018 as compared to that of 2017 is given below:

(Amount in OMR)

Particulars	Group			Parent		
	2018	2017	Variance %	2018	2017	Variance %
Sales	116,145,843	96,620,476	20%	116,194,987	96,682,747	20%
Gross Profit	12,198,916	13,338,014	(9%)	12,018,109	13,205,902	(9%)
Finance Cost – Net	1,045,706	657,471	59%	1,037,548	653,614	59%
Administration Cost	8,372,899	7,967,354	5%	8,252,600	7,694,626	7%
Net Profit	2,780,311	4,713,189	(41%)	2,727,961	4,857,662	(44%)
Earnings Per Share	0.022	0.038	(42%)	0.022	0.039	(44%)

Operational Review

The Company maintained an average monthly sale of 34,545 Tons in 2018, marginally higher than 2017 which stood at 33,311 Tons per month. Sales value increased significantly from OMR 96.6 million in 2017 to OMR 116.1 million in the year 2018. The increase in sales value is mainly on account of increase in sales volumes & increase in the Sales price.

The Tube Mill division currently has a production capacity of 300,000 Tons per annum, which include 90,000 Tons of galvanized products per annum. During the year, Tube Mill division produced and sold 194,329 MT in 2018 as compared 189,720 MT in the previous year. We were able to achieve higher volumes in spite of slackness in the market by diversifying our markets & making more intense sales pitches.

In the MBM division, we were able to substantially increase our volumes by fully leveraging two shift operations. In 2018 we sold 220,212 Tons as against 210,012 Tons of products in 2017. The current capacity utilization of the mill stands at approximately 73%, up from approximately 70% last year.

Human Resources and Omanisation

Our total employee strength is 640. 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 40% 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.

We actively support the underprivileged in the areas of medical treatment, employability and education. During the year, the staff donated half day's salary and an equal amount was donated by 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.

CHIEF EXECUTIVE OFFICER

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Report to the Shareholders of Al Jazeera Steel Products Company SAOG ("the Company") of Factual Findings in connection with the Corporate Governance Report of the Company and application of the Corporate Governance practices in accordance with Capital Market Authority Code of Corporate Governance

We have performed the procedures prescribed in the Capital Market Authority ("CMA") Circular No. 16/2003 dated 29 December 2003 ("the Procedures") with respect to the Corporate Governance Report of the Company ("the Report") and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002 and the revised CMA Code of Corporate Governance issued under CMA Circular 4/2015 dated 22 July 2015 (together the "Governance Code"). The Report is set out on pages 1 to 12.

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 the Shareholders in evaluating the Company's compliance with the Governance Code. The Procedures we performed were as follows:

1. Corroborated, as required, the matters disclosed in the Report by reference to: internal audit reports issued during the year ended 31 December 2018; Audit Committee and Board minutes of meetings held during the year ended 31 December 2018; and relevant supporting Company records .

2. Confirmed that the Report discloses matters discussed in the Board of Directors' report on review of the effectiveness of the Company's system of internal controls and that these matters were reported by Company's internal auditor to the Audit Committee during the year ended 31 December 2018.

3. Checked that the Report includes disclosures set out in Annexure 3 of the Governance Code.

4. Checked whether matters, if any, reported in the Auditors' report on the financial statements for the year ended 31 December 2018 relating to: Adequacy and efficacy of the internal control systems in place; going concern considerations; and the adequacy of policies and procedures set up by the Company were also included in the Auditor's presentation to the Audit Committee.

5. Read the Minutes of Board and Audit Committee meetings during the year ended 31 December 2018 to confirm that any matters of non-compliance with the Governance Code mentioned therein are also included in the Report.

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As a result of performing the Procedures, we have no exceptions to report.

Because the 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 Company's Corporate Governance Report. Had we performed additional procedures or had we performed an audit or review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagement, other matters might have come to our attention that would have been reported to you. This report is solely for the purpose set forth in the second paragraph of this report, and for inclusion, with the Report, in the Company's annual report, and is not to be used for any other purpose. This report relates only to the Company's Corporate Governance Report included in the Company's annual report for the year ended 31 December 2018 and does not extend to any financial statements or any other reports of the Company, taken as a whole.

KPMG

31 January 2019

Kenneth Macfarlane

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C.R. No. 1309366

Corporate Governance Report

Pursuant to Code of Corporate Governance laid out by the Capital Market Authority (CMA), 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. The company is pleased to present the Corporate Governance Report for the year ended 31 December 2018. The company's external auditors, KPMG has issued a separate report on the company's Corporate Governance Report for the year ended 31 December 2018.

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.

B. BOARD OF DIRECTORS

a) Composition of the Board

As of 31st December 2018, 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

Brief Profile of the Board of Directors

Ms. Amal Suhail Salim Bahwan - Chairperson

An accomplished leader and a proven business professional with a track record of successful business transformation and consolidation, new business ventures, revamping businesses into robust profit centers with the last two years focusing on shifting from less-yielding trading business to high-yielding manufacturing business model while creating corporate value and brand reputation. Goal-oriented with a relentless drive to succeed, sharp business acumen and foresight, pro-active and creative approach to solving problems, effective blend of intuitive and cognitive analytics, prudent decision-making skills, ability to quickly comprehend and adopt new technology trends and business models, superior communication skills, "humane yet performance oriented" working style.

She is the Vice-Chairperson of the Suhail Bahwan Group Holding LLC., one of Oman's largest and most professionally managed business organizations in the Sultanate of Oman. Ms. Amal is also Director of National Bank of Oman SAOG, Director of National Pharmaceutical Industries SAOG, Director of Oman Oil Marketing Co SAOG, Director of Oman Dental College and Managing Director of DHL Global Forwarding Co. She holds a Master's Degree in Administration and Bachelor Degree in Education from Sultan Qaboos University, Sultanate of Oman.

Mr. Taqi Ali Sultan – Vice Chairman

Mr. Taqi Ali Sultan holds Degree in Commerce from University of Kuwait. He has over 33 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. Abdul Kader Darwish Al Balushi – Director

Mr. Abdul Kader has over 41 years of experience in banking sector out of which 25 years with Bank Muscat SAOG in various managerial positions before retiring as General Manager- Credit Policy & Planning. He holds a Master's degree in Business Administration from Heriot-Watt University, UK and CPA from Oregon State Board of Accountancy, USA. Mr. Abdul Kader is also a Director of Oman Oil Marketing Co. SAOG and Oman Ceramic Co. SAOG.

Mr. Debashish Majumder – Director

Mr. Debashish Majumder is a Chartered Accountant from India and holds Masters of Business Administration (MBA) in Finance and Masters of Accountancy (MAcc) from Western Illinois University. He has over 25 years of experience in the field of finance and audit and has held senior managerial positions in various companies in United States of America. He is with Suhail Bahwan Group of Companies, Oman for the last 11 years and currently the Chief Financial Officer of the group.

Mr. Yasser Abdullah Salim Al Rashdi – Director

Mr. Yasser Abdullah Salim Al Rashdi holds a Bachelor of Science Majoring in Accounting from Sultan Qaboos University. He is currently a Manager of Investment Transactional Support at State General Reserve Fund of the Ministry of Finance – the sovereign wealth fund of the Sultanate of Oman. He has experience of more than 17 years in the field of Accounts, Finance and Investment at State General Reserve Fund.

Mr. Abdullah Salim Said Al Araimi – Director

Mr. Abdullah Salim Said Al Araimi is a seasoned professional and holds a Higher Diploma in Accounting. He started his career with Suhail Bahwan Group in the year 1995. He has spent more than 10 years with F&A executing various responsibilities. Considering his ability to influence thoughts, people management skills, he was entrusted to handle Admin activities under the HR & Admin department. Considering his enthusiasm HR was also added in his portfolio. He developed new systems, put policies and procedures in place; elevated the relation with Government authorities. His contribution to the Group is innumerable.

Apart from his professional career, he also served as the committee member of International Labour Organization representing Oman. He was actively involved in the study of labour condition in Oman and revising the Oman labour law.

Mr. Pradeep P. Navre - Director

Mr Navre is a Chemical Engineer from IIT Delhi and holds a Post Graduate Degree in Marketing Management from Jamnalal Bajaj Institute, Mumbai. In addition to having 10 years of experience in Sales & Marketing in leading FMCG and Pharmaceutical organizations in India, he has over 28 years of experience in Steel Trading in Oman & UAE in various managerial capacities in Suhail Bahwan Group. He heads the Steel Trading and Telecommunications businesses for Utmost Group in UAE and has been its CEO for the last 8 years.

b) Directors' attendance record at the Board meeting and Last Annual General Meeting

During the year 2018, five board meetings were held on the following dates:

1. 18 February 2018	2. 25 March 2018	3. 24 April 2018
4. 25 July 2018	5. 25 October 2018	

The maximum interval between any two meetings in 2018 was 92 days. The interval between the last meeting in 2017 and the first meeting in 2018 was 115 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
		18/02/18	25/03/18	24/04/18	25/07/18	25/10/18	25/03/18
Ms. Amal Suhail Salim Bahwan	NE	ND	√	√	√	√	√
Mr. Taqi Ali Sultan	NE & ID	√	√	Ab	Ab	√	√
Mr. Abdul Kadar Darwish Al Balushi	NE & ID	ND	Ab	√	√	√	Ab
Mr. Debasish Majumder	NE	ND	√	√	√	Ab	√
Mr. Yasser Abdullah Salim Al Rashdi	NE & ID	√	√	√	√	√	√
Mr. Abdulla Salim Said Al Araimi	NE	ND	ND	ND	√	√	ND
Mr. Pradeep P. Navre	NE	ND	ND	ND	ND	ND	ND
Mr. Rajeev Kulkarni	NE & ID	√	Ab	√	√	Ab	Ab
Mr. Gatla Venkat Rao	NE	ND	Ab	√	ND	ND	Ab
Mr. Sulaiman Mohammed Shaheen Al-Rubaie	NE	√	ND	ND	ND	ND	√
Mr. Ghanem Sulaiman S. Al–Ghenaiman	NE & ID	Ab	ND	ND	ND	ND	Ab
Mr. Sharad Deoraj Jain	NE & ID	√	ND	ND	ND	ND	Ab
Mr. Gökce Manav	NE & ID	√	ND	ND	ND	ND	Ab

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

- *In the AGM held on 25 March 2018, Mr. Sulaiman Mohammed Shaheen Al-Rubaie, Mr. Ghanem Sulaiman S. Al–Ghenaiman, Mr. Sharad Deoraj Jain and Mr. Gökce Manav's term ended and they didn't stand for re-election. Ms. Amal Suhail Salim Bahwan, Mr. Abdul Kadar Darwish Al Balushi, Mr. Debasish Majumder and Mr. Gatla Venkat Rao were elected as the new directors.*
- *Mr. Gatla Venkat Rao resigned on 26 April 2018; Mr. Abdulla Salim Said Al Araimi was appointed as temporary director from 28 June 2018.*
- *Mr. Rajeev Kulkarni resigned on 31 October 2018; Mr. Pradeep Navre was appointed as temporary director from 26 November 2018.*
- *Mr. Debasish Majumder resigned on 16 January 2019; Mr. Rahul Kar was appointed as temporary director from 24 January 2019.*

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) Public Joint Stock Companies where our Director is a Chairman / Director

Name of the Director	Name of the Company	Position
Ms. Amal Suhail Salim Bahwan	Al Jazeera Steel Products Co. SAOG	Chairperson
	National Bank of Oman SAOG	Director
	National Pharmaceuticals Industries Co. SAOG	Director
	Oman Oil Marketing Co. SAOG	Director
Mr. Abdul Kader Darwish Al Balushi	Al Jazeera Steel Products Co. SAOG	Director
	Oman Oil Marketing Co. SAOG	Director
	Oman Ceramic Co. SAOG	Director
Mr. Debasish Majumder	Al Jazeera Steel Products Co SAOG	Director
	Oman Ceramic Co. SAOG	Director

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:

Mr. AN Venkat – Chief Executive Officer

AN Venkat is an engineering graduate in Metallurgy from IIT- Roorkee, India, with and additional Advanced Financial Management Certification from Xavier School of Management (XLRI), Jamshedpur, India. He has more than 27 years' experience in the international steel industry at various management levels across the globe, with a special focus on GCC, Middle East, and India. In his previous engagement, he worked as Vice President - Sales at Emirates Steel Company, Abu Dhabi, the UAE. As a part of the executive management committee, he was instrumental in the growth of 1.5 million tonnes predominantly a re-rolling facility to a 3.5 million tonnes completely integrated steel facility. His experience spans across geographies, markets, and product segments in the steel industry, which lends him a unique blend of product & market knowledge. He has proven abilities in operations management, marketing, sales & commercial functions, with a proven track record of leading multi-cultural teams and bringing out record-breaking performances within a very short span of time. He has successfully handled change management in large enterprises in extremely challenging market conditions. Mr. AN Venkat started his career with Tata Steel as a graduate engineer, later moved to ArcelorMittal & was finally designated as Managing Director of AMI GCC & India.

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

Is a graduate engineer in Production Engineering and has an experience of over 37 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. Bejoy John – Chief Financial Officer

Chartered Accountant by profession with an experience of 21 years in the field of finance and accounts functions in various industries at the management level, responsible for all the finance, Commerce & IT related functions of the company and reports to Chief Executive officer and the Board of Directors.

Mr. Arun Kumar Sinha – Chief Marketing Officer

Is a post graduate in Marketing Management and has an experience of 29 years in steel pipe industry at various management levels; responsible for all the marketing activities of the company in Export Markets and GCC region and reports to the Chief Executive Officer of the company.

Mr. Yousuf Al Kamali – Chief of HR & Administration

He holds graduate degree in History and has a total experience of 36 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. He holds the additional responsibility of being Advisor to CEO on Government affairs and relations & external corporate affairs.

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

Is a graduate Mechanical Engineer and has an experience of over 29 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.

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 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 68,000 was paid during the year as Director Remuneration for 4 directors for the year ended 31st December 2017.

Director remuneration payable as per CMA regulation and subject to the approval of shareholders in the forth-coming Annual General Meeting amounting to OMR 57,000 for the year ended 31st December 2018.

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

Name of the Director	Board Meetings	Audit Committee	Nomination & Remuneration Committee	Total
Ms. Amal Suhail Salim Bahwan	1,000	-	175	1,175
Mr. Taqi Ali Sultan	750	175	-	925
Mr. Abdul Kadar Darwish Al Balushi	750	1,050	-	1,800
Mr. Debasish Majumder	750	525	-	1,275
Mr. Yasser Abdullah Salim Al Rashdi	1,250	-	350	1,600
Mr. Abdulla Salim Said Al Araimi	500	-	175	675
Mr. Rajeev Kulkarni	500	525	-	1,025
Mr. Gatla Venkat Rao	250	-	-	250
Mr. Sulaiman Mohammed Shaheen Al-Rubaie	250	-	175	425
Mr. Sharad Deoraj Jain	250	-	-	250
Mr. Gökce Manav	250	175	-	425
Total	**6,500**	**2,450**	**875**	**9,825**

During the year, Mr. Sulaiman Mohammed Shaheen Al-Rubaie, Mr. Sharad Jain and Mr. Gökce Manav have not claimed Board sitting fees and Directors remuneration; Mr. Gökce Manav have not claimed Audit Committee Sitting Fees; Mr. Sulaiman Mohammed Shaheen 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 two 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.

The Committee carry-out its functions in accordance with the policy approved by the Board in line with the resolutions issued by the Capital Market Authority.

ii. Four Audit Committee meetings were held during the financial year ended 31 December 2018, the dates of the meeting and the member's attendance are as follows.

Name of the Director	Position	Audit Committee Meeting			
		18/02/18	24/04/18	25/07/18	25/10/18
Mr. Abdul Kadar Darwish Al Balushi	Member	NM	√	√	√
Mr. Taqi Ali Sultan	Member	√	NM	NM	NM
Mr. Debasish Majumder	Member	NM	√	√	√
Mr. Rajeev Kulkarni	Member	√	√	√*	√*
Mr. Gökce Manav	Member	√	NM	NM	NM

√: Present, Ab: Absent, NM: Not a Member, *: Through Proxy

Total sitting fees payable/paid to the audit committee members is OMR 2,450 for the year 2018.

i) Internal Control

The Audit Committee, on behalf of the Board regularly reviewed the internal control prevailing in the Company. The Audit Committee has appointed a full time in-house internal auditor from August 2011 onwards. 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 internal audit activities for the whole year were carried out by an Audit firm Deloitte & Touche, Chartered Accountants, Muscat and the total Audit Fees paid / payable for the whole year 2018 was amounting to OMR 11,750.

j) Nomination and Remuneration Committee (NRC)

Nomination and Remuneration Committee operates within its terms of reference issued by the Board of Directors.

i) NRC's key responsibilities include:

- Set performance based criteria to determine the bonus and remunerations of the Directors and Executive Management
- Succession planning for Directors and Executive Management
- Look for and nominate qualified persons to the Board of Directors
- Assist in selecting qualified persons for the Executive Management

(ii) Two Nomination and Remuneration Committee meetings were held during the financial year ended 31 December 2018, the dates of the meeting and the member's attendance are as follows.

Name of the Director	Position	Nomination & Remuneration Committee	
		18/02/18	25/10/18
Ms. Amal Suhail Salim Bahwan	Chairman	NM	√
Mr. Yasser Abdullah Salim Al Rashdi	Member	√	√
Mr. Abdulla Salim Said Al Araimi	Member	NM	√
Mr. Sulaiman Mohammed Shaheen Al-Rubaie	Member	√	NM

√: Present, Ab: Absent, NM: Not a Member

Total sitting fees payable/paid to the NRC committee members is OMR 875 for the year 2018.

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 2018, the total cost of the top executives of the Company was OMR 541,978 (Salary & others OMR 527,837 Gratuity OMR 14,141).

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. EVALUATION OF BOARD PERFORMANCE

In accordance with the Fourth Principle of the Corporate Governance of Public Shareholding Companies issued by the Capital Market Authority, the shareholders in the Annual General Meeting held on 25th March 2018 approved the criteria for evaluating the performance of the Board of Directors of the company. Accordingly, the shareholders appointed Moore Stephens LLC to evaluate the performance of the Board according to the approved criteria and to present a performance report to the shareholders in the forth-coming AGM to be held on 26th March 2019.

E. DETAILS OF NON-COMPLIANCE BY THE COMPANY

There were no penalties or strictures have been imposed by the Capital Market Authority (CMA) or Muscat Securities Market (MSM) or any other authorities on the company for any matters related to capital market during the last three years.

F. 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 Securities 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.

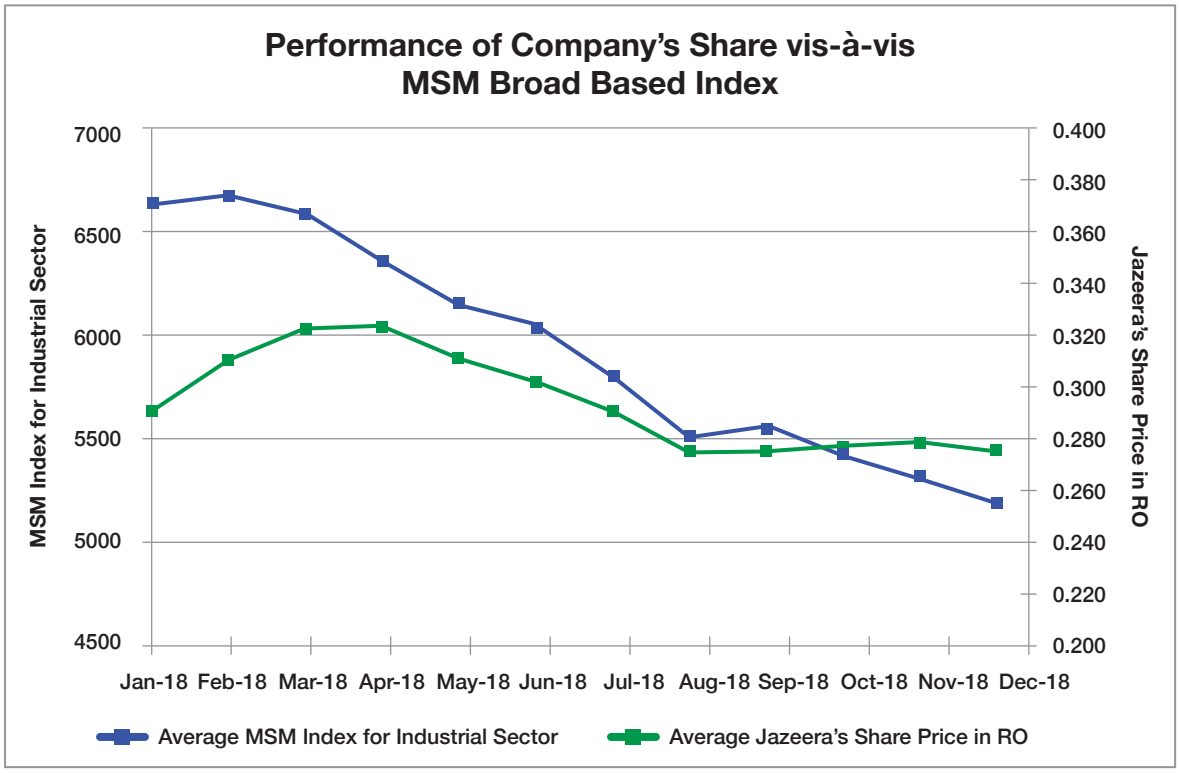
A copy of the Management Discussion and Analysis is circulated along with the financial statements.

G. MARKET PRICE DATA

Market Price Data – High / Low during each month in the Year 2018:

Month	Company Share Price (Values in OMR)		MSM Industrial Index	
	High	Low	High	Low
January-2018	0.310	0.275	6,892	6,653
February-2018	0.318	0.310	6,862	6,759
March-2018	0.346	0.310	6,846	6,584
April-2018	0.334	0.324	6,652	6,270
May-2018	0.324	0.308	6,442	6,048
June-2018	0.310	0.300	6,155	6,054
July-2018	0.300	0.286	6,107	5,588
August-2018	0.282	0.270	5,607	5,453
September-2018	0.282	0.270	5,682	5,453
October-2018	0.280	0.275	5,540	5,334
November-2018	0.279	0.279	5,398	5,226
December-2018	0.279	0.274	5,336	4,991

Performance of the Company's share price in comparison to the broad based MSM Index of the Industrial sector in Oman during the year 2018 is illustrated in the below chart:



Distribution of shareholding

Distribution schedule of each class of equity security with number of holders and percentage in the following categories as on 31st December 2018:

Categories	No. of Shares	No. of Shareholders	% of Total Outstanding Shares
Less than 1%	17,973,245	689	14.39%
1% to less than 5%	28,454,144	11	22.78%
5% to less than 10%	14,772,611	2	11.83%
More than 10%	63,697,960	2	51.00%
Total	**124,897,960**	**704**	**100.00%**

The shareholding pattern more than 5% as on 31st December 2018 was:

Name of the Shareholders	Total Shares	% of Share Capital
Ms. Amal Suhail Salim Bahwan	32,473,470	26.00%
Shk. Suhail Salim Abdullah Al Mukhaini Bahwan	31,224,490	25.00%
Civil Service Employees Pension Fund	7,816,270	6.26%
State General Reserve	6,956,341	5.57%
Total	**78,470,571**	**62.83%**

The Company does not have any GDRs, ADRs, warrants or any convertible instruments as of 31 December 2018 and hence the likely impact on equity is NIL.

H. PROFESSIONAL PROFILE OF THE STATUTORY AUDITOR

The shareholders of the company appointed KPMG as its auditors for 2018. KPMG in Oman was established in 1973 and is part of KPMG Lower Gulf Limited. KPMG in Oman employs more than 180 people, amongst who are five partners, six directors and 30 managers, including Omani nationals. KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. They operate in 153 countries and territories and have 207,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

KPMG billed an amount of RO 15,000 towards professional services rendered to the Company for the year 2018 (RO 8,000 for audit and RO 7,000 for limited review and other services).

I. 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.

J. 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 has 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 is 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 SAOG and its ability to continue its production operations during the next financial year.

CHAIRPERSON

DIRECTOR

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4th Floor, HSBC Bank Building
MBD
P.O. Box 641
P.C. 112
Sultanate of Oman
Tel +968 24749600
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF AL JAZEERA STEEL PRODUCTS COMPANY SAOG

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Al Jazeera Steel Products Company SAOG (the Parent Company) and its subsidiary, (together referred to as "the Group") set out on pages 2 to 44, which comprise the consolidated and separate statement of financial position as at 31 December 2018, the consolidated and separate statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment of Trade Receivables
Refer to note 2.1 and note 9 of the consolidated and separate financial statements.

The key audit matter

Trade receivables, net of impairment of RO 26 million as at 31 December 2018, are significant to the Group as these represent approximately 36% of total assets. IFRS 9 - Financial Instruments (IFRS 9) was initially applied by the Group on 1 January 2018 and has resulted in change in accounting for impairment from an incurred loss model to a forward looking expected credit loss (ECL) model. The measurement of ECL by management involves significant estimates and judgments. The transition adjustments are recognized in opening retained earnings as at 1 January 2018, being the date of initial application of IFRS 9. Given the inherently judgmental nature of measuring ECL and this being the initial year of its application, this is considered as a key audit matter.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- obtaining an understanding of the Group's process for measurement of ECL and assessing the appropriateness of the ECL methodology and the new accounting policy as per the requirements of IFRS 9;
- testing the design and operating effectiveness of selected controls over the measurement of ECL against trade receivables;
- assessing the reasonableness of management's key assumptions and judgments made in measurement of ECL including the selection of ECL models, segmenting of receivables and other data sources;
- testing the key inputs of the model including assessing the reasonableness of forward looking economic factors used by the Group by corroborating with publicly available information;
- testing the accuracy of the impairment charge during the year and the transition adjustment relating to the initial application of impairment requirements of IFRS 9; and
- assessing the adequacy of the credit risk disclosures.

Valuation of Inventories
Refer to note 3.5 and note 8 of the consolidated and separate financial statements.

The key audit matter

Inventories, net of provision, amounted to RO 20.9 million at 31 December 2018, are significant to the Group as these represent approximately 29% of total assets. The raw materials mainly comprise steel billets and hot roll coils, which are subject to price volatility and can impact the net realisable value of inventories including raw material, work-in-progress and finished goods. Furthermore, the estimation of inventory's net realizable value involves significant management judgment.

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How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- testing the design and operating effectiveness of selected controls over the accuracy of the ageing report for inventories;
- agreeing the cost of inventories on a sample basis to supporting documents (for example, purchase orders, invoices and goods receipt notes);
- assessing the reasonableness of the inventory provisioning policy applied by the management;
- checking the accuracy of application of the inventory provisioning policy at 31 December 2018; and
- considering the selling price realised for items sold subsequent to year end versus the carrying values of inventories to assess that net realisable values are appropriate.

Other Information
Management is responsible for the other information. The other information comprises the Chairman's report, Management Discussion and Analysis report, and Report on Code of Corporate Governance, but does not include the financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with IFRS and their preparation in compliance with the relevant disclosure requirements of the Capital Market Authority and the applicable provisions of the Commercial Companies Law of 1974, as amended, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the consolidated and separate financial statements, Management is responsible for assessing the Group and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and the Parent Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory requirements

We report that the consolidated and separate financial statements of the Group as at and for the year ended 31 December 2018, in all material respects, comply with the:

- relevant disclosure requirements of the Capital Market Authority; and
- applicable provisions of the Commercial Companies Law of 1974, as amended.

KPMG

31 January 2019

Kenneth Macfarlane

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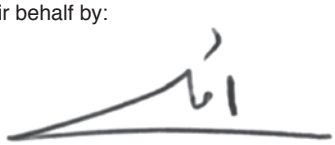
C.R. No. 1309366

FINANCIAL STATEMENTS

Al Jazeera Steel Products Company SAOG
Consolidated and Separate Statement of Financial Position
As at 31 December

	Note	Group		Parent Company	
		2018	2017	2018	2017
		RO	RO	RO	RO
ASSETS					
Non-current asset					
Property, plant and equipment	7	18,251,247	19,153,177	18,225,827	19,125,581
Investment in subsidiary	26	-	-	258,244	258,244
Total non-current assets		18,251,247	19,153,177	18,484,071	19,383,825
Current assets					
Inventories	8	20,913,467	15,452,865	20,364,973	15,181,887
Trade and other receivables	9	28,767,030	30,755,598	29,522,266	31,260,656
Cash and bank balances	10	3,939,089	3,500,987	3,761,299	3,309,721
Total current assets		53,619,586	49,709,450	53,648,538	49,752,264
Total assets		71,870,833	68,862,627	72,132,609	69,136,089
EQUITY AND LIABILITIES					
Equity					
Share capital	11	12,489,796	12,489,796	12,489,796	12,489,796
Share premium	11	13,856,484	13,856,484	13,856,484	13,856,484
Legal reserve	12	4,163,266	4,163,266	4,163,266	4,163,266
Retained earnings		13,416,335	13,630,532	13,698,757	13,937,153
Total equity		43,925,881	44,140,078	44,208,303	44,446,699
LIABILITIES					
Non-current liabilities					
Employees' end of service benefits	15	1,015,363	884,016	1,003,767	877,133
Deferred tax liability	22	462,005	518,036	462,005	518,036
Total non-current liabilities		1,477,368	1,402,052	1,465,772	1,395,169
Current liabilities					
Borrowings, current	14	14,513,834	12,159,908	14,513,834	12,159,908
Trade and other payables	16	11,408,109	10,306,754	11,399,059	10,280,478
Income tax payable	22	545,641	853,835	545,641	853,835
Total current liabilities		26,467,584	23,320,497	26,458,534	23,294,221
Total liabilities		27,944,952	24,722,549	27,924,306	24,689,390
Total equity and liabilities		71,870,833	68,862,627	72,132,609	69,136,089
Net assets per share	24	0.352	0.353	0.354	0.356

These financial statements were authorised for issue and approved by the Board of Directors on 31 January 2019 and signed on their behalf by:



Chairperson | Director

The accompanying notes on pages 31 to 64 form an integral part of these financial statements.

Auditors' report is set forth on pages 19 – 23.

Al Jazeera Steel Products Company SAOG
Consolidated and Separate Statement of Profit or Loss and other Comprehensive Income
For the year ended 31 December

	Note	Group		Parent Company	
		2018	2017	**2018**	2017
		RO	RO	**RO**	RO
Revenue	6	**116,145,843**	96,620,476	**116,194,987**	96,682,747
Cost of sales	17	**(103,946,927)**	(83,282,462)	**(104,176,878)**	(83,476,845)
Gross profit		**12,198,916**	13,338,014	**12,018,109**	13,205,902
Selling and distribution expenses	18	**(5,386,765)**	(5,051,521)	**(5,378,472)**	(5,042,191)
General and administrative expenses	19	**(2,609,907)**	(2,518,175)	**(2,495,132)**	(2,342,517)
Reversal of impairment loss on trade receivables	9	**125,708**	438,502	**122,939**	526,242
Other operating expenses		**(12,325)**	(30,478)	**(12,325)**	(30,478)
Operating profit		**4,315,627**	6,176,342	**4,255,119**	6,316,958
Finance costs	21	**(1,051,593)**	(696,681)	**(1,043,435)**	(692,824)
Finance income	21	**5,887**	39,210	**5,887**	39,210
Profit before taxation		**3,269,921**	5,518,871	**3,217,571**	5,663,344
Income tax expense	22	**(489,610)**	(805,682)	**(489,610)**	(805,682)
Net profit and total comprehensive income for the year		**2,780,311**	4,713,189	**2,727,961**	4,857,662
Profit attributable to:					
Parent Company		**2,780,311**	4,723,867	**-**	-
Non-controlling interest		**-**	(10,678)	**-**	-
		2,780,311	4,713,189	**-**	-
Earnings per share attributable to shareholders of the Parent Company	23	**0.022**	0.038	**0.022**	0.039

The accompanying notes on pages 31 to 64 form an integral part of these financial statements.
Auditors' report is set forth on pages 19 – 23.

Group	Share capital	Share premium	Legal reserve	Retained earnings	Attributable to Shareholders of the Parent Company	Non-controlling Interests	Total
	RO	RO	RO	RO	RO	RO	RO
At 1 January 2017	12,489,796	13,856,484	3,801,280	10,884,287	41,031,847	(222,632)	40,809,215
Net profit and total comprehensive income for the year	-	-	-	4,723,867	4,723,867	(10,678)	4,713,189
Transfer to legal reserve	-	-	361,986	(361,986)	-	-	-
Transactions with shareholders recognised directly in equity							
Dividends paid (note 13)	-	-	-	(1,124,082)	(1,124,082)	-	(1,124,082)
Acquisition of non-controlling interest	-	-	-	(491,554)	(491,554)	233,310	(258,244)
At 31 December 2017	12,489,796	13,856,484	4,163,266	13,630,532	44,140,078	-	44,140,078
1 January 2018, as previously reported	**12,489,796**	**13,856,484**	**4,163,266**	**13,630,532**	**44,140,078**	**-**	**44,140,078**
Adjustment from adoption of IFRS 9 (refer note 2.1)	**-**	**-**	**-**	**3,043**	**3,043**	**-**	**3,043**
Restated balance at 1 January 2018	**12,489,796**	**13,856,484**	**4,163,266**	**13,633,575**	**44,143,121**	**-**	**44,143,121**
Net profit and total comprehensive income for the year	**-**	**-**	**-**	**2,780,311**	**2,780,311**	**-**	**2,780,311**
Transactions with shareholders recognised directly in equity							
Dividends paid (note 13)	**-**	**-**	**-**	**(2,997,551)**	**(2,997,551)**	**-**	**(2,997,551)**
At 31 December 2018	**12,489,796**	**13,856,484**	**4,163,266**	**13,416,335**	**43,925,881**	**-**	**43,925,881**

The accompanying notes on pages 31 to 64 form an integral part of these financial statements.
Auditors' report is set forth on pages 19 – 23.

Parent company	Share capital	Share premium	Legal reserve	Retained earnings	Total
	RO	RO	RO	RO	RO
At 1 January 2017	12,489,796	13,856,484	3,801,280	10,565,559	40,713,119
Net profit and total comprehensive income for the year	-	-	-	4,857,662	4,857,662
Transfer to legal reserve	-	-	361,986	(361,986)	-
Transactions with shareholders recognised directly in equity					
Dividends paid (note 13)	-	-	-	(1,124,082)	(1,124,082)
At 31 December 2017	12,489,796	13,856,484	4,163,266	13,937,153	44,446,699
1 January 2018, as previously reported	**12,489,796**	**13,856,484**	**4,163,266**	**13,937,153**	**44,446,699**
Adjustment from adoption of IFRS 9 (refer note 2.1)	**-**	**-**	**-**	**31,194**	**31,194**
Restated balance at 1 January 2018	**12,489,796**	**13,856,484**	**4,163,266**	**13,968,347**	**44,477,893**
Net profit and total comprehensive income for the year	**-**	**-**	**-**	**2,727,961**	**2,727,961**
Transactions with shareholders recognised directly in equity					
Dividends paid (note 13)	**-**	**-**	**-**	**(2,997,551)**	**(2,997,551)**
At 31 December 2018	**12,489,796**	**13,856,484**	**4,163,266**	**13,698,757**	**44,208,303**

The accompanying notes on pages 31 to 64 form an integral part of these financial statements.
Auditors' report is set forth on pages 19 – 23.

Al Jazeera Steel Products Company SAOG
Consolidated and Separate Statement of Cash Flows
For the year ended 31 December

	Note	Group		Parent Company	
		2018	2017	**2018**	2017
		RO	RO	**RO**	RO
Operating activities					
Profit before tax		**3,269,921**	5,518,871	**3,217,571**	5,663,344
Adjustments for:					
Interest income	*21*	**(5,887)**	(39,210)	**(5,887)**	(39,210)
Interest on borrowings	*21*	**1,051,593**	696,681	**1,043,435**	692,824
Depreciation	*7*	**2,086,643**	2,027,716	**2,084,105**	2,018,536
Impairment allowance on inventories	*8*	**49,085**	3,366	**62,284**	491
Reversal on doubtful debts	*9*	**(125,708)**	(438,502)	**(122,939)**	(526,242)
Loss on disposal of property, plant and equipment		**14,486**	32,515	**14,486**	32,515
End of service benefits charge		**197,259**	306,228	**192,546**	304,454
Operating cash flow before movement in working capital		**6,537,392**	8,107,665	**6,485,601**	8,146,712
Changes in working capital:					
Inventories		**(5,509,687)**	(3,155,248)	**(5,245,370)**	(2,937,143)
Trade and other receivables		**2,117,319**	(9,950,622)	**1,892,523**	(10,215,883)
Trade and other payables		**1,074,554**	5,974,140	**1,091,780**	5,986,269
Cash from operations		**4,219,578**	975,935	**4,224,534**	979,955
Interest paid during the year		**(1,046,504)**	(758,682)	**(1,038,346)**	(754,823)
End of services benefits paid during the year		**(65,912)**	(29,435)	**(65,912)**	(21,247)
Tax paid during the year		**(832,123)**	(642,333)	**(832,123)**	(642,333)
Net cash generated from / (used in) operating activities		**2,275,039**	(454,515)	**2,288,153**	(438,448)
Investing activities					
Purchase of property, plant and equipment	*7*	**(1,206,139)**	(819,760)	**(1,205,777)**	(818,996)
Proceeds from disposal of property, plant and equipment		**6,940**	10,108	**6,940**	10,108
Acquisition of non-controlling interests in subsidiary	*26*	**-**	(258,244)	**-**	(258,244)
Interest received		**5,887**	90,936	**5,887**	90,936
Net cash used in investing activities		**(1,193,312)**	(976,960)	**(1,192,950)**	(976,196)
Financing activities					
Dividend paid	*13*	**(2,997,551)**	(1,124,082)	**(2,997,551)**	(1,124,082)
Proceeds from bank borrowings	*14*	**81,027,952**	69,905,552	**81,027,952**	69,905,552
Repayment of bank borrowings	*14*	**(78,674,026)**	(68,817,731)	**(78,674,026)**	(68,817,731)
Net cash used in financing activities		**(643,625)**	(36,261)	**(643,625)**	(36,261)
Net change in cash and cash equivalents		**438,102**	(1,467,736)	**451,578**	(1,450,905)
Cash and cash equivalents at the beginning of the year		**3,500,987**	4,968,723	**3,309,721**	4,760,626
Cash and cash equivalents at the end of the year		**3,939,089**	3,500,987	**3,761,299**	3,309,721
Cash and cash equivalents at the end of the year comprise:					
Cash and bank balances		**3,939,089**	3,500,987	**3,761,299**	3,309,721

The accompanying notes on pages 31 to 64 form an integral part of these financial statements.
Auditors' report is set forth on pages 19 – 23.

1. Legal status and activities

Al Jazeera Steel Products Company SAOG ("the Company" or "the Parent Company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The Company's shares are listed in the Muscat Securities Market. The principal activities of the Company are 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. During the year 2015, the Company also added a new facility to manufacture rebar products in the existing Merchant Bar Mill.

The Parent Company holds 100% shares in Al Jazeera Oman Steel Products Company Ltd - Limited Liability Company ("the subsidiary"), registered in Saudi Arabia. The principal activities of the subsidiary are import and sale of steel products manufactured by the Parent Company. The Parent Company acquired 51% shareholding of the subsidiary on 15 June 2015 and acquired the remaining 49% shareholding on 31 March 2017.

The consolidated financial statements of the Group as at and for the year ended 31 December 2018 comprise the results of the Parent and its subsidiary (together referred to as "the Group").

2. Changes in significant accounting policies

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the financial statements as at and for the year ended 31 December 2017.

The Group has initially applied IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other amendments to IFRS's are effective from 1 January 2018 but they do not have a material impact on the Group's financial statements.

Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for separately presenting reversal of impairment loss on trade receivables.

The effect of initially applying these standards is mainly attributed to the decrease in impairment losses recognized on financial assets.

2.1 IFRS 9 Financial Instruments

The Group has adopted IFRS 9 'Financial Instruments' as issued by the IASB. The Group applied IFRS 9 with date of initial application as 1 January 2018.

This has resulted in a change in accounting policies of the Group. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Group adopted consequential amendments to IAS 1 Presentation of Financial Statements which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income (OCI). Previously, the Group's approach was to include the impairment of trade receivables in general and administrative expenses. Consequently, the Group reclassified reversal of impairment losses, recognised under IAS 39, from 'general and administrative expenses' to ' reversal of impairment loss on trade receivables in the statement of profit or loss and OCI for the year ended 31 December 2018. Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative information.

The impact on the financial statements on the date of adoption of IFRS 9 application (1 January 2018) is summarised below.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 RO	New carrying amount under IFRS 9 RO
Financial assets				
Group				
Trade and other receivables	Loans and receivables	Amortised cost	28,489,634	28,492,677
Parent Company				
Trade and other receivables	Loans and receivables	Amortised cost	29,016,321	29,047,515

2. Changes in significant accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in a reversal of impairment allowance on trade and other receivables as follows:

	Group RO	Parent Company RO
Impairment allowance at 31 December 2017 under IAS 39	**776,532**	**983,162**
Reversal of impairment allowance on adoption of IFRS 9	(3,043)	(31,194)
Impairment allowance at 1 January 2018 under IFRS 9	**773,489**	**951,968**

The Group has determined the impact of application of IFRS 9's impairment requirements on remaining financial assets, which has resulted in no material impact on the opening balances as of 1 January 2018. Accordingly, related impact of impairment has not been considered in these financial statements.

IFRS 9 Financial Instruments introduces principle-based requirements for the classification of financial assets. The Standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed and contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial instruments of the Group include trade and other receivables, cash and cash equivalents, short term borrowings and trade and other payables.

Initial recognition

Financial assets

Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

On initial recognition, a financial asset is classified as measured at amortised cost; fair value through other comprehensive income – debt instruments; fair value through other comprehensive income – equity instruments; or fair value through profit or loss.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at fair value through other comprehensive income

Equity instruments which are not held for trading or issued as contingent consideration in business combination, and for which the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. This election is made on an investment-by-investment basis.

Debt instruments where the contractual cash flows are solely principal and interest and the objective of the Company's business model is achieved both by collecting contractual cash flows and selling financial assets.

Financial assets at fair value through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss.

Financial assets, at initial recognition, may be designated at fair value through profit or loss, if the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis.

2. Changes in significant accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

Initial recognition (continued)

Financial liabilities

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss. A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities, at initial recognition, may be designated at fair value through profit or loss if the following criteria are met:

a) The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;

b) The liabilities are part of a Group of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or

c) The financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities at fair value through profit or loss account are measured at fair value and net gains and losses, including any interest expense, are recognised in the Statement of profit or loss.

Subsequent measurement and gain or losses

Financial assets

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the Statement of profit or loss. Any gain or loss on derecognition is recognised in the Statement of profit or loss.

Financial assets at fair value through other comprehensive income

a) Debt instruments

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the Statement of profit or loss. Other net gains and losses are recognised in the statement of other comprehensive income. On derecognition, gains and losses accumulated in the statement of other comprehensive income are reclassified to the Statement of profit or loss.

b) Equity instruments

These assets are subsequently measured at fair value. Dividends are recognised as income in the Statement of profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in the statement of other comprehensive income and are never reclassified to the Statement of profit or loss.

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the statement of profit or loss.

Financial liabilities

Financial liabilities are subsequently measured at amortised cost using the effective interest method, if applicable. The effective interest method is the method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Interest expense and foreign exchange gains and losses are recognised in the Statement of profit or loss. Any gain or loss on derecognition is also recognised in the Statement of profit or loss.

2. Changes in significant accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

Reclassification

Financial assets

The Group only reclassify financial assets if, and only if, the objective of the business model for managing those financial assets is changed. Such changes are expected to be very infrequent as these changes must be significant to the Group's operations and demonstrable to external parties.

The Group determines that its business model has changed in a way that is significant to its operations, than it reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

Financial liabilities

The Group determines the classification of financial liabilities on initial recognition. Subsequent reclassification is not allowed.

Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Statement of profit or loss.

Financial liabilities

If the terms of a financial liability are modified and the cash flows of the modified liability are substantially different then, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the Statement of profit or loss.

Derecognition

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 when:

a) The rights to receive cash flows from the asset have expired; or

b) The Group retains the right to receive cash flows from the asset, but assumes an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

c) The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in the statement of other comprehensive income is recognised in the Statement of profit or loss.

From 1 January 2018, any cumulative gain/loss recognised in the statement of other comprehensive income in respect of equity instrument designated as fair value through other comprehensive is not recognised in the Statement of profit or loss on derecognition of such instrument. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

2. Changes in significant accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

Derecognition (continued)

Financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

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 the Statement of profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Impairment of financial asset

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This requires considerable judgement about how changes in economic factors affect expected credit losses, which will be determined on a probability-weighted basis.

The Group recognises loss allowances for ECLs on financial assets measured at amortised cost.

Measurement of loss allowances

The Group measures loss allowances on either of the following bases:

The financial assets at amortized cost consist of trade receivables and cash and cash equivalents. Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since the initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

The Group assumes that the credit risk on a financial asset has significantly increased since initial recognition and while estimating expected credit loss, when there is objective evidence or indicator for the financial assets. Examples of such indicators include:

2. Changes in significant accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

Measurement of loss allowances (continued)

- Significant financial difficulty of the borrower or issuer;
- Delinquency by borrower;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a borrower or issuer will enter bankruptcy;
- The disappearance of an active market for a security (if any); or
- If it past due for more than 30 days.

IFRS 9 does not define the term 'default', but instead requires each entity to do so. The definition has to be consistent with that used for internal credit risk management purposes for the relevant financial instrument, and has to consider qualitative indicators – e.g. breaches of covenants – when appropriate.

The Group considers a financial asset to be in default when the counter party is unlikely to pay its credit obligations to the Group in full (based on indicator above), without recourse by the Group to actions such as realising security (if any is held); or the financial asset is more than 90 days past due.

Lifetime expected credit losses: These losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument, if there is significant increase in credit risk or under simplified approach 12-month expected credit losses: These losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk. An asset is credit-impaired if one or more events have actually occurred and have a detrimental impact on the estimated future cash flows of the asset.

The term 'significant increase in credit risk' is not defined in IFRS 9. An entity decides how to define it in the context of its specific types of instruments. An entity assesses at each reporting date whether the credit risk on a financial instrument has increased significantly since initial recognition. To make the assessment, an entity considers changes in the risk of default instead of changes in the amount of expected credit losses.

An entity assesses whether there has been a significant increase in credit risk at each reporting date. The impairment model in IFRS 9 is symmetrical, and assets can move into and out of the lifetime expected credit losses category.

To be 'significant', a larger absolute increase in the risk of default is required for an asset with a higher risk of default on initial recognition than for an asset with a lower risk of default on initial recognition.

Expected credit losses are a probability-weighted estimate of credit losses.

Financial assets that are not credit-impaired at the reporting date

Measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

Financial assets that are credit-impaired at the reporting date

Measured as the difference between the gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in the Statement of profit or loss as an impairment gain or loss.

Presentation of expected credit losses

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and is charged to the statement of profit or loss.

2. Changes in significant accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

Write - off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Accounting policies applied until 31 December 2017

Impairment

At each reporting date, the Group 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 Statement of 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.

An assessment is made at each reporting date to determine whether there is an objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of profit or loss. 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 profit or loss;

(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.

i. 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 Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

ii. 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 Statement of profit or loss.

2. Changes in significant accounting policies (continued)

2.1 IFRS 9 Financial Instruments (continued)

Accounting policies applied until 31 December 2017 (continued)

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, amounts due from related parties, cash and cash equivalents, loans and borrowings, and trade and other payables. Cash and cash equivalents comprise cash balances and deposits with original maturity not greater than three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

2.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Revenue

Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

In accordance with the transition provisions in IFRS 15, the Group has adopted IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

As the application of IFRS 15 has no impact on the financial statements, the Group has not made any adjustments to the statement of financial position as at 1 January 2018.

The Group applied IFRS 15 with effect from 1 January 2018. As a result, the Group has applied the following accounting policy in the preparation of its financial statements.

The Group recognises revenue from contracts with customers based on the five step model set out in IFRS 15:

Step 1 Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2 Identify the performance obligations in the contract: A performance obligation is a unit of account and a promise in a contract with a customer to transfer a good or service to the customer.

Step 3 Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Step 4 Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

Step 5 Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

1. The customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs; or

2. Changes in significant accounting policies (continued)

2.2 IFRS 15 Revenue from Contracts with Customers (continued)

Revenue (continued)

2. The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

3. The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

Variable consideration

Variable consideration amounts are estimated at either their expected value or most likely amount and included in revenue to the extent that it is highly probable that the revenue will not reverse

Significant financing component

Group evaluates significant financing component, if the period between customer payment and the transfer of goods/ services (both for advance payments or payments in arrears) is more than one year. Group adjusts the promised amount of consideration for the time value of money using an appropriate interest rate reflecting the credit risk.

Contract modification

A contract modification occurs when the Group and the customer approve a change in the contract that either creates new enforceable rights and obligations or changes the existing enforceable rights and obligations. Revenue related to a modification is not recognised until it is approved. Approval can be in writing, oral, or implied by customary business practices.

Group treats the contract modification as a separate contract if it results in the addition of a separate performance obligation and the price reflects the standalone selling price of that performance obligation. Otherwise, a modification (including those that only affect the transaction price) is accounted for as an adjustment to the original contract, either prospectively or through a cumulative catch-up adjustment.

Group accounts for a modification prospectively if the goods or services in the modification are distinct from those transferred before the modification. Conversely, the Group accounts for a modification through a cumulative catch-up adjustment if the goods or services in the modification are not distinct and are part of a single performance obligation that is only partially satisfied when the contract is modified.

Cost of obtainment and fulfilment

Group capitalises incremental costs to obtain a contract with a customer except if the amortisation period for such costs is less than one year.

If the costs incurred in fulfilling a contract with a customer are not in the scope of other guidance - e.g. inventory, intangibles, or property, plant and equipment - then the Group recognises an asset only if the fulfilment costs meet the following criteria:

- Relate directly to an existing contract or specific anticipated contract;
- Generate or enhance resources that will be used to satisfy performance obligations in the future; and
- Are expected to be recovered.

If the costs incurred to fulfil a contract are in the scope of other guidance, then Group accounts for such costs using the other guidance.

Group amortises the asset recognised for the costs to obtain and/or fulfil a contract on a systematic basis, consistent with the pattern of transfer of the good or service to which the asset relates. In the case of an impairment, Group recognises these losses to the extent that the carrying amount of the asset exceeds the recoverable amount.

2. Changes in significant accounting policies (continued)

2.2 IFRS 15 Revenue from Contracts with Customers (continued)

Revenue from sale of goods

The Group manufactures and sells steel products which are used in various industries. Sales are recognised when control of the products is transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Revenue from the sale is recognised in the statement of profit or loss on when the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Accounting policies applied until 31 December 2017

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group 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.

Revenue from the sale of goods, net of trade discount is recognised in the statement of profit or loss 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.

3. Basis of preparation and summary of significant accounting policies

3.1 Basis of preparation

These financial statements are prepared on the historical cost basis.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the disclosure requirements of the Capital Market Authority ("CMA") and the Commercial Companies Law of 1974, as amended.

The financial statements are prepared in Rial Omani (RO), rounded to the nearest RO, which is the Group's functional and presentation currency.

3.2 Summary of significant accounting policies

A summary of significant accounting policies is set out below and have been applied consistently for all the periods presented in these financial statements, except if mentioned otherwise in note 2.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and the entity controlled by the Parent Company up to the reporting date. Control is achieved where the Parent Company has the power over the investee, is exposed or has rights to variable return from its involvement with the investee and has the ability to use its power to affect its returns.

Entities are consolidated from the date on which control is transferred to the Parent Company and cease to be consolidated from the date on which control is transferred out of the Parent Company. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Parent Company gains control until the date when the Parent Company ceases to control the subsidiary. The Parent Company applies the acquisition method to account for business combinations in accordance with IFRS 3.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separate from the equity attributable to shareholders. Non-controlling interests are separately disclosed in the consolidated statement of profit or loss and other comprehensive income. NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Parent Company.

All intercompany transactions, balances and gains or losses on transactions between members of the Parent Company are eliminated as part of the consolidation process.

3. Basis of preparation and summary of significant accounting policies (continued)

3.4 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. The costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition are also 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 statement of 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 ready for 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.

3.5 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.

3.6 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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.

3.7 End of service benefits and leave entitlements

End of service benefits are accrued in accordance with the terms of employment of the Parent Company's qualifying employees at the reporting date, having regard to the requirements of the Oman Labour Law, as amended. Provision for staff indemnities of a subsidiary is made for the amounts payable under Saudi Labour Law applicable to employees' accumulated period of service at the reporting date. The obligation is calculated using the projected unit credit method and is discounted to its present value.

3. Basis of preparation and summary of significant accounting policies (continued)

3.7 End of service benefits and leave entitlements (continued)

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 Statement profit or loss as incurred.

3.8 Leases

Operating lease payments are recognised as an expense in the statement of profit or loss on a systematic basis representing the time pattern of the Group's benefit. The Group recognizes lower operating lease payments in initial period of lease being representative of the time pattern of the benefits.

3.9 Taxation

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

Current tax

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

Deferred tax

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

3.10 Dividend on ordinary shares

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

3.11 Interest income and expense

Interest income and expense are accounted for on accrual basis using effective interest rate method.

All interest and other costs incurred in connection with borrowings are expensed as incurred, as part of financing costs and are accounted for 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.

3.12 Foreign currency transactions

Functional and presentation currency

Items included in the Group'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 Parent Company operates (the functional currency).

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 Statement of profit or loss.

3.13 Directors' remuneration

The Parent Company follows the Commercial Companies Law 1974 as amended, and other latest relevant directives issued by the Capital Market Authority, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the Statement of profit or loss in the year to which it relates.

3. Basis of preparation and summary of significant accounting policies (continued)

3.14 Segment reporting

A segment is a distinguishable component of the Group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment) whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker ("CODM"), which is subject to risks and rewards that are different from those of other segments.

3.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as deductions from equity, net of any tax effects.

3.16 New standards amendments and interpretation not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective for annual periods beginning on 1 January 2018, and have not been applied in preparing these financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 16 Leases

The Group is required to adopt IFRS 16 Leases from 1 January 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Group has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

i. Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of factory facilities. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised as an expense in the statement of profit or loss on a systematic basis representing the time pattern of the Group's benefit. In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

No significant impact is expected for the Group's finance leases.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of RO 853,974 as at 1 January 2019.

ii. Transition

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

4 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 bank borrowings.

Financial risk factors

Overview

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

- **Credit risk**
- **Liquidity risk, and**
- **Market risk**

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

(i) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the trade receivables from customers.

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:

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Trade receivables (net)	**26,053,792**	28,489,634	**26,845,976**	29,016,321
Other receivables	**29,378**	37,548	**29,378**	31,002
Bank balances	**3,930,810**	3,489,609	**3,753,071**	3,301,073
	30,013,980	32,016,791	**30,628,425**	32,348,396

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 Group has a large number of customers, internationally dispersed.

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating.

Exposures within each credit risk grade are segmented by geographic region and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past five years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Scalar factors are based on GDP forecast and include the following: 0.9 for Bahrain, 0.29 for Kuwait, 0.81 for Oman, 0.21 for Qatar, 0.30 for Saudi Arabia, 1.59 for United Arab Emirates, 0.26 for United States of America and 0.01 for Yemen.

As for each potential customer there is no independent rating, the Group'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. The utilisation of credit limits is regularly monitored. Relevant details about the trade receivables are set out in note 9.

4 Financial risk management (continued)

(i) Credit risk (continued)

The age of trade receivables and related impairment loss at the reporting date is:

Group	Weighted average loss rate %	Loss carrying amount	Loss allowance	Net carrying amount	Credit impaired
31 December 2018		RO	RO	RO	
Less than 120 days	1%	22,279,834	242,698	22,037,136	No
Between 121-180 days	3%	2,939,463	92,400	2,847,063	Yes
Between 181-270 days	10%	1,109,180	105,462	1,003,718	Yes
Between 271-365 days	51%	15,191	7,704	7,487	Yes
More than 365 days	56%	357,905	199,517	158,388	Yes
		26,701,573	647,781	26,053,792	

Parent	Weighted average loss rate %	Loss carrying amount	Loss allowance	Net carrying amount	Credit impaired
31 December 2018		RO	RO	RO	
Less than 120 days	2%	22,620,940	457,484	22,163,456	No
Between 121-180 days	4%	3,375,277	120,017	3,255,260	Yes
Between 181-270 days	12%	1,580,961	193,894	1,387,067	Yes
Between 271-365 days	59%	10,614	6,365	4,249	Yes
More than 365 days	59%	87,213	51,269	35,944	Yes
		27,675,005	829,029	26,845,976	

The Group did not identify any material impairment loss on other financial assets as at the reporting date.

(ii) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk may arise from market disruptions or credit downgrades, which may result in unavailability of certain sources of funding.

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

The table below analyses the Group's and Parent Company's financial liabilities into relevant maturity groupings based on the remaining year at the reporting date to the contractual maturity date:

4 Financial risk management (continued)

(ii) Liquidity risk (continued)

Group

At 31 December 2018	Total	Contractual cash flows	Less than 1 year
	RO	RO	RO
Bank borrowings	14,513,834	(14,513,834)	(14,513,834)
Trade and other payables	11,408,109	(11,408,109)	(11,408,109)
	25,921,943	(25,921,943)	(25,921,943)

At 31 December 2017	Total	Contractual cash flows	Less than 1 year
	RO	RO	RO
Bank borrowings	12,159,908	(12,194,852)	(12,194,852)
Trade and other payables	10,306,754	(10,306,754)	(10,306,754)
	22,466,662	(22,501,606)	(22,501,606)

Parent Company

At 31 December 2018	Total	Contractual cash flows	Less than 1 year
	RO	RO	RO
Bank borrowings	14,513,834	(14,513,834)	(14,513,834)
Trade and other payables	11,399,059	(11,399,059)	(11,399,059)
	25,912,893	(25,912,893)	(25,912,893)

At 31 December 2017	Total	Contractual cash flows	Less than 1 year
	RO	RO	RO
Bank borrowings	12,159,908	(12,194,852)	(12,194,852)
Trade and other payables	10,280,478	(10,280,478)	(10,280,478)
	22,440,386	(22,475,330)	(22,475,330)

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange and interest rates affect the Group'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 Group operates in international markets, however, the Group is substantially independent of changes in foreign currency rates as its foreign currency dealings are principally in US Dollars (USD), Saudi Rials (SAR) and UAE Dirhams (AED) which are effectively pegged to the Rials Omani.

4 Financial risk management (continued)

(iii) Market risk (continued)

Interest rate risk

The Group has call deposits and bank borrowings. The deposits with banks and borrowings carry interest on commercial terms. The Group 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. A major portion of the Group's borrowing arrangements are of short term in nature.

For every 0.5% change in interest rate, the impact on the statement of profit or loss will be approximately to RO 52,874 (31 December 2017: RO 44,251) based on the level of borrowing net of call deposits at the reporting date.

Commodity price risk

The Group is affected by the volatility in 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, the Board of Directors have 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 Group is having a robust supply chain with diversified supplier base to achieve competitive prices and reduce the cycle time for procurement. The Group's existing production facility is also flexible in terms of reacting to the customer demands.

4.1 Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for 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 Group 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 Group 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 bank balances. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Bank borrowings (note 14)	**14,513,834**	12,159,908	**14,513,834**	12,159,908
Less: cash and bank balances (note 10)	**(3,939,089)**	(3,500,987)	**(3,761,299)**	(3,309,721)
Net debt	**10,574,745**	8,658,921	**10,752,535**	8,850,187
Total equity	**43,925,881**	44,140,078	**44,208,303**	44,446,699
Total debt and equity	**54,500,626**	52,798,999	**54,960,838**	53,296,886
Gearing ratio	**19%**	16%	**20%**	17%

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

4 Financial risk management (continued)

4.2 Fair value estimation (continued)

Fair value hierarchy (continued)

- 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.

5. 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 reporting date 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

i. Impairment allowance - Measurement of the expected credit losses allowance – applicable from 1 January 2018

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past experience and historical data, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the accounting policy above.

Impairment allowance - Measurement of the expected credit losses allowance – until 31 December 2018

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 and historical recovery rates.

ii. 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. 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.

iii. Useful lives of property, plant and equipment

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.

iv. Deferred tax assets

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. 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.

6. Segment information

An operating segment is a component of an entity that engages in business activities from which it earns revenues and incurs 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 ("CODM") 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 Group's accounting policies described under note 3.

Information regarding the Group'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 Group that are regularly reviewed by the CODM in order to allocate resources to the segment and to assess its performance.

Products and services from which reportable segments derive their revenues

The Group and Parent Company operate 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 profit or loss and notes to the financial statements.

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

	2018		2017	
	Revenue	**Trade receivables (gross)**	Revenue	Trade receivables (gross)
	RO	**RO**	RO	RO
Group				
GCC countries including Oman	**93,176,120**	**23,730,774**	82,075,120	27,337,461
North America	**21,133,804**	**2,869,010**	13,339,261	1,886,585
Others	**1,835,919**	**101,789**	1,206,095	42,120
	116,145,843	**26,701,573**	96,620,476	29,266,166
Parent Company				
GCC countries including Oman	**93,225,264**	**24,704,206**	82,119,391	28,070,778
North America	**21,133,804**	**2,869,010**	13,339,261	1,886,585
Others	**1,835,919**	**101,789**	1,224,095	42,120
	116,194,987	**27,675,005**	96,682,747	29,999,483

7. Property, plant and equipment – Group

	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
Cost								
1 January 2018	8,537,941	27,690,834	2,321,387	239,715	251,313	446,874	505,547	39,993,611
Additions	181,572	48,750	-	23,945	20,659	43,470	887,743	1,206,139
Transfers during the year	209,898	352,066	301,079	-	43,500	14,489	(921,032)	-
Disposals / write-off	-	(3,626)	(164,470)	(34,745)	(560)	(11,681)	-	(215,082)
31 December 2018	**8,929,411**	**28,088,024**	**2,457,996**	**228,915**	**314,912**	**493,152**	**472,258**	**40,984,668**
Depreciation								
1 January 2018	4,533,782	13,560,555	1,961,104	149,960	228,845	406,188	-	20,840,434
Charge for the year								
Cost of sales (note 17)	430,081	1,389,568	195,723	-	-	-	-	2,015,372
General and administrative (note 19)	1,631	-	-	25,856	14,055	29,729	-	71,271
Disposals / write-off	-	(3,160)	(143,512)	(34,745)	(558)	(11,681)	-	(193,656)
31 December 2018	**4,965,494**	**14,946,963**	**2,013,315**	**141,071**	**242,342**	**424,236**	**-**	**22,733,421**
Net carrying value								
31 December 2018	**3,963,917**	**13,141,061**	**444,681**	**87,844**	**72,570**	**68,916**	**472,258**	**18,251,247**

(a) Buildings included in property, plant and equipment are built on land leased from the Public Establishment for Industrial Estates - Suhar Industrial Estate.

(b) Property, plant and equipment of the Company are subject to a second charge on borrowings from commercial banks (Note 14).

(c) Capital work-in-progress at 31 December 2018 represents mainly rolls under grooving.

7. Property, plant and equipment – Group (continued)

	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
Cost								
1 January 2017	8,288,221	27,353,471	2,231,400	211,295	247,118	422,732	605,966	39,360,203
Additions	158,473	132,024	-	69,862	8,148	31,078	420,175	819,760
Transfers during the year	91,247	267,946	161,401	-	-	-	(520,594)	-
Disposals / write-off	-	(62,607)	(71,414)	(41,442)	(3,953)	(6,936)	-	(186,352)
31 December 2017	8,537,941	27,690,834	2,321,387	239,715	251,313	446,874	505,547	39,993,611
Depreciation								
1 January 2017	4,114,524	12,218,261	1,846,557	162,471	224,357	390,277	-	18,956,447
Charge for the year								
Cost of sales (note 17)	417,627	1,373,013	175,441	-	-	-	-	1,966,081
General and administrative (note 19)	1,631	-	-	28,928	8,420	22,656	-	61,635
Disposals / write-off	-	(30,719)	(60,894)	(41,439)	(3,932)	(6,745)	-	(143,729)
31 December 2017	4,533,782	13,560,555	1,961,104	149,960	228,845	406,188	-	20,840,434
Net carrying value								
31 December 2017	4,004,159	14,130,279	360,283	89,755	22,468	40,686	505,547	19,153,177

(d) Buildings included in property, plant and equipment are built on land leased from the Public Establishment for Industrial Estates - Suhar Industrial Estate.

(e) Property, plant and equipment of the Company are subject to a second charge on borrowings from commercial banks (Note 14).

(f) Capital work-in-progress at 31 December 2017 represents mainly rolls under grooving.

7. Property, plant and equipment - Parent Company

	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
Cost								
1 January 2018	8,505,313	27,690,834	2,321,387	185,140	248,512	440,779	505,547	39,897,512
Additions	181,572	48,750	-	23,945	20,659	43,108	887,743	1,205,777
Transfers during the year	209,898	352,066	301,079	-	43,500	14,489	(921,032)	-
Disposals / write-off	-	(3,626)	(164,470)	(34,745)	(560)	(11,681)	-	(215,082)
31 December 2018	**8,896,783**	**28,088,024**	**2,457,996**	**174,340**	**312,111**	**486,695**	**472,258**	**40,888,207**
Depreciation								
1 January 2018	4,526,291	13,560,555	1,961,104	95,640	227,611	400,730	-	20,771,931
Charge for the year								
Cost of sales (note 17)	430,081	1,389,568	195,723	-	-	-	-	2,015,372
General and administrative (note 19)	-	-	-	25,601	13,774	29,358	-	68,733
Disposals / write-off	-	(3,160)	(143,512)	(34,745)	(558)	(11,681)	-	(193,656)
31 December 2018	**4,956,372**	**14,946,963**	**2,013,315**	**86,496**	**240,827**	**418,407**	**-**	**22,662,380**
Net carrying value								
31 December 2018	**3,940,411**	**13,141,061**	**444,681**	**87,844**	**71,284**	**68,288**	**472,258**	**18,225,827**

(a) Buildings included in property, plant and equipment are built on land leased from the Public Establishment for Industrial Estates - Suhar Industrial Estate.

(b) Property, plant and equipment of the Company are subject to a second charge on borrowings from commercial banks (Note 14).

(c) Capital work-in-progress at 31 December 2018 represents mainly rolls under grooving.

7. Property, plant and equipment - Parent Company (continued)

	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
Cost								
1 January 2017	8,255,593	27,353,471	2,231,400	155,165	244,317	416,924	605,966	39,262,836
Additions	158,473	132,024	-	69,570	8,148	30,606	420,175	818,996
Transfers during the year	91,247	267,946	161,401	-	-	-	(520,594)	-
Disposals / write-off	-	(62,607)	(71,414)	(39,595)	(3,953)	(6,751)	-	(184,320)
31 December 2017	8,505,313	27,690,834	2,321,387	185,140	248,512	440,779	505,547	39,897,512
Depreciation								
1 January 2017	4,108,664	12,218,261	1,846,557	113,135	223,403	385,070	-	18,895,090
Charge for the year								
Cost of sales (note 17)	417,627	1,373,013	175,441	-	-	-	-	1,966,081
General and administrative (note 19)	-	-	-	22,097	8,140	22,218	-	52,455
Disposals / write-off	-	(30,719)	(60,894)	(39,592)	(3,932)	(6,558)	-	(141,695)
31 December 2017	4,526,291	13,560,555	1,961,104	95,640	227,611	400,730	-	20,771,931
Net carrying value								
31 December 2017	3,979,022	14,130,279	360,283	89,500	20,901	40,049	505,547	19,125,581

(a) Buildings included in property, plant and equipment are built on land leased from the Public Establishment for Industrial Estates - Suhar Industrial Estate.

(b) Property, plant and equipment of the Company are subject to a second charge on borrowings from commercial banks (Note 14).

(c) Capital work-in-progress at 31 December 2017 represents mainly rolls under grooving.

8. Inventories

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Raw materials	**11,457,980**	8,605,607	**11,457,980**	8,605,607
Finished goods	**6,830,980**	5,227,711	**6,324,216**	4,985,264
Stores and spares	**2,791,569**	2,333,987	**2,791,569**	2,333,987
Goods-in-transit	**547,652**	317,169	**547,652**	317,169
Work-in-process	**1,720,147**	1,354,167	**1,720,147**	1,354,167
	23,348,328	17,838,641	**22,841,564**	17,596,194
Less: impairment allowance for slow moving and obsolete inventory				
	(2,434,861)	(2,385,776)	**(2,476,591)**	(2,414,307)
	20,913,467	15,452,865	**20,364,973**	15,181,887

Inventories of the Parent Company are subject to a charge in the favour of the lenders against borrowings, as disclosed in note 14.

The movement in the impairment allowance for slow moving and obsolete inventory balance was as follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
At 1 January	**2,385,776**	2,382,410	**2,414,307**	2,413,816
Charge during the year	**49,085**	3,366	**62,284**	491
At 31 December	**2,434,861**	2,385,776	**2,476,591**	2,414,307

9. Trade and other receivables

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Trade receivables	**26,701,573**	29,266,166	**27,675,005**	29,999,483
Impairment allowance for trade receivables	**(647,781)**	(776,532)	**(829,029)**	(983,162)
	26,053,792	28,489,634	**26,845,976**	29,016,321
Advance to supplier	**635,774**	1,159,315	**635,774**	1,159,315
Prepaid expenses	**98,651**	42,365	**61,703**	27,282
Other receivables	**1,978,813**	1,064,284	**1,978,813**	1,057,738
	28,767,030	30,755,598	**29,522,266**	31,260,656

9. Trade and other receivables (continued)

The movement in provision for impairment of trade receivables is given below:

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
1 January, as previously reported	**776,532**	1,215,034	**983,162**	1,509,404
Adjustment from adoption of IFRS 9	**(3,043)**	**-**	**(31,194)**	**-**
Restated balance at 1 January	**773,489**	1,215,034	**951,968**	1,509,404
Reversal for the year	**(125,708)**	(438,502)	**(122,939)**	(526,242)
31 December	**647,781**	776,532	**829,029**	983,162

(a) Trade receivables of the Parent Company are subject to a charge in the favour of the lenders for borrowings, as disclosed in note 14.

(b) The amounts are considered by the Group to be due after 120 days from the date of invoice.

The age analysis of gross trade receivables is as follows:

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Less than 120 days	**22,279,834**	26,358,186	**22,620,940**	26,680,099
Between 121 – 180 days	**2,939,463**	2,209,419	**3,375,277**	2,543,269
Between 181 – 270 days	**1,109,180**	204,396	**1,580,961**	543,774
Between 271 – 365 days	**15,191**	49,869	**10,614**	48,790
Between 366 – 730 days	**33,489**	171,367	**23,438**	147,138
More than 730 days	**324,416**	272,929	**63,775**	36,413
	26,701,573	29,266,166	**27,675,005**	29,999,483

(c) Other receivables include dumping duty deposit amounting to RO 1,949,435 (31 December 2017: RO 1,026,736) paid on export to United States of America ("USA"). During the year 2016, the US Department of Commerce ("DOC") imposed antidumping duty on the Group's export to USA at the rate of 7.36%. Currently the duty paid is treated as deposit, pending DOC's administrative review. However, the Group has recorded accrued expenses of RO 2,568,042 (31 December 2017: RO 1,335,924) under trade and other payables based on actual shipment to USA.

10. Cash and bank balances

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Cash at bank	**3,930,810**	3,489,609	**3,753,071**	3,301,073
Cash on hand	**8,279**	11,378	**8,228**	**8,648**
	3,939,089	3,500,987	**3,761,299**	**3,309,721**

Bank balances include RO 833,595 (31 December 2017: RO 770,521) held in an account denominated in the UAE Dirhams, RO 1,978,969 (31 December 2017: RO 1,520,378) in US Dollars, RO 1,198 (31 December 2017: RO Nil) in Euro and RO 177,790 (31 December 2017: RO 188,536) in Saudi Riyal.

11. Share capital

The share capital comprises 124,897,960 (31 December 2017: 124,897,960) ordinary shares of RO 0.100 (31 December 2017: RO 0.100) each fully paid.

	Authorised		Issued and fully paid	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Share capital	**15,000,000**	15,000,000	**12,489,796**	12,489,796

Share premium

The share premium is stated net of share issuance costs.

12. 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 Parent Company's paid-up share capital which was achieved during the year 2017. This reserve is not available for distribution.

13. Dividend

Dividend is not accounted for until it has been approved at the Annual General Meeting (AGM). At the Board of Directors meeting held on 31 January 2019, cash dividend of RO 0.016 per share amounting to RO 1,998,367 has been recommended for shareholders' approval at the AGM. The financial statements for the year ended 31 December 2018 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits for the year ending 31 December 2019.

During the year 2018, a cash dividend of RO 0.024 (31 December 2017: RO 0.009) per share totalling to RO 2,997,551 (31 December 2017: RO 1,124,082) was paid as approved by shareholders in their annual general meeting held on 25 March 2018.

During the year, unclaimed dividend amounting to RO 2,128 (2017: RO 678) was transferred to the Investor's Trust Fund account as per the guidelines issued by the Capital Market Authority of Oman.

14. Bank borrowings

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Loans against trust receipts *(a)*	**14,513,834**	12,159,908	**14,513,834**	12,159,908
Total borrowings	**14,513,834**	12,159,908	**14,513,834**	12,159,908

(a) The Group has credit facilities amounting to RO 71.50 million from local and foreign commercial banks. Bank overdrafts carry annual interest rates ranging from 4.5% to 6.5% (31 December 2017: 4.5% to 6.5%). Loans against trust receipts obtained from the commercial banks are at annual interest rates ranging from 2.75% to 4.50% (31 December 2017: 2.75% to 4.00% per annum). The bank facilities are secured by a pari-pasu charge on the current assets of the Parent Company.

(b) The carrying amount of the Group and Parent Company's borrowings is denominated in the following currencies:

14. Bank borrowings (continued)

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Rials Omani	**6,000,000**	3,000,000	**6,000,000**	3,000,000
US Dollars	**8,513,834**	9,159,908	**8,513,834**	9,159,908
	14,513,834	12,159,908	**14,513,834**	12,159,908

Change in cash flows from financing activities
Group and Parent (Principal)

	2018	2017
	RO	RO
Bank borrowings		
1 January	**12,159,908**	11,072,087
Proceeds from borrowings	**81,027,952**	69,905,552
Repayments of borrowings	**(78,674,026)**	(68,817,731)
31 December	**14,513,834**	12,159,908
Change in cash flows	**2,353,926**	1,087,821

15. Employees' end of service benefits

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
At 1 January	**884,016**	607,223	**877,133**	593,926
Charge for the year (note 20)	**197,259**	306,228	**192,546**	304,454
Payments during the year	**(65,912)**	(29,435)	**(65,912)**	(21,247)
At 31 December	**1,015,363**	884,016	**1,003,767**	877,133

16. Trade and other payables

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Trade payables	**5,907,301**	7,065,907	**5,908,606**	7,049,723
Accrued expenses	**5,073,095**	2,974,287	**5,072,173**	2,970,352
Advances from customers	**335,718**	233,303	**332,561**	233,303
Other payables	**91,995**	33,257	**85,719**	27,100
At 31 December	**11,408,109**	10,306,754	**11,399,059**	10,280,478

17. Cost of sales

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Cost of materials consumed	**95,395,351**	74,884,574	**95,674,818**	75,078,957
Direct labour (note 20)	**4,227,744**	4,304,660	**4,227,744**	4,304,660
Depreciation (note 7)	**2,015,372**	1,966,081	**2,015,372**	1,966,081
Electricity, gas and water	**1,522,467**	1,472,411	**1,522,467**	1,472,411
Other direct expenses	**785,993**	654,736	**736,477**	654,736
	103,946,927	83,282,462	**104,176,878**	83,476,845

18. Selling and distribution expenses

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Packing and despatch charges	**5,295,436**	4,911,915	**5,290,680**	4,908,589
Commission on sales	**10,905**	32,789	**9,438**	31,835
Sales promotion expenses	**21,979**	20,144	**21,979**	20,144
Advertisement and publicity	**25,999**	21,277	**25,961**	21,277
Other selling and distribution expenses	**32,446**	65,396	**30,414**	60,346
	5,386,765	5,051,521	**5,378,472**	5,042,191

19. General and administrative expenses

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Employee costs (note 20)	**1,946,167**	1,903,479	**1,846,314**	1,803,273
Other expenses	**245,506**	253,361	**240,181**	197,137
Legal and professional charges	**143,162**	120,562	**138,442**	113,021
Travelling and conveyance	**113,093**	95,744	**112,279**	95,744
Depreciation (note 7)	**71,271**	61,635	**68,733**	52,455
Communication expenses	**76,393**	70,059	**74,919**	67,852
Insurance	**14,315**	13,335	**14,264**	13,035
	2,609,907	2,518,175	**2,495,132**	2,342,517

20. Employee costs

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

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Basic salaries and allowances	**5,446,102**	5,399,886	**5,363,501**	5,309,725
Employee welfare expenses	**295,175**	274,637	**285,478**	267,588
End of service benefits (note 15)	**197,259**	306,228	**192,546**	304,454
Social security costs	**176,347**	162,471	**173,505**	161,249
Staff accommodation expenses	**59,028**	64,917	**59,028**	64,917
	6,173,911	6,208,139	**6,074,058**	6,107,933
Allocated to :				
Cost of sales (note 17)	**4,227,744**	4,304,660	**4,227,744**	4,304,660
General and administrative expenses (note 19)	**1,946,167**	1,903,479	**1,846,314**	1,803,273
	6,173,911	6,208,139	**6,074,058**	6,107,933

21. Net finance costs

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Interest on borrowings	**1,051,593**	696,681	**1,043,435**	692,824
Interest income	**(5,887)**	(39,210)	**(5,887)**	(39,210)
	1,045,706	657,471	**1,037,548**	653,614

22. Taxation

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Statement of comprehensive income				
Current tax:				
Tax charge for the year	**545,641**	832,123	**545,641**	832,123
Deferred tax:				
Origination /reversal of other temporary differences	**(56,031)**	(26,441)	**(56,031)**	(26,441)
Total tax charge for the year	**489,610**	805,682	**489,610**	805,682
Statement of financial position				
Non-current liability				
Deferred tax	**462,005**	518,036	**462,005**	518,036
Current liability				
Current year	**545,641**	853,835	**545,641**	853,835

(a) The Parent Company has calculated income tax at effective tax rate of 15% for the year ended 31 December 2018 (31 December 2017: 15%). The subsidiary has no tax liability as at the reporting date. The reconciliation of tax as per accounting profit of the Group is as below:

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Profit before tax	**3,269,921**	5,518,871	**3,217,571**	5,663,344
Tax expense at Oman tax rate - 15% (2017 -15%)	**490,488**	827,831	**482,636**	849,502
Tax effect on non-deductible expenses	**105**	105	**105**	105
Tax effect on provisions in deductible temporary differences	**6,869**	(180,044)	**6,869**	(180,044)
Tax effect of foreign tax rates	**(7,852)**	21,671	**-**	-
Tax effect of changes in tax rates	**-**	136,119	**-**	136,119
	489,610	805,682	**489,610**	805,682

(b) Tax assessments up to year 2013 have been completed and agreed with the Oman taxation authorities. The management believes that additional taxes, if any, for the unassessed years will not be significant to the Parent Company and the Group's financial position as at the reporting date.

22. Taxation (continued)

(c) Deferred taxation relates to the temporary differences. Deferred income taxes are calculated on all temporary differences using a principal tax rate expected of 15% (2017: 15%). The net deferred tax liability and deferred tax charge in the statement of profit or loss are attributable to the following items:

Group and Parent Company

Deferred taxation	**1 January 2018**	**Charged / (released) to statement of profit or loss**	**31 December 2018**
	RO	**RO**	**RO**
Asset			
Provision	**(500,286)**	**5,000**	**(495,286)**
Liability			
Accelerated tax depreciation	**1,018,322**	**(61,031)**	**957,291**
	518,036	**(56,031)**	**462,005**

Deferred taxation	1 January 2017	Charged / (released) to statement of profit or loss	31 December 2017
	RO	RO	RO
Asset			
Provision	(336,486)	(163,800)	(500,286)
Liability			
Accelerated tax depreciation	880,963	137,359	1,018,322
	544,477	(26,641)	518,036

23. Earnings per share

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

	Group		***Parent Company***	
	2018	2017	**2018**	2017
Profit for the year attributable to shareholders of the Parent Company (RO)	**2,780,311**	4,723,867	**2,727,961**	4,857,662
Weighted average number of shares outstanding (Number)	**124,897,960**	124,897,960	**124,897,960**	124,897,960
Earnings per share attributable to shareholders of the Parent Company (RO)	**0.022**	0.038	**0.022**	0.039

As there are no dilutive potential shares issued by the Parent Company, the diluted earnings per share is same as the basic earnings per share.

24. Net assets per share

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	*RO*	***RO***	*RO*
Net assets attributable to shareholders of the Parent Company (RO)	**43,925,881**	44,140,078	**44,208,303**	44,446,699
Number of shares at the reporting date (Number)	**124,897,960**	124,897,960	**124,897,960**	124,897,960
Net assets per share attributable to shareholders of the Parent Company (RO)	**0.352**	0.353	**0.354**	0.356

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

25. Related party transactions

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

	Group		Parent Company	
	2018	2017	**2018**	2017
	RO	*RO*	***RO***	*RO*
(i) Subsidiary				
Sales	-	-	**3,522,652**	2,431,123
Reimbursement of expenses / services paid	-	-	**11,391**	336,827
Amounts owed by Subsidiary	-	-	**2,139,749**	2,040,343
(ii) Other related parties				
Sales	**436,790**	-	**436,790**	-
Purchases	**30,814**	-	**30,814**	-
Amounts owed by related parties	**103,817**	-	**103,817**	-
Amounts owed to related parties	**304**	-	**304**	-
(iii) Compensation of key management personnel				
Basic salaries and allowances	**282,222**	262,309	**282,222**	262,309
Remuneration to directors	**95,000**	68,000	**95,000**	68,000
Directors' sitting fees	**9,825**	9,825	**9,825**	9,825
	104,825	77,825	**104,825**	77,825

26. Investment in subsidiary and acquisition of non-controlling interest ("NCI")

On 15 June 2015, the Parent Company acquired 51% shareholding in Al Jazeera Oman Steel Products Company LLC ("the subsidiary"), a limited liability company incorporated in the Kingdom of Saudi Arabia. On 31 March 2017, the Parent Company acquired an additional 49% shareholding interest in the subsidiary, increasing its ownership interest to 100% at a consideration of RO 258,244, paid to the non-controlling shareholder. The Subsidiary had negative net equity of RO 483,106 on the date of acquisition. Accordingly, the Group recognised loss of RO 491,554 in retained earnings as follows:

	RO
Carrying amount of NCI acquired (accumulated losses)	**(233,310)**
Consideration paid to NCI	**(258,244)**
Decrease in equity attributable to owner of the Parent Company	**(491,554)**

The management considers that the investment in subsidiary is not impaired as the Subsidiary will be able to generate profits in foreseeable future as per the financial projections.

27. Commitments

(i) Lease commitments

At 31 December 2018, the future minimum lease commitments under the lease agreement in respect of the land amounted to RO 850,029 (31 December 2017: RO 964,320) for the remaining total lease period.

Under the terms of the operating lease, the future aggregate minimum lease payments are as follows:

	Group		**Parent Company**	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Not later than 1 year	**123,957**	121,695	**91,529**	91,529
Between 2 to 5 years	**459,351**	502,613	**320,589**	366,114
Above 5 years	**489,947**	593,403	**437,911**	506,677
	1,073,255	1,217,711	**850,029**	964,320

(ii) Purchase commitments

At 31 December 2018, the value of outstanding purchase commitments amounted to RO 15,278,159 (31 December 2017: RO 6,650,309).

(iii) Capital commitments

At 31 December 2018, the value of outstanding capital commitments amounted to RO 325,724 (31 December 2017: RO 388,457).

28. Contingent liabilities

	Group		Parent company	
	2018	2017	**2018**	2017
	RO	RO	**RO**	RO
Bank guarantees	**925,600**	232,600	**925,600**	232,600

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

29. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation adopted in these financial statements.