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Al Maha Petroleum Products Marketing Company SAOG

Annual Report 2018

Filling Stations 218

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almahapetroleum

His Majesty Sultan Qaboos Bin Said

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BOARD OF DIRECTORS

Dr. Juma Ali Juma Al-Juma
Chairman

His Highness Sheikh Zayed Bin Sultan Bin Khalifa Al Nahyan
Deputy Chairman

Gamal Aly Aly Al-Gamal
Director

Brigadier General Saif Salim Saif Al-Harthi
Director

Saleh Nasser Juma Al-Araimi
Director

Sultan Khalifa Saleh Al-Tai
Director

Mohammed Ali Said Al-Qassabi
Director

MANAGEMENT TEAM

Eng. Mohammed Fareed Hussain Al Darwish

Chief Executive Officer

Ahmed Bakhit Al Shanfari

General Manager - Sales, Marketing & Business Development

Hamdi Mohamed El Sayed

General Manager - Finance

Abdulhaleem Ali Issa Al Sabbagh

General Manager - Corporate Services

Hafidh Awadh Al Hadeed

Senior Manager - Aviation Business

Osama Mirghani A.Rahim

Senior Manager - Internal Audit

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present the 15 th Annual Report of your Company, together with the Audited Financial Statements for the year ended 31 December 2018.

Financial Performance (RO'millions)

	2018	2017	Inc. /(dec.)	Inc. /(dec.) %
Total Revenue	**488.7**	431.7	57.0	13%
Cost of Sales	**(458.6)**	(402.2)	56.4	14%
Gross Profit	**30.1**	29.5	0.6	2%
Other income	**0.5**	0.5	-	-
Total expenses	**(25.5)**	(25.0)	0.5	2%
Net Profit after tax	**5.1**	5.0	0.1	2%

Shareholders' value:				
Earnings per share – RO	**0.074**	0.073	0.001	1%
Book value per share – RO	**0.668**	0.718	(0.050)	(7%)
Net equity (RO'Mlns)	**46.1**	49.5	(3.4)	(7%)

- During this Financial Year, Your Company achieved total revenue of RO 488.7 millions in 2018, compared to RO 431.7 million in 2017, an increase of RO 57 million, by 13%, driven mainly by the increased domestic fuel prices during the year.
- Net profit increased to RO 5.1 million, mainly due to the impact of adaption of IFRS 9 effective from 01 January 2018, on the impairment of receivables, and on account of improved performance by the Aviation & Lubricant segments.
- Book value per share & net equity decreased by 7% over 2017, due to the decrease in Retained earnings as at 01 Jan 2018 on account of changes in the accounting policies resulting from the adoption of "IFRS 9" which brought fundamental changes in the accounting for financial assets. The impact of these changes in accounting policies as at 01 Jan 2018 has resulted in the decrease of Retained earnings by RO 4.1 million.
- Oil prices recovered during the year and reached a three year high, crossing the $80 per barrel for the first time in three years, before falling sharply in the later part of the year. The increase in oil prices as predicted by the Government in its Budget 2019 and the expansion of the non-oil economy is expected to improve the macro economic outlook of the Sultanate. Your company continues to drive value across our operations, while meeting the challenge of changing market conditions.

BOARD OF DIRECTORS' REPORT

Marketing Performance:

Retail segment continues to be our main revenue source, with a vast & robust network of 218 retail outlets spread across the length and breadth of Oman.

Continuing retail expansion programme, with customer-centric approach in operations, 13 new retail outlets were commissioned during the year and further 5 outlets are under various stages of construction, which will be opened to public in early 2019.

Retail Team is working consistently towards improving the round the clock product offerings to its customers to promote customer loyalty through the promotion and sale of fuel by the usage of fuel card and banks cards in all our retail outlets, adding convenience to Customer and boosting our efforts to maximize cashless transactions.

Our 'fully equipped 24*7 call centre', providing customer support, has also contributed to the successful operation and to the improved association with our customers.

Commercial segment continues to be affected by low demand environment especially in the construction & infrastructure sector. Commercial business remains highly competitive and price sensitive, where superior product delivery and prompt service plays a major role in customer retention & growth.

Aviation segment, benefitting from the growth in the tourism industry and surge in passenger traffic has experienced significant growth during the year. Further, increase in the international selling prices, increased supplies to one major customer and commercial airlines operating in the Muscat International airport, have also boosted our performance in this segment.

Lubrication segment, also showed significant growth during the year, due to securing of new contracts, introduction of new products and services viz., high street sales etc.

Market share

Based on the information published in the financial results of the other petroleum products marketing companies, your Company's market share in 2018 stood at 30%.

Dividend

In line with our consistent dividend policy of maintaining a sustainable dividend payment, the Board of Directors has recommended a cash dividend of RO 0.070 per share amounting to 70% of share capital, against 2018 profit, subject to the approval of the shareholders' Annual General Meeting, to be held on 25 March 2019.

Your Company has been continuously paying dividend for the last 14 years and below chart shows the dividends declared since 2013:

	2018	2017	2016	2015	2014	2013
Cash dividend :						
RO million	4.830	4.485	6.900	6.900	7.590	6.900
% of share capital	70%	65%	100%	100%	110%	100%

BOARD OF DIRECTORS' REPORT

Corporate Governance

Our corporate philosophy on Corporate Governance has been to ensure fairness to the Stakeholders through transparency, full disclosures, empowerment of employees and collective decision making. The Corporate Governance Report highlighting these endeavours has been incorporated as a separate section, forming part of the Annual Report.

Social responsibility & HSE

At Al Maha, we continue to deliver the energy the country needs, and in doing so, we also consider the impact of our operations on local economies, communities, and the environment. Our approach to Social responsibility is focused on key areas like Safety at workplace, Environmental protection, Community engagement, local development and economic needs of the communities in which we operate. During the year several schemes were launched and special assistance were given to the needy.

HSE continues to remain our top priority as we continue to engage in implementation of best practices, considering the critical nature of our operations. During the year we engaged an external safety consultant to audit our HSE practices, which helped us to focus on the required improvements to mitigate risks.

Future Outlook

Low oil prices represent a real challenge to our business. We continuously review and test our business feasibility & Strategic Business plan taking in to account all the opportunities and risks surrounding our business. Liquidity crunch in the market also affects our Cash flow management issues leading to increased cost of operations.

Acknowledgement

On behalf of the Board of Directors and executive management, I take this opportunity to express our most sincere gratitude and loyalty to His Majesty Sultan Qaboos Bin Said who has been providing ideal political, economic and financial framework for all the sectors of the economy to flourish.

We thank our shareholders, customers, the officials of Capital Market Authority and Muscat Securities Market for their valuable support and co-operation. We also appreciate the dedicated and committed service of our staff members.

Juma Ali Juma Al-Juma

Chairman

19 February 2019

EY
Building a better working world

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PR No. HMH/15/2015; HMA/9/2015

REPORT OF FACTUAL FINDING
TO THE SHAREHOLDERS OF AL MAHA PETROLEUM PRODUCTS MARKETING COMPANY SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority's (CMA) circular no. E/4/2015, dated 22 July 2015, with respect to the Board of Directors' corporate governance report of Al Maha Petroleum Products Marketing Company SAOG (the "Company") as at and for the year ended 31 December 2018 and its application of the corporate governance practices in accordance with amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarised as follows:

1) We obtained the corporate governance report (the "report") issued by the Board of Directors and checked that the report of the Company includes as a minimum, all items suggested by the CMA to be covered by the report as detailed in the Annexure 3 of the Code by comparing the report with such suggested content in Annexure 3; and

2) We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2018. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed.

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

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

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of Al Maha Petroleum Marketing Company SAOG to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of Al Maha Petroleum Marketing Company SAOG, taken as a whole.

Ernst & Young LLC

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س.ت: ١٢٢٤٠١٣
ص.ب: ١٧٥٠ روي – ١١٢، سلطنة عمان
EY ERNST & YOUNG LLC
C.R. No. 1224013
P.O. Box 1750 - P.C. 112, Sultanate of Oman

Muscat
24 February 2019

CORPORATE GOVERNANCE REPORT

Our Corporate Governance Philosophy

Good corporate governance is about maximizing shareholder value on a sustainable basis while ensuring fairness to all stakeholders: customers, partners, investors, employees, government and society. Our corporate governance is a reflection of our value system encompassing our culture, policies and relationships with our stakeholders.

We are committed to defining, following and practising the highest level of corporate governance across all our business functions.

Our Corporate Governance structure is based on the Code of Corporate Governance issued by the Capital Market Authority (CMA).

Board of Directors

The Board of Directors ('the Board') is at the core of our corporate governance practice and oversees how the Management serves and protects the long-term interests of all our stakeholders. We believe that an active, well-informed and independent Board is necessary to ensure the highest standards of corporate governance.

The Board's main responsibilities include:

- Reviewing the strategic plans and operational performance
- Reviewing the effectiveness of internal controls
- Approval of business plans and budgets
- Approval of quarterly and annual financial statements
- Approval of policies and procedures

Election of the Board of Directors

The Board of directors is elected by the shareholders of the Company at the Annual General Meeting of the Company.

Elections of the members of the Board of Directors are carried out in the Annual Ordinary General Meetings of the Company in accordance with the provisions of the Commercial Companies Law and the guidelines issued by the Capital Market Authority.

If the office of a director becomes vacant in the period between two annual ordinary general meetings, the board appoints a temporary director to assume his office until the next ordinary general meeting in accordance with the provisions of the Commercial Companies Law.

Current Board

The current Board was elected in the Annual General Meeting held on 22 March 2016.

As at 31 December, 2018, the Board consists of **seven** members of which **four** are independent directors.

CORPORATE GOVERNANCE REPORT

Sl No	Director's name	Designation	Status	Board meetings attended	AGM Attended	Directorships in other SAOG Companies
1)	**Dr. Juma Ali Juma Al-Juma**	Chairman	Dependent	6	Yes	HSBC Bank Oman SAOG
2)	**His Highness Sheikh Zayed Bin Sultan Bin Khalifa Al Nahyan** (appointed on 25 March 2018)	Deputy Chairman	Dependent	5	N/A	-
3)	**Gamal Aly Aly Al-Gamal**	Director	**Independent**	7	Yes	-
4)	**Mohammed Ali Said Al-Qassabi**	Director	**Independent**	7	Yes	-
5)	**Sultan Khalifa Saleh Al-Tai**	Director	Dependent	7	Yes	Al Batinah Hotels Co. SAOG
6)	**Saleh Nasser Juma Al-Araimi**	Director	**Independent**	7	Yes	Al Izz Islamic Bank SAOG, Oman Fisheries SAOG
7)	**Saif Salim Saif Al-Harthi**	Director	**Independent**	7	Yes	Al Omaniya Financial Services SAOG
	Previous member:					
1)	**Abdullah Khalifa Khamis Al Majali** (until 15 March 2018)	Director	Dependent	1	No	-

Number of Board meetings in 2018:

The Board held seven meetings in 2018 as detailed below:

1) 08 Feb 2018	2) 15 Mar 2018	3) 29 Apr 2018
4) 10 May 2018	5) 25 Jul 2018	6) 29 Oct 2018
7) 30 Oct 2018		

The intervals between the board meetings are in line with the CMA requirement of a maximum interval of four months.

CORPORATE GOVERNANCE REPORT

External evaluation of the Board of Directors

The shareholders, in the AGM of the Company held on 15 March 2018, appointed KPMG as an external consultant to conduct evaluation of the Board of Directors' performance. Their evaluation process is in progress and their report will be submitted to the AGM to be held on 25 March 2019.

Audit Committee

Role of Audit Committee

The Audit Committee Charter defines the duties and responsibilities of the Committee, which are concisely:-

- Ensuring compliance with CMA regulations and Code of Corporate Governance.
- Review quarterly and annual financial statements
- Considering external audit fees and terms of engagement
- Reviewing and approving the annual internal and external audit plans and ensuring that auditors have full and unrestricted access to all relevant documents and staff
- Oversight of all audit activities and internal control evaluation
- Reviewing proposed specific transactions with related parties and making recommendations to the Board
- Conduct any special investigations and report to the Board

The Audit Committee approved the Internal Audit Charter and issued the Audit Committee Charter which was later approved by the Board of Directors.

The Company has an internal audit function that reports to the Audit Committee.

Composition of Audit Committee

The Audit Committee comprises a Chairman and two Directors, all of whom are non-executive and two of them are independent directors. The Committee members are knowledgeable in finance, industry and laws and regulations governing SAOG companies.

Audit Committee meetings

The Audit Committee met 9 times in 2018 as detailed below:

1)	14 Jan 2018	2)	07 Feb 2018	3)	23 Apr 2018
4)	15 May 2018	5)	24 Jul 2018	6)	05 Aug 2018
7)	24 Sep 2018	8)	03 Oct 2018	9)	25 Oct 2018

The attendance record of the Audit Committee meetings was as follows:

Sl No	Director's name	Designation	Status	Meetings attended
1)	Saleh Nasser Juma Al-Araimi	Chairman	**Independent**	9
2)	Mohammed Ali Said Al-Qassabi	Member	**Independent**	9
3)	Sultan Khalifa Saleh Al-Tai	Member	Dependent	9

CORPORATE GOVERNANCE REPORT

Executive Committee

Role of Executive Committee

The Executive Committee is delegated the powers and authority to facilitate the smooth running of the operations of the Company and to provide the Board with a mechanism for considering in depth, any issue that the Board consider that it requires detailed attention . The Committee's main areas of competence are as follows:

- Strategic issues
- Investment decisions
- Treasury and liquidity management
- Business plans and budgets
- Major changes in policies and procedures
- Proposals for new business areas
- Progress reviews
- Staff matters
- Other matters referred by the Board to the Committee

Composition of Executive Committee

The Executive Committee comprises of two independent directors and two dependent directors.

Executive Committee meetings

The Executive Committee met on 08 Feb 2018.

The attendance record of the Executive Committee meetings was as follows:

Sl No	Director's name	Designation	Status	Meetings attended
1)	His Highness Sheikh Zayed Bin Sultan Bin Khalifa Al Nahyan (appointed on 29 April 2018)	Chairman	Dependent	N/A
2)	Dr. Juma Ali Juma Al-Juma	Member	Dependent	1
3)	Gamal Aly Aly Al-Gamal	Member	**Independent**	1
4)	Saif Salim Saif Al-Harthi	Member	**Independent**	1
	Previous member:			
1)	Abdullah Khalifa Khamis Al Majali (until 15 March 2018)	Member	Dependent	1

CORPORATE GOVERNANCE REPORT

Nomination & Remuneration Committee

The Board constituted "Nomination and Remuneration Committee" during 2016, to assist and advise the Board on the following matters:

1) establishing remuneration & incentive policy for Directors & Executive Management
2) defining bonus policy for Executive Management
3) appointment of skilled persons to the Board & executive management
4) succession planning for directors & executive management

The Remuneration and Nomination Committee comprises a Chairman and two Directors, all of whom are non-executive and two of them are independent.

The Committee met on 08 Feb 2018 and 15 Mar 2018.

The attendance record of the Committee meetings was as follows:-

Sl No	Director's name	Designation	Status	Meetings attended
1)	Gamal Aly Aly Al-Gamal	Chairman	**Independent**	2
2)	His Highness Sheikh Zayed Bin Sultan Bin Khalifa Al Nahyan (appointed on 29 April 2018)	Member	Dependent	N/A
3)	Mohammed Ali Said Al-Qassabi	Member	**Independent**	2
	Previous member:			
1)	Abdullah Khalifa Khamis Al Majali (until 15 March 2018)	Member	Dependent	1

Corporate Social Responsibility (CSR)

During the year several projects benefitting Society were undertaken. The Company is committed to continue these initiatives with more vigour in the years ahead.

Remuneration of Directors

Sitting fees are paid to the Board and committees members to take account of the additional work involved. The details of sitting fees are shown below:

- Board Meetings-RO 800 per meeting
- Audit Committee Meetings-RO 600 per meeting
- Executive Committee Meetings-RO 600 per meeting
- Nomination & Remuneration Committee sitting fee - RO 600 per meeting

CORPORATE GOVERNANCE REPORT

Details of total sitting fees for the year are given below:

1)	Total sitting fees of the Board of Directors meetings	RO 31,600
2)	Total sitting fees of the Audit Committee meetings	RO 16,200
3)	Total sitting fees of the Executive Committee meeting	RO 2,400
4)	Total sitting fees of the Nomination & Remuneration Committee meetings	RO 1,800
	Total sitting fees	**RO 52,000**

The proposed directors' remuneration for the year 2018 is RO 148,000 subject to the approval of the Annual General Meeting, to be held on 25 March 2019.

The details of amounts paid to / proposed for directors for 2018 are shown below:

Director's name	Sitting fees	Proposed remuneration	Total
	RO	RO	RO
1) Dr. Juma Ali Juma Al-Juma	4,600	21,143	**25,743**
2) His Highness Sheikh Zayed Bin Sultan Bin Khalifa Al Nahyan (appointed on 25 March 2018)	4,000	15,857	**19,857**
3) Gamal Aly Aly Al-Gamal	6,000	21,143	**27,143**
4) Mohammed Ali Said Al-Qassabi	10,000	21,143	**31,143**
5) Saleh Nasser Juma Al-Araimi	10,000	21,143	**31,143**
6) Sultan Khalifa Saleh Al-Tai	10,000	21,143	**31,143**
7) Saif Salim Saif Al-Harthi	5,400	21,143	**26,543**
Previous Member:			
1) Abdullah Khalifa Khamis Al Majali (until 15 March 2018)	2,000	5,285	**7,285**
Total	**52,000**	**148,000**	**200,000**

The total sitting fees for each director and the total sitting fees and remuneration for all directors are within the provisions of the amendments made to the Commercial Companies Law in November 2005.

Executive Management Team

The names, positions and profiles of the key members of the executive management are as follows:

1. Mohammed Fareed Hussain Al Darwish (Chief Executive Officer)

- 4 years experience in the field of technical support for assets management
- Senior Engineer – Assets development in Abu Dhabi Polymers Company Ltd (Borouge-Adnoc) from 2009 until 2012
- Team Leader - Supply Chain Management in Borouge from 2012 until 2014
- Manager - Supply Chain Management in Borouge from 2014 until 2015
- Managing Director in Al Maha Petroleum Products Marketing Co. SAOG from August 2015 to Aug 2016
- Chief Executive Officer (CEO) in Al Maha Petroleum Products Marketing Co. SAOG since Sep 2016 to Jan 2019

CORPORATE GOVERNANCE REPORT

2. Ahmed Bakhit Al Shanfari (General Manager -Sales, Marketing & Business Development)

Total experience 25 years:

- General Manager Marketing & Operation
- Deputy General Manager Marketing & Operation
- Marketing Manager
- Retail Sales Manager
- Assistant Retail Manager

3) Hamdi Mohamed El Sayed (General Manager - Finance)

- Over 15 years experience in the field of Financial Management, Treasury Management etc.
- Chief Financial Officer, The Private Office of HH Dr Sheikh Sultan Bin Khalifa Al Nahyan, Abu Dhabi, UAE , from 2007 to 2015
- Board Member, Executive Committee Member, Audit Committee Member - Al Maha Petroleum Products Marketing Co. SAOG from 2011 to 2015
- General Manager – Finance in Al Maha Petroleum Products Marketing Co. SAOG since Feb 2016

4) Abdulhaleem Ali Issa Al Sabbagh (General Manager - Corporate Services)

- 18 years experience in Omantel in various capacities including Director of Corporate Services
- Manager Customer Services in Al Maha Petroleum Products Marketing Co. SAOG from 2013 to 2014
- HR & Administration Manager in Al Maha Petroleum Products Marketing Co. SAOG from 2014 to 2016
- Acting GM- Corporate Services in Al Maha Petroleum Products Marketing Co. SAOG from June 2016 to December 2017
- GM- Corporate Services in Al Maha Petroleum Products Marketing Co. SAOG since January 2018

5) Hafidh Awadh Al Hadeed (Senior Manager - Aviation Business)

- 10 years in Al Maha Petroleum Products Marketing Co. SAOG as Manager of Salalah Office until Feb 2007
- Assistant Manager Aviation Business in Al Maha Petroleum Products Marketing Co. SAOG until Jan 2008
- Senior Manager Aviation Business in Al Maha Petroleum Products Marketing Co. SAOG since Jan 2008

6) Osama Mirghani A. Rahim (Senior Manager - Internal Audit)

- 15 years experience in accounting and finance
- 10 years experience in internal audit
- Senior Manager – Internal Audit in Al Maha Petroleum Products Marketing Co. SAOG since January 2003

Remuneration of Top five executives

The total cost of the top five Executives was approximately RO 520,767 in 2018. The total cost comprises salaries, pension, end of service benefits, annual bonus, travel expenses incurred for business travels and other benefits.

CORPORATE GOVERNANCE REPORT

The annual bonus payable to employees is based on annual performance and profit achieved and is decided by the Board of Directors.

Employment contracts meet the requirements of the Omani labor law and they include additional benefits.

The severance notice periods are 3 months for employees in management grades and one month for other employees.

The end of service benefits payable to the expatriate employees is one month basic salary for each year of service for the first 10 years, one month and quarter basic salary for each service year of the following 10 years and one month and half basic salary thereafter. The basic salary used in calculating the end of service benefits, is the last basic salary paid to the employee.

Shareholders

The shareholders who owned 5% or more of the share capital of the Company at 31 December 2018 were as follows:

Shareholder's name	% of shareholding	Number of shares held
1) ABS Lubricants	40.0%	27,600,000
2) Civil Service Employees Pension Fund	12.9%	8,895,910
3) Public Authority for Social Insurance	6.5%	4,457,512
4) Ministry of Defense Pension Fund	5.4%	3,718,430
Total	**64.8%**	**44,671,852**

Distribution of shareholding

Category of shares	Number of shareholders	Number of shares	% of shareholding
Up to 5,000	954	1,560,624	2%
5,001 – 30,000	373	2,984,439	4%
30,001 -50,000	31	1,260,301	2%
50,001 – 100,000	15	1,029,468	1%
100,001 – 400,000	20	3,324,224	5%
Above 400,000	16	58,840,944	86%
Total	**1,409**	**69,000,000**	**100%**

Dividend policy

The Board of Directors will maintain a sustainable dividend policy which will address the financial strength of the Company, support its long term strategies and at the same time, will pay a reasonable dividend to the shareholders.

CORPORATE GOVERNANCE REPORT

Communication with shareholders

The annual and quarterly financial statements are published in two newspapers (Arabic and English).

All the information relating to the Company, news and the financial results are available in the Company's website and in Muscat Securities Market website. The Annual General Meeting offers a further opportunity for the directors to meet with shareholders.

The Annual Report includes the Management Discussions and Analysis Report.

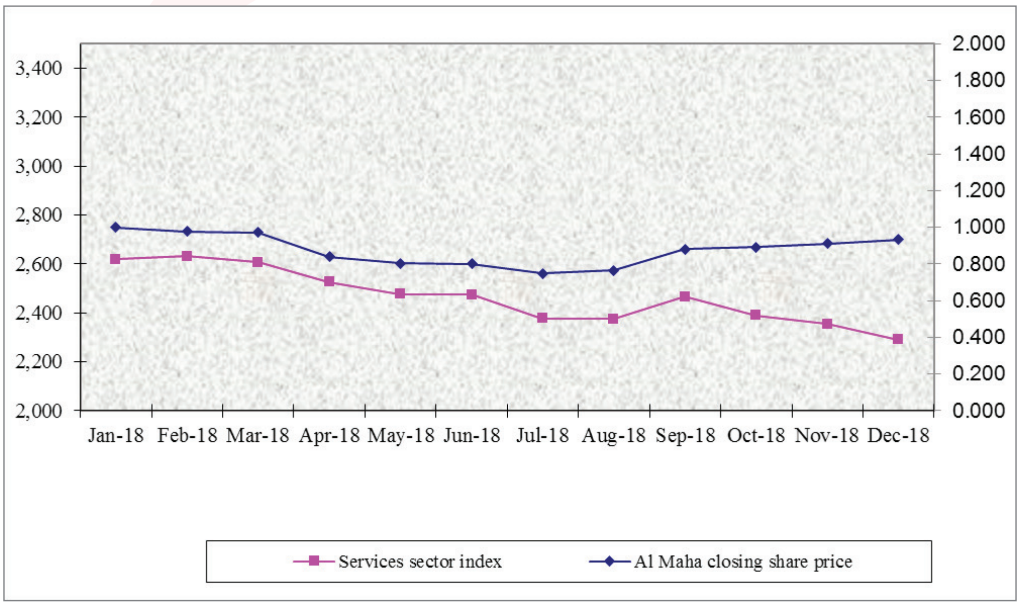
The Company did not have any GDRs/ADRs/Warrants or any other convertible warrants as on 31 December 2018 and hence the likely impact on equity is Nil.

Market price data

The monthly market prices during 2018 are shown in the following table:-

Month	High RO/ share	Low RO/ share	Close RO/ share
January	1.030	1.000	1.000
February	1.000	0.972	0.976
March	0.980	0.940	0.972
April	0.940	0.824	0.840
May	0.840	0.800	0.804
June	0.804	0.800	0.800
July	0.748	0.716	0.748
August	0.768	0.740	0.764
September	0.880	0.768	0.880
October	0.924	0.888	0.892
November	0.912	0.900	0.912
December	0.952	0.908	0.932

Performance in comparison to MSM services sector index:



CORPORATE GOVERNANCE REPORT

Statutory auditors

EY is a global leader in assurance, tax, transaction and advisory services. EY is committed to doing its part in building a better working world. The insights and quality services which EY delivers help build trust and confidence in the capital markets and in economies the world over.

The MENA practice of EY has been operating in the region since 1923 and employs over 5,000 professionals. EY has been operating in Oman since 1974 and is a leading professional services firm in the country. EY MENA forms part of EY's EMEIA practice, with over 4,000 partners and 100,000 professionals. Globally, EY operates in more than 150 countries and employs 212,000 professionals in 728 offices. Please visit ey.com for more information about EY.

The fees payable to EY for the year 2018 amounts to RO 11,200 towards professional services rendered to the Company (RO 10,000 for audit and RO 1,200 for tax services).

Details of non compliance with the provisions of Corporate Governance

The Company complies with the provisions of the Code of Corporate Governance. Therefore, there are no penalties imposed on the Company by CMA/MSM or any other statutory authority during the period of this report.

Acknowledgement by the Board of Directors

1) The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the disclosure requirements issued by the Capital Market Authority.

2) The Board has overall responsibility for the Company's internal controls which are designed to manage rather than eliminate risk to which the Company is exposed and provides reasonable rather than absolute assurance against material misstatement or loss.

The Board of Directors has reviewed the internal controls and is satisfied that appropriate controls are in place to implement the Code's requirements.

3) The Board of Directors believes to the best of its knowledge that there are no material issues which might affect the continuity of the Company's operations in the financial year which shall end on 31 December 2019.

Juma Ali Juma Al-Juma	**Saleh Nasser Juma Al-Araimi**
Chairman	**Director**

MANAGEMENT DISCUSSIONS AND ANALYSIS

Business & objectives

The Company is primarily engaged in the marketing & distribution of petroleum products viz. Gasoline (M91 & M95), diesel, aviation fuel, kerosene & lubricants.

The Company operates with the following objectives:

1) Improving shareholders net-worth and payment of consistent and fair returns
2) Increasing the overall market share in all business areas & effectively addressing the prevailing competition
3) Improving the corporate image through better customer service and brand recognition
4) Recruiting and empowering Omani youths
5) Total commitment to the protection of Health, Safety and Environment (HSE)

Business operations

The Company operates its business through the following segments:

1) Retail sales
2) Commercial sales
3) Other sales (including Aviation & lubricant sales)

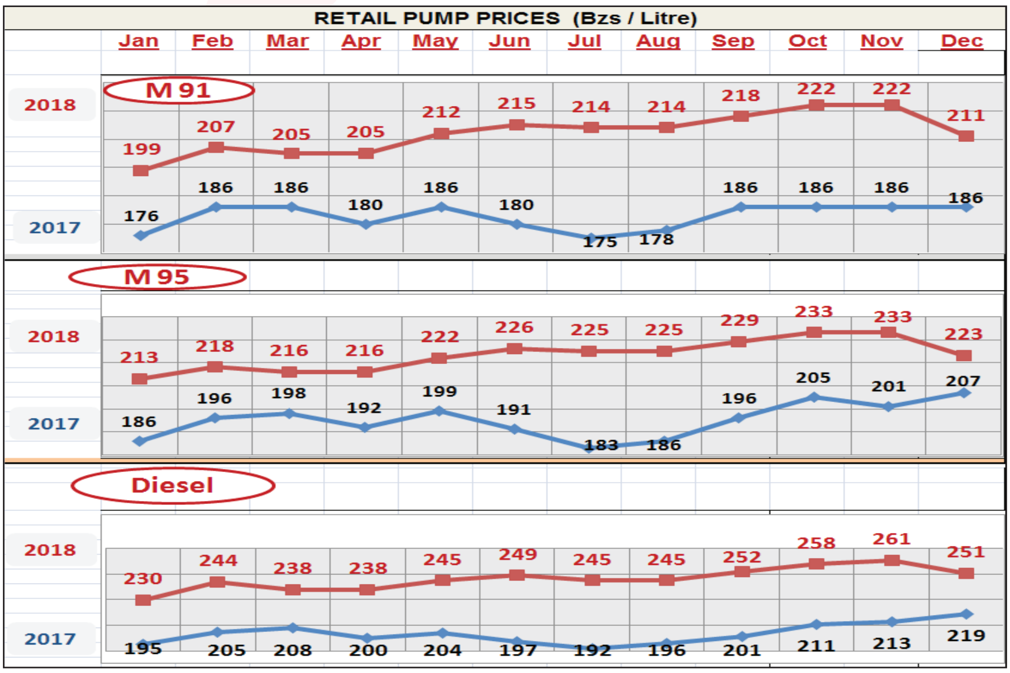
The performance of these major segments are discussed below:

1) Retail sales

Retail Sales segment remains the chief revenue earning segment and the Company's long term priority. Retail sales volume remained at almost the same level as in 2017.

Retail sale value has increased by 17% mainly on account increase in domestic fuel prices during the year.

The following chart shows the increasing trend of fuel prices:



MANAGEMENT DISCUSSIONS AND ANALYSIS

The main developments in the Retail Business segment are listed below:

- Opening of 13 filling stations that took the total number of filling stations to 218 at the end of 2018
- 5 new filling stations, which are in the final stages of completion as at Dec 2018, will be opened in early 2019
- The Ministry of Oil & Gas announced a uniform fuel price margin structure for all retail products effective from 01 March 2018. This coupled with reduced activity in the internally operated Joint Fuel Depot at Mina Al Fahal and shifting of upliftments from the ORPIC's new Jiffnain fuel Depot, have squeezed our margins further

Going forward, with the development of new roads, residential areas and comprehensive development of rural areas, Al Maha continues to lay emphasis on Retail infrastructure development and will continue to invest in several projects across the country.

2) Commercial sales

Al Maha is a leading player in the commercial sales segment and it forms the second largest revenue earning segment of our business. This segment remains highly competitive and price sensitive, where superior product delivery and prompt service plays a major role in customer retention & growth. Due to the lower demand from the Construction & other industrial sectors of the economy, our Commercial Sales volume has decreased during the year.

The Company has always been looking at new markets and innovative strategies to enroll new customers and increase market share in this segment.

3) Other sales

Other sales comprise aviation fuel and lubricants sales.

Aviation sales segment has achieved a growth of 33% in sales value in 2018, mainly on account of increased fuel supplies to Oman Air and other commercial airlines at the Muscat International airport. Further increased supplies to our major customer in the Government sector also contributed to the growth of the Aviation segment during the year 2018.

Staying ahead, the Company plans to tap new airlines which will contribute to the growth of the aviation fuel sales in the coming period.

The lubricants sales segment has also registered a growth of 53% in 2018 over 2017, mainly on account of increased demand for Al Maha branded lubricants, securing new contracts and introduction of new products & services.

MANAGEMENT DISCUSSIONS AND ANALYSIS

Financial performance

	2018 RO-Million	2017 RO-Million	Increase/ (decrease)	
			RO-Million	%
Sales	**488.7**	431.7	57.0	13%
Operating & admin. expenses	**(24.5)**	(24.0)	0.5	2%
Net Profit after tax	**5.1**	5.0	0.1	2%
Net assets	**46.1**	49.5	(3.4)	(7%)

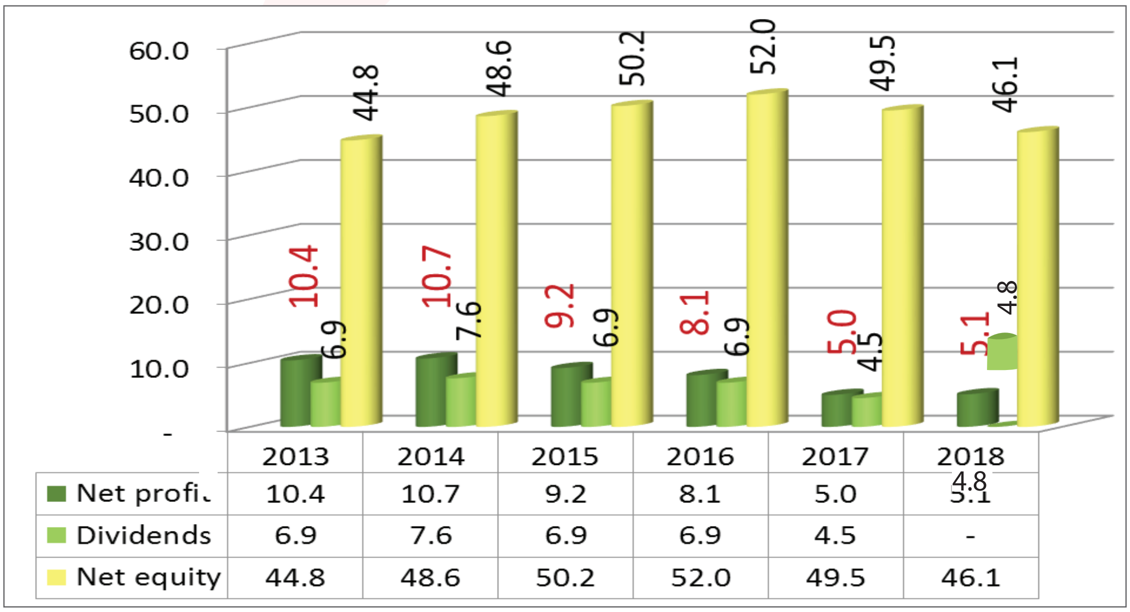
Earning Per Share – RO	**0.074**	0.073
Net assets per share – RO	**0.668**	0.718
Return on equity - %	**11.2%**	10.1%

Sales have increased to RO 488.7 million in 2018 (2017: RO 431.7 million), an increase of RO 57 million (13%) mainly on account of increase in Aviation & lubricant businesses after setting off decrease in commercial sales.

Expenditure rose just by RO 0.5 million (2%) mainly due to the increase in employees cost, depreciation, license fees, Technical fees & other expenses after setting off decrease in Impairment provisions, Transportation cost, Maintenance expenses and marketing expenses.

Net profit after tax increased to RO 5.1 million in 2018 (2017: RO 5 million), an increase of RO 0.1 million (2%) mainly due to the increase in sales and decrease in tax expenses.

Below is a chart which indicates the net profit, dividend and net equity since 2013 :



MANAGEMENT DISCUSSIONS AND ANALYSIS

Cashflow Management

Positive Cashflow from operations due to improved collections from our major customers have lowered the Receivables position as at the year end. Further efficient working capital management has decreased the impact of finance charges.

Opportunities, Obstacles / Risks

The longevity of low oil prices & reduced activity in the construction & logistic sectors makes future business outlook very challenging. We are committed to remain positive and look forward to capitalize on the emerging opportunities by focusing on our key growth areas of Retail network expansion, aviation & lubricant sales growth.

The growing demand for energy is a major growth driver for us in the year ahead. Consolidating our position as one of the top retail stations operators in the country, we plan to focus on increasing the market share in the retail segment based on the available opportunities. Strategic filling stations network expansion remains a key focus area, with addition of Retail Outlets in identified geographies.

HSE

Managing the health and safety of the people who work for us, both directly and indirectly, continued to be our top priority. We are committed to continuing efforts to recognise hazards, assess health, safety & environment risks in our operations and taking steps to mitigate those risks.

High safety standards were maintained during the year. The focus at most of our sites was to enhance safety culture, risk assessment and training. HSE auditing is being continually stepped up through in-house and specialized third party sources to ensure compliance to Governmental regulations and Company's HSE procedures.

Human Resources

We consider human dimension as the key to organization's success. We recognize the value of our employees who are committed to achieve excellence in all spheres.

In the year 2018, our priority continued to be in the area of enhancing organizational structure to deliver performance excellence through sustained developmental efforts.

Several initiatives for development of human resources to meet new challenges in the competitive business environment were taken during the year.

Our Omanisation level was 80% and the number of employees stood at 285 by the end of 2018.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL MAHA PETROLUEM PRODUCTS MARKETING CO. SAOG

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Al Maha Petroleum Products Marketing Co. SAOG (the "Company"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the 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 (IFRSs).

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 *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the 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.

Emphasis of matter

We draw attention to note 24 to the financial statements which sets out the status of certain claims against the Company from a fuel supplier. The Board of Directors, based upon a review of the internal documents and records available and discussion with the in-house legal counsel believe that no amounts will ultimately be payable to the fuel supplier and accordingly, no provision has been established in respects of the claims in these financial statements. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL MAHA PETROLUEM PRODUCTS MARKETING CO. SAOG (continued)

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matters	*How our audit addressed the key audit matters*
Allowance for impaired debts The Company is required to regularly assess the recoverability of its trade receivables. The recoverability of trade receivables was significant to our audit due to the value of amounts aged greater than the credit terms extended to customers. Effective from 1 January 2018, the Company has applied the simplified approach in IFRS 9 'Financial Instruments' to measure ECL for trade receivables, which allows for lifetime expected credit losses to be recognised from initial recognition of the receivables. The Company determines the expected credit losses on trade receivables by using a provision matrix that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Trade receivables have been grouped based on shared credit risk characteristics and days past due. Due to the significance of trade receivables and the involvement of estimation uncertainty in the ECL calculation, this has been considered as a key audit matter.	Our audit procedures in the area included the following: - Evaluated the appropriateness of the selection of the accounting policies; - Considered the appropriateness of the transition approach and evaluated the management's processes for selection of expected credit loss model; - Obtained an understanding of the process relating to the allowance for credit losses of trade receivables; - Evaluated the reasonableness of the key judgments and estimates relating to calculation of probability of default and forward-looking factor made in the expected credit loss model; - Evaluated the completeness, accuracy and relevance of data used in the expected credit loss model and checked the mathematical accuracy of the calculations; - Obtained an ageing report of trade receivables and tested the accuracy by checking the ageing of select invoices on a sample basis; - We tested a sample of trade receivables, and assessed the criteria for determining whether an impairment event had occurred, by focusing on those with the most significant potential for impairment due to increased uncertainty of recovery in the current market circumstances and specifically challenged management's assessment of the recoverable amount. We also considered the adequacy of the Company's disclosures relating to the provision of expected credit losses, management's assessment of the credit risk and their responses to such risks in Notes 3.1 and 10 to the financial statements.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL MAHA PETROLUEM PRODUCTS MARKETING CO. SAOG (continued)

Other information included in the Company's 2018 Annual Report
Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Company's 2018 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, 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 financial statements
Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the Capital Market Authority ("the CMA") of the Sultanate of Oman, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the 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 those charged with governance either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

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

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
AL MAHA PETROLUEM PRODUCTS MARKETING CO. SAOG (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

- Identify and assess the risks of material misstatement of the 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 expressing an opinion on the effectiveness of the Company'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 those charged with governance 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 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 auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 to 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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.

Ernst & Young LLC

Philip Stanton
Muscat
24 February 2019

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	2018	2017
		RO'000	RO'000
Revenue from sale of goods and services		**487,760**	430,923
Revenue from contract with customers		**156**	-
Rental income		**757**	823
Total revenue		**488,673**	431,746
Cost of sales		**(458,621)**	(402,197)
Gross profit		**30,052**	29,549
Other income	5	**529**	544
Operating and administration expenses	6	**(24,547)**	(23,955)
Finance income		**462**	495
Finance charges		**(731)**	(783)
Profit before income tax		**5,765**	5,850
Income tax expense	13 (a)	**(616)**	(838)
Profit and comprehensive income for the year		**5,149**	5,012
Basic and diluted earnings per share (RO)	23	**0.074**	0.073
Dividend per share (RO)	19	**0.070**	0.065

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 RO'000	2017 RO'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	**31,985**	31,168
Contract balances	11	**963**	-
Deferred tax assets	13	**1,223**	938
		34,171	32,106
Current assets			
Inventories	9	**3,679**	3,877
Trade and other receivables	10	**61,323**	68,208
Cash and cash equivalents	12	**34,401**	30,626
		99,403	102,711
TOTAL ASSETS		**133,574**	134,817
EQUITY AND LIABILITIES			
Equity			
Share capital	15	**6,900**	6,900
Legal reserve	16	**2,300**	2,300
Special reserve	17	**2,104**	2,104
Retained earnings		**34,803**	38,221
Total equity		**46,107**	49,525
Liabilities			
Non-current liability			
Employees end of service benefits	14	**341**	290
		341	290
Current liabilities			
Trade and other payables	18	**45,920**	45,728
Short term loan	12	**40,194**	38,114
Income tax payable	13	**1,012**	1,160
		87,126	85,002
Total liabilities		**87,467**	85,292
TOTAL EQUITY AND LIABILITIES		**133,574**	134,817
Net assets per share (RO)	22	**0.668**	0.718

These financial statements were approved and authorized for issue by the Board of Directors on 19 February 2019 and signed on their behalf by:

Chairman **Director**

The attached notes 1 to 28 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	2018 RO'000	2017 RO'000
Operating activities:			
Profit before income tax:		**5,765**	5,850
Adjustments for:			
Depreciation	8	**3,892**	3,760
Amortisation	11	**10**	-
Accrual for employees› end of service benefits	14	**70**	77
Allowance for expected credit loss/ impairment losses	10	**(210)**	1,834
Allowance for slow moving stock	9	**150**	-
Gain on disposal of property, plant and equipment		**(16)**	(42)
Finance expense		**731**	783
Operating profit before working capital changes		**10,392**	12,262
Inventories		**48**	(377)
Trade and other receivables		**2,072**	4,286
Trade and other payables		**190**	3,703
Cash flows from operations		**12,702**	19,874
Employees end of service benefits paid	14	**(19)**	(14)
Income tax paid	13	**(1,049)**	(1,252)
Net cash flows from operating activities		**11,634**	18,608
Investing activities			
Purchases of property, plant and equipment	8	**(4,905)**	(6,561)
Change in contract assets		**156**	-
Proceeds from disposal of property, plant and equipment		**26**	45
Net cash flows used in investing activities		**(4,723)**	(6,516)
Financing activities			
Dividend paid	19	**(4,485)**	(6,900)
Finance charges paid		**(731)**	(783)
Proceeds from short term loan	12	**457,727**	402,538
Repayment of short term loan	12	**(455,647)**	(381,002)
Net cash flows (used in) from financing activities		**(3,136)**	13,853
Net changes in cash and cash equivalents		**3,775**	25,945
Cash and cash equivalents at the beginning of the year		**30,626**	4,681
Cash and cash equivalents at the end of the year	12	**34,401**	30,626

The attached notes 1 to 28 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital RO'000	Legal reserve RO'000	Special reserve RO'000	Retained earnings RO'000	Total RO'000
At 1 January 2017	6,900	2,300	2,104	40,109	51,413
Profit and comprehensive income for the year	-	-	-	5,012	5,012
Dividend paid - 2016 (note 19)	-	-	-	(6,900)	(6,900)
At 31 December 2017	6,900	2,300	2,104	38,221	49,525
Transition adjustment on initial application of IFRS 9 (note 3.1)	-	-	-	(4,119)	(4,119)
Transition adjustment on initial application of IFRS 15 (note 3.1)	-	-	-	37	37
Restated opening balance	**6,900**	**2,300**	**2,104**	**34,139**	**45,443**
Profit and comprehensive income for the year	**-**	**-**	**-**	**5,149**	**5,149**
Dividend paid - 2017 (note 19)	**-**	**-**	**-**	**(4,485)**	**(4,485)**
At 31 December 2018	**6,900**	**2,300**	**2,104**	**34,803**	**46,107**

The attached notes 1 to 28 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

1) LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Maha Petroleum Products Marketing Company SAOG ("the Company") is registered under the Commercial laws of the Sultanate of Oman as a joint stock Company and is primarily engaged in the marketing and distribution of petroleum products. The Company's registered address is P O Box 57, Postal Code 116, Mina Al Fahal, Sultanate of Oman.

2) BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with:

i) International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"),

ii) the rules and guidelines on disclosure issued by the Capital Market Authority of the Sultanate of Oman ("CMA") and

iii) the requirements of the Commercial Companies Law of 1974, as amended.

b) Basis of Measurement

The financial statements have been prepared on the historical cost basis. This is the first set of annual financial statements, in which IFRS 9 and IFRS 15 have been applied. Changes to accounting policies relating to IFRS 9 and IFRS 15 are described in note 3.1.

c) Functional currency

The financial statements are presented in Rial Omani ("RO'000"), which is also the Company's functional currency. All financial information presented has been rounded to the nearest thousand unless otherwise stated.

d) Use of judgements & estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. In particular, estimates that involve uncertainties and judgments which have a significant effect on the financial statements are explained in note 27.

3) NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO IFRS

3.1) Standards Issued & effective

For the year ended 31 December 2018, the Company has adopted among the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB those that are relevant to its operations and effective for periods beginning on 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3) NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO IFRS *(continued)*

3.1) Standards Issued & effective *(continued)*

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions
- IAS 40 (amendments) Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Amendments to IFRS 1 Adoption of International Financial Reporting Standards and IAS 28 Investments in Associates and Joint Ventures

The adoption of these standards and interpretations has not resulted in any major changes to the Company's accounting policies except IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers" whose effects on the Company's financial statements are mentioned below:

IFRS 9 - Financial Instruments

The Company has adopted IFRS 9 - Financial Instruments issued in July 2014 with a date of initial application of 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities. The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below:

a) Classification of financial assets

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity and amortised cost have been replaced by:

(1) Financial assets carried at amortised cost;

(2) Financial assets carried at fair value through other comprehensive income (FVOCI); and

(3) Financial assets carried at fair value through profit or loss (FVTPL)

(1) 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 FVTPL:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3) NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO IFRS *(continued)*

3.1) Standards Issued & effective *(continued)*

(a) The asset is held within a "business model" whose objective is to hold assets to collect contractual cash flows;

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and profit (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below. Further, financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Financing income, foreign exchange gains and losses and impairment are recognised in the profit or loss. Any gain or loss on derecognition is recognised in the profit or loss.

(a) Business model assessment

The Company determines its business model at the level that best reflects how it manages Companys of financial assets to achieve its business objective. The Company's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected). The expected frequency, value and timing of sales are also important aspects of the Company's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Company's original expectations, the Company does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

(b) SPPI test

As a second step of its classification process the Company assesses the contractual terms of financial asset to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3) NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO IFRS *(continued)*

3.1) Standards Issued & effective *(continued)*

The most significant elements of profit within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Company applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and profit on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

(2) Financial assets at fair value through other comprehensive income (FVOCI):

(i) Debt instruments at FVOCI

The Company applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Financing income and foreign exchange gains and losses and impairment losses are recognised in statement of comprehensive income. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from equity to profit or loss.

The Company does not have debt instruments at FVOCI

ii) Equity instruments at FVOCI

Upon initial recognition, the Company may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument by instrument basis.

The Company does not have equity instruments at FVOCI.

(3) Financial assets carried at fair value through profit or loss (FVTPL)

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3) NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO IFRS *(continued)*

3.1) Standards Issued & effective *(continued)*

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of comprehensive income.

The Company does not have financial assets at fair value through profit or loss.

b) Impairment of financial assets*(Applicable for 2018 only)*

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Company to record an allowance for ECLs for all debt financial assets not held at FVTPL. The Company has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience as adjusted for forward-looking factors.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Company considers a financial asset in default when contractual payment is 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company.

c) Hedge accounting

As IFRS 9 does not change the general principles of how an entity accounts for effective hedges.

The Company do not have hedge instruments.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3) NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO IFRS *(continued)*

3.1) Standards Issued & effective *(continued)*

d) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

a) Comparative periods have not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

b) The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held.

- The designation and revocation of previous designations of certain financial assets as measured at FVOCI.

Impact of adopting IFRS 9

The impact of this change in accounting policy as at 1 January 2018 has been to decrease retained earnings by RO 4.119 million as follows:

	RO'000
Closing balance under IAS 39 as of 31 December 2017 (note 10)	**65,590**
Impact on recognition of ECL on trade receivables:	
ECL under IFRS 9 for trade receivables at amortised cost	**(4,119)**
Total transition adjustment on adoption of IFRS 9 as at 1 January 2018	**(4,119)**
Opening balance under IFRS 9 as of 1 January 2018	**61,471**

Classification of financial assets on the date of initial application of IFRS 9

The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets as at 1 January 2018.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3) NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO IFRS *(continued)*

3.1) Standards Issued & effective *(continued)*

	Original classification (IAS 39)	New classification (IFRS 9)	Original Carrying amount	Re-measurement - ECL	Re-measurement - Others	New carrying amount
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Financial assets						
Bank balances and cash (note 12)	Loans and receivables	Amortised cost	30,626	-	-	30,626
Trade and other receivables (note 10)	Loans and receivables	Amortised cost	68,208	(4,119)	-	64,089
Total Financial assets			**98,834**	**(4,119)**	**-**	**94,715**

Adoption of IFRS 9 did not result in any change in classification or measurement of financial liabilities.

IFRS 15 — Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and is effective for annual periods commencing on or after 1 January 2018. IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue guidance, which is found currently across several Standards and Interpretations within IFRS. It established a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Company's adoption of IFRS 15 under modified retrospective method had the below impact on the financial statements of the Company.

Transition impact on the initial application of IFRS 15:

	Debit in Contract assets	Debit in Contract costs	Credit in Other receivables	Debit/ (Credit) to retained earnings
Contract:	**RO'000**	**RO'000**	**RO'000**	**RO'000**
MOD – Contract	149	-	(272)	(123)
MOD - RAFO Musanna	311	-	(296)	15
MOD - RAFO Adam	334	-	(189)	145
Mwasalat	-	186	(186)	-
	794	**186**	**(943)**	**37**

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

3) NEW AND AMENDED STANDARDS AND INTERPRETATIONS TO IFRS *(continued)*

3.2) Standards issued but not yet effective

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Company but are not yet mandatory for the year ended 31 December 2018:

- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- Amendments to IFRS 9: Prepayments features with negative compensation
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long-term interests in associates and joint ventures
- Annual Improvements 2015-2017 Cycle (issued in December 2017)
  - IFRS 3 Business Combinations
  - IFRS 11 Joint Arrangements
  - IAS 23 Borrowing Costs
  - IAS 12 Income Taxes

Management does not expect that the adoption of the above new and amended standards and the interpretation to a standard will have a significant impact on the Company's financial statements, except for the IFRS 16 "Leases" whose effects on the Company's financial statements are explained below:

IFRS 16 Leases:

The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The Company will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. The Company is in the process of assessing the impact of the initial application. Management believes that the most significant impact will be that the Company will need to recognise a right of use assets and lease liability for land on which their depots, office and bulk storage facilities are constructed, currently treated as an operating lease. This will mean that the nature of the expense of the above cost will change from being an operating lease expense to depreciation and interest expense.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies adopted by the Company are as follows:

4.1) Revenue (Policy applicable from 1 January 2018)

The Company's principal activity is manufacturing and selling Fuel, lubricants and petroleum products.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Sale of fuel, lubricants and petroleum products

Revenue from sale of fuel, lubricants and petroleum products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the products. The normal credit terms are 30 to 90 days upon delivery/receipt.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of products, the Company considers the effects of variable consideration.

Volume Rebate

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the future expected rebates, the Company applies the most likely amount method for contracts with a single-volume.

The new revenue standard will supersede all current revenue recognition requirements under IFRS and is effective from 01 January 2018.

4.2) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Rental income arising on account of operating lease is accounted for on a straight-line basis over the operating lease terms and is included as revenue in the statement of comprehensive income.

4.3) Employee benefits

Contributions to the Oman Government defined contribution retirement plan are recognised as expense in the statement of comprehensive income as incurred in accordance with the rules of the Oman Social Insurance Scheme.

Accruals for non-Omani employee terminal benefits under an unfunded defined benefit retirement plan, are made in accordance with Omani Labour Laws and calculated on the basis of the liability that would arise if the employment of all employees was terminated at the statement of financial position date.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.4) Foreign currency transactions

Transactions in foreign currencies are translated to the Company's functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income.

4.5) Dividends

Dividends are recommended by the Board of Directors and subject to approval by shareholders at the Annual General Meeting. Dividends are recognised as a liability in the period in which they are declared.

4.6) Finance charges and finance income

Finance charges comprise interest payable on borrowings. Finance income comprises interest receivable on funds invested. Finance income is recognised in the statement of comprehensive income as it accrues taking into account the effective yield on the asset. Finance charge is recognised in the statement of comprehensive income as it accrues using the effective interest rate method.

4.7) Income tax

Current tax

Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary difference when they reverse, based on the laws that have been enacted or substantially enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and 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 as there is a legally enforceable right to offset these in Sultanate of Oman.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.8) Directors' remuneration

The total remuneration paid to directors comprising sitting fees, remuneration and expenses is in accordance with the provision and is within the limit of the Commercial Companies Law; the CMA guidance; and the Articles of Association of the Company.

4.9) Segment reporting

Segment results that are reported to the Chief Executive Officer (CEO) include revenues directly attributable to a segment. Unallocated items comprise mainly assets, liabilities, expenses and tax assets and liabilities.

4.10) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. The cost includes any other cost that directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Where costs are shared with other parties only share of cost borne by the Company with respect to these assets is recognised. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of an item if it is probable that future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income.

Land and capital work-in-progress are not depreciated. Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of items of property, plant and equipment as noted below:

	Years
Buildings and roads	7 to 20
Plant and equipment	7 to 12
Motor vehicles	3 to 7
Furniture and fixtures	3

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.10) Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds with the carrying amounts and are taken into account in determining operating profit.

Capital work-in-progress are carried at cost less any recognised impairment loss and is not depreciated until it is transferred into one of the asset categories, which occurs when the asset is ready for use.

4.11) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Cost represents purchase price plus direct expenses incurred in bringing the inventory to its present condition and location. Cost is determined on weighted average basis.

4.12) Trade and other receivables *(Applicable for 2017 only)*

Trade and other receivables are stated at original invoice amount less an allowance for any uncollectible amounts. An estimate for impaired debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

4.13) Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents include cash on hand and at bank with a maturity of less than three months from the date of placement, net of bank overdrafts, if any.

4.14) Impairment of financial assets *(Applicable for 2017 only)*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in companies that share similar credit risk characteristics. All impairment losses are recognised in the statement of comprehensive income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

4) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

4.15) Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specified to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.16) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Measurement of liabilities is based on current legal requirements and existing technology. Provisions are discounted only where the effect of the time value of money is material.

4.17) Trade and other payables

Trade and other payables are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not and are stated at amortised cost.

4.18) Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract costs

Contract costs is the cost incurred to fulfil the contract and the relating assets must be amortised on a systematic basis that is consistent with the Company's transfer of the related goods or services to the customer unless there are indications of impairment based on management's estimation of recoverability of contract costs.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

5) OTHER INCOME

	2018 RO'000	2017 RO'000
Reimbursement of manpower costs	**294**	424
Others	**235**	120
	529	544

6) OPERATING AND ADMINISTRATION EXPENSES

	2018 RO'000	2017 RO'000
Transportation	**5,295**	5,588
Employee costs (Note 7)	**5,267**	4,908
Depreciation (Note 8)	**3,892**	3,760
Filling stations operating expenses	**2,886**	2,161
License fees*	**1,950**	1,722
Maintenance expenses	**1,775**	1,791
Technical fees	**1,536**	1,083
Legal & Consultancy expenses	**308**	176
Marketing expenses	**236**	258
Directors' remuneration and sitting fees (Note 20)	**200**	200
Rent & utilities	**261**	202
Municipal fees & taxes	**229**	83
Bank charges	**225**	50
Allowance for slow moving inventory	**150**	-
Social Responsibility expenses	**49**	44
Amortisation	**10**	-
(Write back) impairment losses on trade and other receivables (Note 10)	**(210)**	1,834
Others	**488**	95
	24,547	23,955

*License fees

Effective from 1 Jan 2009, license fee is payable to the Ministry of Commerce and Industry at 4 baiza per each Rial Omani of revenue earned from selling of fuel.

7) EMPLOYEE COSTS

Employee costs included in operating and administration expenses (Note 6) comprise:

	2018 RO'000	2017 RO'000
Wages, salaries and other benefits	**4,874**	4,540
Contributions to defined contribution retirement plan	**323**	291
End of service benefits - Current year charge (Note 14)	**70**	77
	5,267	4,908

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2018

8) PROPERTY, PLANT AND EQUIPMENT

	Land	Building and roads	Plant and equipment	Motor vehicles	Furniture and fixtures	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost							
At 1 January 2018	877	27,666	22,166	3,296	1,261	5,406	60,672
Additions	-	270	151	907	8	3,382	4,718
Transfers	-	4,516	1,589	-	-	(6,105)	-
Disposals	-	-	(11)	(84)	-	-	(95)
At 31 December 2018	877	32,452	23,895	4,119	1,269	2,683	65,295
Depreciation							
At 1 January 2018	-	11,388	14,840	2,081	1,245	-	29,504
Charge for the year	-	1,517	1,913	453	9	-	3,892
Disposals	-	-	(10)	(76)	-	-	(86)
At 31 December 2018	-	12,855	16,743	2,458	1,254	-	33,310
Net book value							
At 31 December 2018	877	19,597	7,152	1,661	15	2,683	31,985

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2018

8) PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Land	Building and roads	Plant and equipment	Motor vehicles	Furniture and fixtures	Capital work in progress	Total
	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000	RO'000
Cost							
At 1 January 2017	441	27,039	20,968	3,342	1,251	3,105	56,146
Additions	436	-	233	417	10	5,781	6,877
Transfers	-	1,749	1,415	-	-	(3,480)	(316)
Reclassification	-	(1,122)	(376)	(234)	-	-	(1,732)
Disposals	-	-	(74)	(229)	-	-	(303)
At 31 December 2017	877	27,666	22,166	3,296	1,261	5,406	60,672
Depreciation							
At 1 January 2017	-	10,352	13,031	2,204	1,242	-	26,829
Charge for the year	-	1,320	2,097	340	3	-	3,760
Reclassification	-	(334)	(217)	(234)	-	-	(785)
Related to disposals	-	-	(71)	(229)	-	-	(300)
At 31 December 2017	-	11,338	14,840	2,081	1,245	-	29,504
Net book value							
At 31 December 2017	877	16,328	7,326	1,215	16	5,406	31,168

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

8) PROPERTY, PLANT AND EQUIPMENT *(continued)*

(i) Property, plant and equipment include certain assets located at the depot at Mina Al Fahal with a carrying value of RO451,533 (2017: RO609,000). These assets are held in partnership with Oman Oil Marketing Company SAOG (OOMCO). The Company's buildings at the depot at Mina Al Fahal are constructed on land leased from the Ministry of Oil and Gas until 31 October 2019 and cannot be sold without the mutual consent of the Company and OOMCO.

(ii) Property, plant and equipment include filling station assets with a carrying value of RO 24.3million (2017: RO 21.2million). These assets are constructed and commissioned on filling station sites leased for periods not exceeding 25 years. Lease rentals for sites managed by the Company are agreed for periods varying from five to seven years. In certain cases where the filling station assets cost is shared between the Company and site owner, only the cost borne by the Company is recognised as property, plant and equipment.

The future minimum lease commitments under non-cancellable operating leases is disclosed in note 24.

9) INVENTORIES

	2018	2017
	RO'000	RO'000
Petroleum products	2,953	2,942
Less: Allowance for slow moving inventories	(150)	-
	2,803	2,942
General stores and consumables	876	935
	3,679	3,877

10) TRADE AND OTHER RECEIVABLES

	2018	2017
	RO'000	RO'000
Trade receivables	66,688	68,768
Less: allowance for impairment losses	(7,087)	(3,178)
Trade receivables, net of impairment losses	59,601	65,590
Prepayments	485	550
Accrued income	135	281
Staff receivables	108	78
Amounts due from related parties (Note 20)	19	79
Other receivables	975	1,630
	61,323	68,208

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

10) TRADE AND OTHER RECEIVABLES *(continued)*

Movement in the allowance for impairment losses were as follows:

	2018	2017
	RO'000	RO'000
At 1 January	**3,178**	2,763
Adjustment on initial application of IFRS 9	**4,119**	-
(Reversal)/charge for the year (Note 6)	**(210)**	1,834
Written off	**-**	(1,419)
At 31 December	**7,087**	3,178

As at 31 December 2018, the ageing of unimpaired trade receivables is as follows:

			Past due but not impaired			
	Total	**Neither past due nor impaired**	**Less than 30 days**	**30 to 60 days**	**60 to 90 days**	**More than 90 days**
	RO'000	**RO'000**	**RO'000**	**RO'000**	**RO'000**	**RO'000**
Weighted average loss rate	11%	0.9%	1.5%	2.1%	4.2%	50.7%
Gross carrying amount	66,688	24,621	16,444	8,900	4,431	12,292
Expected credit losses	(7,087)	(231)	(245)	(189)	(187)	(6,235)
2018	**59,601**	**24,898**	**16,201**	**8,708**	**4,237**	**5,557**

As at 31 December 2017, the ageing of unimpaired trade receivables is as follows:

			Past due but not impaired			
	Total RO'000	Neither past due nor impaired RO'000	Less than 30 days RO'000	30 to 60 days RO'000	60 to 90 days RO'000	More than 90 days RO'000
2017	65,590	26,099	19,297	10,538	4,183	5,473

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over all receivables and the vast majority are, therefore, unsecured.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

11) CONTRACT BALANCES

	2018	2017
	RO'000	RO'000
Contract assets	638	-
Contract costs	325	-
	963	-

Contract assets are initially recognised for revenue earned from the contracts with the customers as receipt of consideration is conditional on successful completion of performance obligation. Upon completion of obligation and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. As at 1 January 2018, the Company has recognised the contract assets as per IFRS 15 as part of transition. Based on management's assessment, an amount of RO 311 thousand has been written off during the year and included under operating and administration expenses (Note 6).

Contract cost are recognised as per IFRS 15 and are being amortised with the terms specified under the contract.

The Company has applied modified retrospective approach for the contract balances as on 1 January 2018. Please refer note 3.1 for transition impact details.

12) CASH AND CASH EQUIVALENTS

a) Cash and bank balances:

	2018	2017
	RO'000	RO'000
Cash at bank	34,370	30,612
Cash in hand	31	14
	34,401	30,626

Bank balances are denominated in Rials Omani and held with local commercial banks. Certain bank balances earn interest at commercial rates. The management believes that the expected credit losses on bank balance is immaterial at the financial statement level as a whole.

b) Short term loan:

Short term loan facility is availed from local commercial banks and has a maturity of one month. The loan carries interest at a rate of 2.5% to 3.5%.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

13) INCOME TAX

a) Recognised in the statement of comprehensive income:

Components of tax:

	2018	2017
	RO'000	RO'000
Current tax:		
Current year tax expense	1,004	1,151
Prior year's tax reversal	(103)	-
	901	1,151
Deferred tax asset:		
Current year	(285)	(313)
	(285)	(313)
	616	838

The Company is subject to income tax in accordance with the Income Tax Law of the Sultanate of Oman at the enacted tax rate of 15% (2017: 15%) of taxable income. For the purpose of determining the tax expense for the year, the accounting profit has been adjusted for tax purposes.

The difference between the applicable tax rates of 15% and the effective tax rate of 17.41% (2017 – 19.69%) arises due to the tax effect of income not considered to be taxable and expenses that are not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

b) Reconciliation of income tax expense and effective tax rate

	2018	2017
	RO'000	RO'000
Taxable income	5,764	7,680
Income tax expense computed at the applicable rates	1,004	1,151
Prior year tax expense	(103)	-
Deferred tax asset	(285)	(313)
	616	838

c) Current status of tax assessments

The Company's income tax assessments for years 2013 to 2018 have not been finalized. The Management considers that the amount of additional taxes, if any, that may become payable on finalization of the assessments for the open tax years would not be significant to the Company's financial position at 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

13) INCOME TAX *(continued)*

d) Deferred tax asset

The deferred tax comprises the following temporary differences:

	2018	2017
	RO'000	RO'000
Provisions and other charges	523	477
Property, plant and equipment	700	461
	1,223	938

14) EMPLOYEES' END OF SERVICE BENEFITS

	2018	2017
	RO'000	RO'000
At 1 January	290	227
Charge for the year	70	77
Payments during the year	(19)	(14)
At 31 December	341	290

15) SHARE CAPITAL

The authorized share capital comprises 85 million shares of RO 0.100 each (31 December 2017: 85 million of RO 0.100 each)

At 31 December 2018, the issued and fully paid up share capital comprised 69 million shares of RO 0.100 each (31 December 2017: 69 million shares of RO 0.100 each).

At 31 December, shareholders owning more than 10% of the Company's share capital are as follows:

	2018		2017	
	No of Shares	Percentage of shareholding	No of Shares	Percentage of shareholding
ABS Lubricants	27,600,000	40%	27,600,000	40%
Civil Service Employees Pension Fund	8,895,910	12.8%	8,895,910	12.8%

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

16) LEGAL RESERVE

Article 106 of the Commercial Companies Law of 1974 requires that 10% of a Company's net profit be transferred to a non-distributable legal reserve until the amount of legal reserve becomes equal to at least one-third of the Company's issued share capital. Therefore the company has resolved not to transfer any amount to legal reserve (2017 : nil).

During the year, no amount has been transferred to legal reserve, as the reserve equals to one-third of the issued share capital. (2017: nil).

17) SPECIAL RESERVE

The Company had established a special reserve in prior years to cover against any losses from unforeseen contingencies.

18) TRADE AND OTHER PAYABLES

	2018	2017
	RO'000	RO'000
Trade payables	**38,692**	37,792
Accrued expenses	**4,497**	5,850
Advance from customers	**1,302**	940
Accrual for directors' remuneration	**148**	134
Other payables	**1,281**	1,012
	45,920	45,728

19) DIVIDEND

During the year dividend of RO 0.065 per share amounting to RO 4.485 million relating to 2017 was declared and paid (2017: 0.100 per share amounting to RO 6.900 million relating to 2016).

The Board of Directors has proposed a cash dividend of **RO 0.070** per share amounting to **RO 4.830 million** for the year ended 31 December 2018, (31 December 217 : RO 0.065 per share amounting to RO 4.485 million), which is subject to the approval of the shareholders at Annual General Meeting to be held on 25 March 2019.

20) RELATED PARTY TRANSACTIONS

The Company has entered into transactions with members of the board of directors and members of the key management personnel of the Company. Transactions with related parties are considered by the board of directors to be at normal commercial terms and are as follows:

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

20) RELATED PARTY TRANSACTIONS *(continued)*

	2018	2017
	RO'000	RO'000
Expenses		
Directors' remuneration and sitting fees (Note 6)	**200**	200
Operating lease payment for a filling station owned by a director	**24**	2
	224	202

At 31 December 2018, there were no transactions with shareholders holding 10% or more interest in the Company (2017: nil).

Amounts due from related parties are disclosed in note 10.

Outstanding balances at the year-end arise in the normal course of business. For the year ended 31 December 2018, the Company has not recorded any impairment of amounts owed by related parties (2017: nil).

Compensation of key management personnel

The remuneration of key management personnel during the year were as follows:

	2018	2017
	RO'000	RO'000
Short-term benefits	**477**	520
Employees' pension and end of service benefits	**44**	35
	521	555

21) FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks including the effects of changes in market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out by management under policies approved by the Board of Directors (the Board). The Board has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has entrusted the audit committee with the responsibility of the development and monitoring the Company's risk management policies and procedures and its compliance with them. These policies and systems are reviewed regularly to ensure that they reflect any changes in market conditions and the Company's activities. The Company, through its induction and training program, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

21) FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

(i) Market risk

(a) Foreign exchange risk

Foreign exchange risk arises where the value of a financial instrument changes due to changes in foreign exchange rates. The Company is substantially independent of changes in foreign currency rates as its foreign currency dealings are principally denominated in United States Dollars (US Dollar) or currencies pegged to the US Dollar. Since the Rial Omani is pegged to the US Dollar, management believes that the exchange rate fluctuation would have an insignificant impact on the profit.

(b) Interest rate risk

The Company's interest rate risk arises from bank borrowings and bank deposits. The Company analyses its interest rate exposure on a regular basis and reassesses the source of borrowings and renegotiates interest rates at terms favourable to the Company. The Company limits interest rate risk on bank deposits by monitoring changes in interest rates.

Management has estimated the effect on profit for the year due to increase or decrease in interest rates to be insignificant.

(c) Price risk

As at 31 December 2018, the Company is not exposed to equity securities or commodity price risk, as it does not hold any such financial instruments.

(ii) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash and cash equivalents and credit exposures to customers. The Company has a credit policy in place and exposure to credit risk is monitored on an on-going basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Company requires bank guarantees on higher credit risk customers. The Company does not require collateral in respect of all other financial assets

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location.

The Company has significant concentrations of credit risk with the Government sector. At 31 December 2018, Government organisations in Oman accounted for 24% (2017 - 24%) of the outstanding trade accounts receivable. At 31 December 2018, there were no other significant concentrations of credit risk.

Credit risk on other financial assets, including cash and cash equivalents arises from the risk of default of the counterparty, with a maximum exposure equal to the carrying amount of these balances.

Cash and bank balances are placed on deposit with reputed financial institutions in the Sultanate of Oman.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

21) FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

The exposure to credit risk at the reporting date was on account of:

	2018	2017
	RO'000	RO'000
Trade receivable	59,601	65,590
Bank balances	34,370	30,612
Advance to suppliers	48	71
Due from related parties	19	29
Other receivables	1,655	2,518
	95,693	98,820

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

	2018		2017	
	Gross	Impairment	Gross	Impairment
	RO'000	RO'000	RO'000	RO'000
Not past due	54,585	541	60,157	41
Past due 120days - 1 year	6,457	1,116	2,258	158
More than 1 year	5,646	5,430	6,353	2,979
	66,688	7,087	68,768	3,178

The Company's trade receivables balances of RO 7,087K were considered as impairment provision(31 December 2017: RO 3,178K). The impairment provision is assessed based on the "Expected Credit Loss" model under IFRS 9. The impairment provision for comparative figures was assessed under IAS 39, measurement basis which applied an "Incurred loss" model.

The credit risk exposure on the Company's trade receivables is disclosed in Note 10.

(iii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

21) FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(continued)*

The below schedule shows the maturity profile of the financial liabilities based on contractual undiscounted payments:

	Carrying amount	**6 months or less**	**6-12 months**	**More than 1 Year**
	RO'000	**RO'000**	**RO'000**	**RO'000**
31 December 2018				
Bank borrowings	**40,240**	**40,240**	**-**	**-**
Trade payables	**38,692**	**38,692**	**-**	**-**
Accruals and other payables	**6,966**	**6,966**	**-**	**-**
	85,898	**85,898**	**-**	**-**

	Carrying amount	6 months or less	6-12 months	More than 1 Year
	RO'000	RO'000	RO'000	RO'000
31 December 2017				
Bank borrowings	38,147	38,147	-	-
Trade payables	37,792	37,792	-	-
Accruals and other payables	7,711	7,697	14	-
	83,650	83,636	14	-

22) NET ASSETS PER SHARE

Net assets per share is calculated by dividing the shareholders' equity of the company at the year-end by the number of shares outstanding as follows:

	2018	2017
Shareholders' equity (RO'000)	**46,107**	49,525
Number of shares outstanding at the end of the reporting period (thousands) (note 14)	**69,000**	69,000
Net assets per share (RO)	**0.668**	0.718

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

23) BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2018	2017
Profit for the year (RO'000)	**5,149**	5,012
Weighted average number of shares (thousands)	**69,000**	69,000
Earnings per share - basic and diluted (RO)	**0.074**	0.073

Since the Company has no potentially dilutive instruments, basic earnings per share and diluted earnings per share are equal.

24) CONTINGENCIES AND COMMITMENTS

a. In Dec 2015, a civil case, connected to the previous criminal case initiated against the former Managing Director and the former Senior Marketing Manager of the Company, had been filed by a party. The case has been rejected by Primary and appeal courts and has been raised to the Higher Supreme court. Based upon external legal advice, the Board of Directors consider that the Company has no legal responsibility against these two cases and accordingly, no provision has been made against this claim in the financial statements as at 31 December 2018.

b. In previous years, the Company received claims from a major fuel supplier in Oman in respect of:

i) Price differential between the international and domestic gasoil prices payable in respect of fuel supplied during prior years to a customer amounting to approximately RO 820,000 as per the notification received from the Ministry of Finance by the fuel supplier. The Company has objected the claim and considers that the sale was a domestic fuel sale supported by a notification received from the Ministry of Oil and Gas in this regard and not an international sale, as claimed by the fuel supplier.

ii) The Company has deducted RO 846,000 in previous years from the amounts payable relating to invoices raised by the fuel supplier. This deduction relates to a transportation rebate that was not paid to the Company by the fuel supplier relating to the prior years. The Company believes it is eligible to receive the transportation rebate during such period and hence objected to pay this amount to the fuel supplier.

The fuel supplier has also claimed interest of approximately RO 483,000 in respect of non-settlement of the above claims by the Company.

Based upon the review of the correspondences with the supplier relating to above claims and discussion with the external lawyers and in-house legal counsel, the Board of Directors believes that no liability will ultimately arise to the Company. The Board of Directors are constantly monitoring the status of these above mentioned claims but there has been no progress, accordingly, no provision has been recorded in respect of the above matters in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

24) CONTINGENCIES AND COMMITMENTS *(continued)*

c. The Company guarantees and commitments in the normal course of its business as follows:

	2018 RO'000	2017 RO'000
Bank guarantees and letter of credits	**11,642**	10,850
Capital commitments	**800**	2,766
	12,442	13,616

d. Operating leases:

The Company has entered into certain long-term non-cancellable operating leases. Under the terms of these leases, the minimum future rental payable as at 31 December 2018 are, as follows:

	2018 RO'000	2017 RO'000
Future minimum lease payments:		
Not later than one year	**1,103**	549
Later than one year and not later than five years	**2,549**	1,611
More than five years	**2,068**	1,903
	5,720	4,063

25) SEGMENT REPORTING

Business units from which reportable segments derive their revenues

Information reported to the Company's Chief Executive Officer for the purposes of resource allocation and assessment of segment performance is more specifically focused on the category of business units. The principal categories of business units are retail, commercial and other sales. Other sales are predominantly aviation fuel and an insignificant portion of lubricants.

Information regarding the Company's reportable segments is presented below:

	Segment revenue	
	2018 RO'000	2017 RO'000
Retail sales	**277,766**	238,135
Commercial sales	**144,558**	143,545
Other sales	**65,592**	49,243
	487,916	430,923

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

25) SEGMENT REPORTING *(continued)*

The revenue reported above represents revenue generated from external customers excluding rental income. There were no inter-segmental sales in the year (2017: nil).

The disaggregation of revenue in accordance with IFRS 15 is in line with the segments disclosed above and the revenue for all these segments are recognised at point in time.

The Company's operating revenues arise primarily from the marketing and distribution of petroleum products in the Sultanate of Oman.

26) FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of cash and bank balance and receivables. Financial liabilities consist of trade and other payables and short term loan.

The fair values of the financial instruments are not materially different from their carrying values.

The accounting policies for financial instruments have been applied to the line items below:

	2018	2017
	RO'000	RO'000
Assets		
Trade and other receivables	**61,323**	68,208
Cash and bank balances	**34,401**	30,626
	95,724	98,834
Liabilities		
	2018	2017
	RO'000	RO'000
Trade and other payables	**45,286**	45,218
Retention payable	**634**	510
	45,920	45,728

27) KEY SOURCES OF UNCERTAINTY

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

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.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27) KEY SOURCES OF UNCERTAINTY *(continued)*

The areas requiring a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are set out below:

i) *Impairment of receivables – policy applicable from 1 January 2018*

On 1 January 2018 IFRS 9 "Financial Instruments" replaced the 'incurred loss' impairment model in IAS 39 "Financial Instruments: Recognition and Measurement" with an 'expected credit loss' (ECL) impairment model. The new impairment model requires forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. It also requires management to assign probability of default to various categories of receivables. Probability of default constitutes a key input in measuring an ECL and entails considerable judgement; it is an estimate of the likelihood of default over a given time horizon, the calculation of which involves historical data, assumptions and expectation of future conditions. In the previous year, the impairment review of trade receivables was performed only for receivables for which management had an indication for impairment. That also entailed significant judgement. It was determined by reference to past default experience of a counterparty and an analysis of the counterparty's financial situation, but the "incurred loss" model disregarded entirely the current and expected future conditions. As a result, it is expected that under the new impairment model credit losses will be recognised earlier.

ii) *Impairment of accounts receivable – policy applied before 1 January 2018*

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

At the reporting date, gross trade receivable was RO 66.7 million (2017: RO 68.8 million), and the allowanceforexpected credit losses was RO 7.1 million (2017: RO 3.2 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

iii) *Classification of financial assets - policy applicable from 1 January 2018*

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

iv) *Impairment of financial assets at amortised cost - policy applicable from 1 January 2018*

The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Company uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Company's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2018

27) KEY SOURCES OF UNCERTAINTY *(continued)*

v) *Useful lives of property, plant and equipment (Applicable to 2017 and 2018)*

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

vi) *Impairment of inventories (Applicable to 2017 and 2018)*

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.

At the reporting date, gross inventory was RO 3.8 million (2017 – RO 3.9 million), with RO 0.15 million (2017 – nil) provisions for old and obsolete inventories. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.

vii) *Going concern(Applicable to 2017 and 2018)*

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

viii) *Taxation (Applicable to 2017 and 2018)*

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

28) COMPARATIVE FIGURES

Certain comparative information has been reclassified to conform to the presentation adopted in the current year financial statements. Such reclassifications are not material and have not affected previously reported net profit or shareholders' equity except for the adoption of IFRS 9 and IFRS 15, as disclosed in note 3.1 that has impacted the retained earnings as at 1 January 2018. Other reclassifications mainly pertains to the transfer of certain amounts from property, plant and equipment to other receivables amounting to RO 947 thousand.