



Independent auditor's report to the shareholders of National Aluminium Products Company SAOG

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Aluminium Products Company SAOG (the "Company") as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

**Independent auditor's report to the shareholders of National Aluminium Products Company SAOG
(continued)***Our audit approach***Overview**

Key audit matters	<ul style="list-style-type: none">• Useful lives of the property, plant and equipment• Provisioning of spares inventory• Existence and valuation of scrap inventories
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As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

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.

Independent auditor's report to the shareholders of National Aluminium Products Company SAOG
(continued)

Key audit matter

How our audit addressed the key audit matter

Useful lives of the property, plant and equipment

The total carrying value of the Company's property, plant and equipment ("PP&E") as of 31 December 2016 amounted to RO 11,659,612 (refer to note 13) which represents 38% of the total assets of the Company

During the year, the Company completed major capital projects for a new factory building facility, two additional aluminium extrusion presses and a powder-coating line. This resulted in significant transfers from capital work-in-progress ("CWIP") to the PP&E asset categories 'Buildings' and 'Plant and machinery dies and die tools' amounting to RO 2,420,922 and RO 5,383,667 respectively.

The useful lives of the PP&E are determined by management at the time when each asset is commissioned and then reviewed at the end of each reporting period for appropriateness. The estimation of useful lives is based on management's assessment of various factors such as the actual life expectancy, historical experience with similar assets, operating cycles and maintenance towards normal wear and tear.

We focused on this area because of the significant value of PP&E as compared to the total assets of the Company, the significant transfers made to PP&E categories from CWIP during the year as referred to above, and the significant judgment involved in management's assessment of useful lives for the above transfers. In particular, we focused on the reasonableness of the useful lives determined by management for the transfers made to 'Buildings' and 'Plant and machinery dies and die tools' categories during the year as well as the appropriateness of the costs capitalized overall.

Refer to notes 4 and 13 in these financial statements for disclosures made by management.

We assessed the useful lives for the various classes of assets in the Company's accounting policy to consider whether they are reasonable relative to the Company's operations and that they have been applied consistently in the calculation of depreciation charges.

In particular, for the significant new transfers made during the year from capital work-in-progress, we obtained the basis of management's assessment of the appropriate useful lives and corroborated these with and the original manufacturer's/contractor's documentation. For the balance of assets within PP&E, useful lives were compared with the useful lives of similar assets in comparable sector companies.

We tested a sample of costs transferred from CWIP to other PP&E categories to ensure the nature of the expenditure was appropriate to capitalize. We also tested the accuracy of the date of capitalisation of these significant transfers from CWIP with reference to ready for use completion/commissioning certificates from the consultants/manufacturers.

We also used analytical techniques to test the accuracy of the depreciation charged for the year, based on the asset lives and depreciation accounting policy rates.

**Independent auditor's report to the shareholders of National Aluminium Products Company SAOG
(continued)**

Key audit matter

How our audit addressed the key audit matter

Provisioning of spares inventory

The total carrying value of the Company's inventories as of 31 December 2016 amounted to RO 8,538,074 (refer to note 15) which represents 28% of the total assets of the Company. Of the total inventories, RO 799,520 amounts to spares which form 9% of the total inventories.

Of the total spares of RO 799,520, items amounting to RO 474,592 are aged above 5 years. The listing of these older spares shows there to be over 17,500 items with per unit values ranging from 100 baizas to RO 7,350.

Given the total number of items within the 'over 5 years' age category and the fact that many items are very much older than 5 years, management has used the services of an expert independent valuer to ascertain the usability and the market value of the spares in this category. Based on the report of the independent valuer, management has established a provision this year of RO 156,330 against the spares in that category, where previously no items had been provided against.

We focused on this area primarily because of the fact that approximately 55% of the spares inventory was included in the over 5 years category. The age of such spares and their nature i.e. large number of items with an insignificant value per unit can be a challenge to estimate the level of provisions needed. Further, we have also considered that since the Company has been in existence for over 32 years, there is a possibility that the actual age of certain spares included within the age band in the 'over 5 years' category might be very old indeed and may not be usable. Accordingly, provisioning of such items constitutes an area of significant judgment on the part of management.

Under or over provision of spares may result in overstated or understated inventory balances and corresponding understated or overstated results for the year.

Refer to notes 4 and 15 in these financial statements for disclosures made by management.

We have obtained the item-wise spares inventory ageing report from management and agreed that from the report to the inventory balance carried in the financial statements.

We have validated the accuracy of the ageing of the items by testing the underlying material received notes ('MRN') of spares on a sample basis.

We have obtained the maintenance spares usability and valuation report submitted to management by the expert independent valuer and agreed the provision suggested in the report to the actual provision made by management against the old spares.

We have also assessed the reasonableness of the assumptions made by the valuer for usability and valuation and held direct discussions about these matters with the valuer.

We evaluated the competence, capabilities and objectivity of the independent firm considering the following factors:

- Personal experience with previous work of the firm;
- Discussions with the senior members of the firm;
- Knowledge of the qualification of senior members in the firm and the firm's license to practice.

We also attended the physical inventory count carried out by management at the year end to validate existence of the inventory, including these spares, on a test basis.

Independent auditor's report to the shareholders of National Aluminium Products Company SAOG (continued)

Key audit matter

How our audit addressed the key audit matter

Existence and valuation of scrap inventories

(a) Existence of scrap inventories

The total carrying value of the Company's scrap inventories as of 31 December 2016 amounted to RO 1,278,032 which represents 15% of the total inventories of the Company of RO 8,538,074 at 31 December 2016 (refer to note 15).

The above value of scrap inventories comprises a total of 2,068 MT of scrap. Given such high quantities of scrap and the difficulties inherent in accurately measuring it, management has utilised the services of an independent third party to count the scrap inventories subsequent to the year end.

(b) Valuation of scrap inventories

Scrap inventories are stated at the lower of cost and net realisable value as per the Company's accounting policy and as required by IAS 2 - Inventories.

Since the scrap is derived from the raw material i.e. aluminium billets, the Company computes the cost of scrap inventories based on the weighted average cost of the raw materials after excluding the average premium charged by the raw material suppliers during the year. This is compared with the net realisable value i.e. the value at which the scrap is sold subsequent to the year end.

We focused on these two specific areas of scrap inventory because of the substantial quantities of scrap generated during the production cycle by the Company as well as the high quantity and volume of scrap inventories held by the Company at the year end. The physical count of such quantities is a complex and time consuming exercise which required the specialist expertise of an independent third party valuer and surveyor firm to complete. As the physical verification was carried out subsequent to the year end this also meant that management needed to undertake a further reconciliation of the inventory quantities and values from the count date to those at 31 December 2016.

Furthermore, aluminium scrap inventories have an active market and are considered valuable commodities based on the prevailing and quoted aluminium metal exchange price. Due to the nature of the high value scrap inventories and volatile aluminium prices during the year, considerable time and effort was expended by management to ensure an appropriate valuation of scrap inventories in line with the Company's accounting policy. Also, since the amount of scrap inventories carried at year end is significant, an incorrect valuation might result in a material under- or over-statement of inventory balances at the year end.

Refer to notes 4 and 15 in these financial statements for disclosures made by management.

(a) Existence of scrap inventories

We have obtained the scrap inventory count report submitted to management by the independent third party valuer and surveyor firm.

We evaluated the competence, capabilities and objectivity of the third party firm considering the following factors:

- Personal experience with previous work of the firm;
- Discussions with the senior members of the firm;
- Knowledge of the qualification of senior members in the firm and the firm's license to practice.

Since the count was performed subsequent to the year end, we have obtained the reconciliation between the inventories on the count date and the inventories at the year end from management and have tested the movements (i.e. scrap sales and scrap generations) in the intervening period on a sample basis.

We have tested the appropriateness of the adjustments made to the differences between the physical and book inventories as at 31 December 2016.

(b) Valuation of scrap inventories

We have tested the cost of raw materials, which is the basis on which the cost of scrap inventories is arrived at by management, by reference to the weighted average cost of raw material purchases during the year. We have also tested the average premium paid to the raw material suppliers by the Company during the year, which is excluded from the raw material cost to arrive at the scrap inventory cost, by reference to purchasing records.

We have tested scrap sales made subsequent to the year end to arrive at the net realisable value and corroborated the sales price with the prevailing London Metal Exchange price for aluminium. We have compared the scrap cost with the derived net realisable value based on subsequent sales prices to ascertain whether the scrap inventories are appropriately stated as per the Company's policy (i.e. lower of cost and net realisable value) and in line with the requirements of the accounting standards.

**Independent auditor's report to the shareholders of National Aluminium Products Company SAOG
(continued)**

Key audit matter

How our audit addressed the key audit matter

We have assessed the appropriateness and consistent application of the Company's accounting policy for scrap inventory valuation followed by management in line with relevant accounting standards.

We have also noted the net realisable value suggested by the independent valuer in its report and compared with the actual sales price for comparability and reasonableness.

Other information

The directors are responsible for the other information. The other information, which we obtained prior to the date of our auditor's report comprises of the Board of Directors' report, the Corporate Governance Report and Management Discussion and Analysis, but does not include the financial statements and our auditor's report thereon. The complete annual report which is not yet received is expected to be made available to us after that date.

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 identified above 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 that we obtained prior to the date of this 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.

When we read the complete annual report which is not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the management and those charged with governance for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the relevant requirements of the Capital Market Authority ("the CMA") of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended, 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, the directors 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 directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

**Independent auditor's report to the shareholders of National Aluminium Products Company SAOG
(continued)**

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 scepticism throughout the audit. We also:

- 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 the purpose of 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 directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

**Independent auditor's report to the shareholders of National Aluminium Products Company SAOG
(continued)**

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

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.

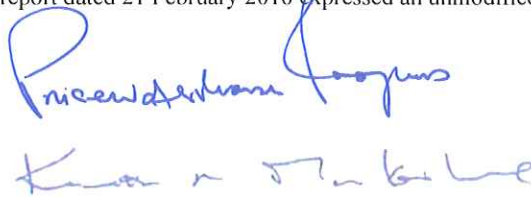
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation 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

Further, we report that the financial statements have been prepared and comply, in all material respects, with the relevant requirements of the CMA of the Sultanate of Oman and the Commercial Companies Law of 1974, as amended.

Other matter – prior period financial statements audited by predecessor auditor

The financial statements for the period ended 31 December 2015 were audited by another firm of auditors, whose report dated 21 February 2016 expressed an unmodified opinion on those financial statements.



Kenneth Macfarlane

Place: Muscat, Sultanate of Oman

10 March 2017

