Q2 DIRECTORS' REPORT

FOR THE PERIOD ENDED 30 JUNE 2020

Dear Shareholders,

On behalf of the Board of Directors, the report on the performance of Galfar Engineering & Contracting SAOG ('the Parent Company') and its subsidiaries and associate companies (collectively 'the Consolidated Group') for the period ended 30 June 2020 is presented below:

Financial Performance	Parent Company (RO '000s)		Consolidated (RO '000s)	
	H1, 2020	H1, 2019	H1, 2020	H1, 2019
Revenue	104,756	117,771	110,761	126,941
EBITDA	(1,962)	12,959	(1,066)	14,612
Operating profit	(8,304)	4,730	(8,246)	5,575
Profit before tax	(11,044)	2,594	(10,986)	3,405
Net profit after tax	(11,044)	1,797	(11,116)	2,480

Operations

The Group incurred losses of RO.11.116 Millions in the first half year of 2020 due to operation losses on account of time and cost over runs in major projects. The revenues dropped by approximately 13 % compared to the same period in 2019 as projects progress was also impacted by COVID-19 situation and the lock-downs and measures taken to control the pandemic.

The Parent Company has certified overdue receivables of more than RO 42 million as of date from the government and its related entities. The company continues to sustain heavy interest cost due to delayed payment of receivables. The delay in receiving the overdue receivable has caused a strain on the Company's cash flow, which resulted in suboptimal execution of certain projects and delay in completion of others.

The Board and the Management of the Company are working very closely on various measures to re-structure the organization, to reduce operating cost and to collect overdue receivables in order to recover the accumulated losses and strengthen the financial position of the Company.

The economic downturn has also affected the performance of Galfar's subsidiaries in Oman which incurred losses of RO 93K in H1, 2020 against a profit of RO 688K in H1 2019. However, the Associate in Kuwait made a positive contribution of RO 83K to Group's profit in H1 2020 as against RO 109K in H1 2019.

Outlook

During the period H1-2020, the Parent Company was awarded new contracts worth RO ~21 million . The contracts awarded included the construction of 16” Export Pipeline with Associated Facility from Oman Oil Company RO ~12 Million, and the rehabilitation project Fahud Runway with PDO for approximate value of RO 9 Million.

In addition to the above, the award of the new project ‘Dualisation of Adam / Thumrait Road Project – Part 4’ for RO.115.045 Million on 02 Jul 2020, has further strengthened the order book of the Company which stands at approximately RO. 450 Million as of H1-2020. Combined with the Company’s restricting efforts this strong order book presents positive forecast for the company to pass through current economic crises and to pursue growth, diversification and capability building in the future.

Oman’s economy is expected to contract in 2020 due to the oil price slide and the COVID-19 pandemic, which are key challenges that Oman will need to navigate in the short-run. With oil prices around USD $40, and the constrained oil demand in 2020, growth is expected to contract. The company is expected to face severe challenges for the balance period of 2020, with pressure on committed delivery of materials and services from internal and external sources with cascading effect on the performance of the company.

The company also expects to have challenges on the Cash Flow front with pressure on collection of receivables from various clients. The management continues to implement strategies for the cost control, optimizing the resources and plans for close interaction and follow up with clients to ensure collection of outstanding receivables.

Going forward, management expects to maintain a solid work pipeline with a significant number of tenders under evaluation across a diverse array of sectors and clients. We reasonably expect to be successful in a number of those which will ensure stability and sustainability of our strong market position.

On Record

We pledge our support to His Majesty Sultan Haitham bin Tarik, and his Government and various Ministries in their endeavors to build on the outstanding legacy of late His Majesty Sultan Qaboos bin Said bin Taimour, and for providing opportunities for the private sector to participate in the development of Oman’s economy.

The Board would also like to thank our esteemed clients, Banks and Financial Institutions, Consultants, Suppliers, Service Providers and Shareholders for their generous cooperation and continued support and the employees and management of the company for their commitment and dedication.

Majid Salim Said Al Fannah Al Araimi
Chairman

Statement of financial position

As at 30 June 2020

Amount in RO '000s

		Parent Company		Consolidated	
	Notes	**Jun, 2020**	Dec, 2019	**Jun, 2020**	Dec, 2019
				Unaudited	
ASSETS					
Non-current assets					
Property, plant and equipment	**3**	**36,405**	41,313	**42,096**	47,032
Intangible assets	**4**	**312**	283	**349**	294
Right of use assets	**5**	**1,153**	1,439	**1,518**	1,862
Investment in subsidiaries	**6**	**3,923**	3,923	**-**	-
Investment in associates	**7**	**5,466**	5,466	**4,945**	4,943
Investments at fair value through other comprehensive income		**125**	125	**145**	145
Retentions receivables	**10**	**9,334**	8,042	**9,334**	8,042
		56,718	60,591	**58,387**	62,318
Current assets					
Inventories	**8**	**10,604**	9,034	**12,152**	10,712
Contract work in progress	**9**	**50,570**	56,486	**52,703**	57,466
Contract and trade receivables	**10**	**139,532**	133,880	**146,335**	141,105
Advances, prepayments and other receivables	**11**	**23,033**	25,222	**22,613**	26,255
Deposits with banks	**12**	**2,309**	2,307	**2,338**	2,329
Cash and bank balances	**13**	**1,507**	2,538	**3,050**	4,246
		227,555	229,467	**239,191**	242,113
Total assets		**284,273**	290,058	**297,578**	304,431
EQUITY AND LIABILITIES					
Equity					
Share capital	**14**	**41,522**	41,522	**41,522**	41,522
Share premium	**15**	**18,337**	18,337	**18,337**	18,337
Statutory reserve	**16**	**13,840**	13,840	**14,426**	14,426
Foreign currency translation reserve	**17**	**-**	-	**(401)**	(320)
Accumulated losses		**(39,996)**	(28,952)	**(36,834)**	(25,695)
Equity attributable to owners of the Parent Company		**33,703**	44,747	**37,050**	48,270
Non-controlling interest		**-**	-	**929**	906
Total equity		**33,703**	44,747	**37,979**	49,176
Non-current liabilities					
Term loans	**19**	**7,998**	11,321	**8,202**	11,713
Lease liability	**20**	**523**	850	**1,434**	1,288
Employees' end of service benefits	**24**	**14,631**	14,818	**14,858**	15,020
Advance from customers	**25**	**7,858**	7,411	**7,858**	7,411
Deferred tax liability	**26**	**-**	-	**323**	323
		31,010	34,400	**32,675**	35,755
Current liabilities					
Term loans - current portion	**19**	**6,851**	13,711	**7,370**	14,418
Lease liability - current portion	**20**	**632**	467	**848**	644
Short term loans	**21**	**30,322**	27,050	**30,322**	27,050
Bank borrowings	**22**	**42,138**	34,204	**42,495**	34,261
Trade payables	**23**	**75,254**	69,627	**84,492**	79,815
Other payables and provisions	**25**	**62,961**	64,450	**59,873**	61,804
Provision for taxation	**26**	**1,402**	1,402	**1,524**	1,508
		219,560	210,911	**226,924**	219,500
Total liabilities		**250,570**	245,311	**259,599**	255,255
Total equity and liabilities		**284,273**	290,058	**297,578**	304,431
Net assets per share (RO)	**35**	**0.081**	0.108	**0.089**	0.116

The attached notes 1 to 41 form part of these financial statements.

The financial statements were approved by the Board of Directors on 26 August 2020 and were signed on their behalf by:

Chairman

Chief Financial Officer

Statement of comprehensive income

For the period from 01 January 2020 to 30 June 2020

Amount in RO '000s

		Parent Company		Consolidated	
	Notes	**Jun, 2020**	Jun, 2019	**Jun, 2020**	Jun, 2019
			Unaudited	**Unaudited**	Unaudited
Contract revenue	**27**	**102,847**	115,922	**103,464**	116,839
Sales and services income	**28**	**1,909**	1,849	**7,297**	10,102
Total revenue		**104,756**	117,771	**110,761**	126,941
Cost of contracts and services	**30**	**(111,773)**	(112,808)	**(117,236)**	(120,225)
Gross (loss)/profit		**(7,017)**	4,963	**(6,475)**	6,716
Other income	**29**	**741**	1,315	**789**	1,357
General and administrative expenses	**31**	**(2,985)**	(2,136)	**(3,765)**	(3,086)
Reversal for impairment of receivables and other current assets, net	**9, 10,11 and 12**	**957**	588	**1,206**	588
Finance costs, net	**33**	**(2,740)**	(3,624)	**(2,824)**	(3,720)
Share in results of associates	**7**	**-**	-	**83**	62
Profit on sale of Investments	**6A**	**-**	1,488	**-**	1,488
(Loss)/profit before tax		**(11,044)**	2,594	**(10,986)**	3,405
Income tax expense	**26**	**-**	(797)	**(130)**	(925)
(Loss)/profit for the period		**(11,044)**	1,797	**(11,116)**	2,480
Other comprehensive (loss)/income					
Items that will be subsequently reclassified to profit or loss:					
Foreign currency translation reserve reclassified to profit or loss on disposal of foreign operations		**-**	-	**(81)**	2,566
Total comprehensive (loss)/income for the period		**(11,044)**	1,797	**(11,197)**	5,046
Attributable to:					
Owners of the Parent Company		**(11,044)**	1,797	**(11,139)**	2,473
Non-controlling interest		**-**	-	**23**	7
		(11,044)	1,797	**(11,116)**	2,480
(Loss)/earnings per share for the period (RO)	**34**	**(0.027)**	0.004	**(0.027)**	0.006

The attached notes 1 to 41 form part of these financial statements.

Galfar Engineering & Contracting SAOG and its subsidiaries

Statement of cash flows

For the period from 01 January 2020 to 30 June 2020 | Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2020	Jun, 2019	**Jun, 2020**	Jun, 2019
		Unaudited	**Unaudited**	Unaudited
Operating activities				
(Loss)/profit before tax from operations	**(11,044)**	2,594	**(10,986)**	3,405
Adjustments for:				
Depreciation on property, plant and equipment	**5,893**	6,733	**6,585**	7,475
Amortisation of intangible assets	**38**	8	**43**	12
Depreciation on right of use assets	**411**	-	**469**	-
Finance costs, net	**2,740**	3,624	**2,824**	3,720
Share of profit of associates	**-**	-	**(83)**	(62)
Gain on disposal of plant and equipment	**(123)**	(838)	**(123)**	(858)
Profit on sale of investment in subsidiaries & associates	**-**	(1,488)	**-**	(1,488)
Provision for employees' end of service benefits	**1,033**	1,057	**1,066**	1,077
Working capital movements:				
Inventories	**(1,570)**	(1,218)	**(1,440)**	(1,544)
Contract, trade and other receivables	**2,453**	6,404	**3,175**	3,063
Trade payables, other payables and provisions	**4,191**	(7,726)	**2,697**	(5,660)
Non-current operating assets/liabilities changes:				
Retention receivables	**(1,292)**	(178)	**(1,292)**	(178)
Advance and other payable	**-**	40	**-**	40
Advance payable	**447**	-	**447**	
Employees' end of service benefits paid	**(1,220)**	(1,273)	**(1,228)**	(1,018)
Income tax paid	**-**	(901)	**(114)**	(1,147)
Net cash flows from operating activities	**1,957**	6,838	**2,040**	6,837
Investing activities				
Purchase of property, plant and equipment	**(1,003)**	(651)	**(1,692)**	(1,154)
Disposal of property, plant and equipment	**141**	886	**166**	917
Movement in intangible assets	**(66)**	(87)	**(96)**	(119)
Investment (in)/disposal of associates and subsidiaries	**-**	16,051	**(81)**	16,060
Bank deposits	**(2)**	(1,924)	**(9)**	(1,930)
Net cash (used in)/from investing activities	**(930)**	14,275	**(1,712)**	13,774
Financing activities				
Repayment of term loans	**(10,183)**	(14,447)	**(9,799)**	(14,598)
Repayment of short term loans	**(21,978)**	(393)	**3,272**	(393)
Proceeds from short term loans	**25,250**	-		-
Net movement in bank borrowings	**2,664**	(2,984)	**2,664**	(2,984)
Lease payaments	**(341)**	-	**(407)**	-
Interest paid	**(2,740)**	(3,624)	**(2,824)**	(3,720)
Net cash flows used in financing activities	**(7,328)**	(21,448)	**(7,094)**	(21,695)
Net (decrease)/increase in cash and bank balances	**(6,301)**	(335)	**(6,766)**	(1,084)
Cash and cash equivalents at the beginning of the period	**(5)**	(4,209)	**1,646**	(2,158)
Cash and cash equivalents at the end of the period	**(6,306)**	(4,544)	**(5,120)**	(3,242)

The attached notes 1 to 41 form part of these financial statements.

Galfar Engineering & Contracting SAOG and its subsidiaries

Statement of changes in equity - Parent Company

For the period from 01 January 2020 to 30 June 2020

Amount in RO '000s

	Attributable to owners of the Parent Company				
	Share capital	Share premium	Statutory reserve	Accumulated losses	Total
Balance as at 1 January 2019	41,522	18,337	13,840	(8,753)	64,946
Total comprehensive income for the period	-	-	-	1,797	1,797
Balance as at 30 June 2019	41,522	18,337	13,840	(6,956)	66,743
Balance as at 1 January 2020	41,522	18,337	13,840	(28,952)	44,747
Total comprehensive loss for the period	-	-	-	(11,044)	(11,044)
Balance as at 30 June 2020	**41,522**	**18,337**	**13,840**	**(39,996)**	**33,703**

Statement of changes in equity - Consolidated

For the period from 01 January 2020 to 30 June 2020

Amount in RO '000s

	Attributable to owners of the Parent Company								
	Share capital	Share premium	Statutory reserve	Foreign currency translation reserve	Accumulated losses	Reserve of disposal group held for sale	Total	Non-controlling interest	Grand total
Balance as at 1 January 2019	41,522	18,337	14,425	(332)	(16,602)	(2,566)	54,784	902	55,686
Loss for the period	-	-	-	-	2,473	-	2,473	7	2,480
Other comprehensive income	-	-	-	-	-	2,566	2,566	-	2,566
Total comprehensive income for the period	**-**	**-**	**-**	**-**	2,473	2,566	5,039	7	5,046
Transfer to statutory reserve	-	-	44	-	(44)	-	-	-	-
Transfer to discontinuing operations	-	-	-	-	13,985	-	13,985	-	13,985
Balance as at 30 June 2019	41,522	18,337	14,469	(332)	(188)	-	73,808	909	74,717
Balance as at 1 January 2020	41,522	18,337	14,426	(320)	(25,695)	-	48,270	906	49,176
Loss for the period	-	-	-	-	(11,139)	-	(11,139)	23	(11,116)
Other comprehensive income	-	-	-	(81)	-	-	(81)	-	(81)
Balance as at 30 June 2020	**41,522**	**18,337**	**14,426**	**(401)**	**(36,834)**	**-**	**37,050**	**929**	**37,979**

The attached notes 1 to 41 form part of these financial statements.

1. Activities

Galfar Engineering and Contracting SAOG (the “Parent Company”) is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman and listed on Muscat Securities Market.

The principal activities of Galfar Engineering & Contracting SAOG and its subsidiaries (the “Group”) are road, bridge and airport construction, oil and gas including EPC works, civil and mechanical construction, public health engineering, electrical, HVAC, ready-mix concrete production and sale, plumbing and maintenance contracts.

2. Significant accounting policies

(2.1) Basis of preparation and presentation

The financial statements have been presented separately for Parent Company on a standalone basis and consolidated which comprise the Parent Company and its subsidiaries (together "the Group"). These are collectively referred to as "the financial statements".

The financial statements have been prepared on the historic cost basis, except for investments at fair value through other comprehensive income that have been measured at fair value. These financial statements have been prepared in accordance with International Financial Reporting Standards “IFRSs” as issued by the International Accounting Standards Board (IASB) and the requirements of the Commercial Companies Law of the Sultanate of Oman, as amended and the Capital Market Authority.

The new Commercial Companies Law promulgated by the Royal Decree No. 18/2019 (the Commercial Companies Law of the Sultanate of Oman) was issued on 13 February 2019 which has replaced the Commercial Companies Law of 1974. As per the articles of the Royal Decree No. 18/2019, the new Commercial Companies Law became effective on 17 April 2019 and the companies should comply with the new law within 1 year from 17 April 2019.

These financial statements have been presented in Rial Omani which is the functional and presentation currency for the Parent Company and all values are rounded to nearest thousand (RO'000s) except when otherwise indicated.

Coronavirus (COVID-19) impact

Background

COVID-19, as well as measures to slow the spread of the virus, have a significant impact on global market. The group has considered the impact of COVID-19 and other market volatility in preparing its separate and consolidated financial statements. The impact of COVID-19 resulted in the application of further judgement other than those disclosed in notes 2 and 41. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

2. Significant accounting policies (continued)

(2.1) Basis of preparation and presentation (continued)

Coronavirus (COVID-19) impact (continued)

Impact of COVID-19 on the macro-economic outlook

Forward looking information, including the impact of downgrade of Oman's rating by Moody, has been considered for the calculation of expected credit losses (ECL). Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how COVID-19 and its social and economic consequences will flow, these scenarios represent reasonable and supportable forward looking views as at the reporting date.

Processes applied

As a consequence of COVID-19 and in preparing these financial statements, management:

– re-evaluated whether there were any additional areas of judgement or estimation uncertainty beyond what has been disclosed above

– updated its economic outlook

– reviewed external market communications to identify other COVID-19 related impacts

– assessed the carrying values of its assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19

– considered the impact of COVID-19 on the Group's financial statement disclosures.

Consideration of the financial statements and further disclosures

Key financial statements line items and related disclosures that have been impacted by COVID-19 were as follows:

Construction revenue

Given recent market volatility and disturbance in project construction, the Group reviewed the appropriateness of their cost to complete (CTC) assumptions, which included the time required to complete the project, material price volatilities and manpower availability and costs. The impact of change in CTC assumptions had significant impact on the recognition of construction revenue.

2. Significant accounting policies (continued)

(2.1) Basis of preparation and presentation (continued)

Coronavirus (COVID-19) impact (continued)

Consideration of the financial statements and further disclosures (continued)

Expected credit loss (ECL) on financial assets (Contract billed receivable and contract work-in-progress)

In response to COVID-19 the Group undertook a review of its customers' credit portfolios and the related ECL. The review considered the macroeconomic outlook, client and customer credit quality, the type of collateral held, exposure at default and the impact of downgrade of Oman's rating Moody's. While these model inputs including forward-looking information were revised, the ECL models, significant increase in credit risk thresholds, and definitions of default remain consistent with prior periods.

(2.2) Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities.

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 and in any future periods affected.

(2.3) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

a) Expected to be realised or intended to sold or consumed in the normal operating cycle;
b) Held primarily for the purpose of trading;
c) Expected to be realised within twelve months after the reporting period; or
d) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

2. Significant accounting policies (continued)

(2.3) Current versus non-current classification (continued)

A liability is current when:

a) It is expected to be settled in the normal operating cycle;

b) It is held primarily for the purpose of trading;

c) It is due to be settled within twelve months after the reporting period; or

d) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(2.4) Going concern

These financial statements have been prepared on a going concern basis, which contemplates the continuity of normal activities and realisation of assets and settlement of liabilities in the normal course of business. The Parent Company and the Group has incurred loss from operations of RO 11,044 thousand and RO 11,117 thousand respectively for the period ended 30 June 2020 and as of that date the Parent Company and the Group has accumulated losses position of RO 39,996 thousand and RO 36,835 thousand respectively. Furthermore, there were delays in project completion/expected completion date due to disturbance of construction work because of Covid-19. These financial statements have been prepared on a going concern basis as a result of the following:

- The Parent Company has prepared a detailed cash flow demonstrating how it will manage the cash requirements in 2020. The inflows from the closed and ongoing projects are sufficient to take care of the cash requirements of those projects till completion. However, the projected cash flows are highly dependent of timely execution of ongoing projects, timely certification of billed receivables and timely settlement of receivables from the clients, the majority of which are from Government or Government related entities amounting to RO 115,646 thousand.
- During the year 2020, the Parent Company expects realisation of old receivables and estimates that there is sufficient cash flow to continue the business without any disruption.
- The Parent Company has never defaulted in servicing its lenders and the Group is committed to meeting all the loan repayment obligations as they fall due. The Parent Company continues to have multiple avenues for raising both short term and long-term financing. Further, the Parent Company regularly pays its employees and creditors and has not defaulted in any tax payment.
- The Parent Company continues to build on its market position as one of the Oman's largest construction entity and having a strong order book at RO 454 million (2019: RO 340 million) and has worked to ensure that tendering activity adequately addresses potential risk associated with non-payment.
- The Board of Directors have taken necessary measures to strengthen the financial position of the Group and also to improve the Group’s profitability in coming years. In addition to the initiatives set out in above, the Directors/management continue to look at various sources of funding support and other long-term investment options to provide the working capital required for the business. Non-essential capital expenditure has been frozen and initiatives to reduce corporate overheads and to improve cost control have been launched.

2. Significant accounting policies (continued)

(2.4) Going concern (continued)

- The Parent Company has created adequate provisions against certain long outstanding receivables and is confident that the majority of the receivables will get realised in the year 2020 resulting in improved bottom line and cash flow scenario.

The above coupled with the investor and market confidence restored by way of additional projects being awarded to the Parent Company as of 2020 has allowed the management to view the Parent Company / the Group as a going concern and is satisfied that the Parent Company / the Group has the resources to continue in business for the foreseeable future. Therefore, these financial statements are continued to be prepared on a going concern basis.

(2.5) Change in accounting policies and disclosures

New and amended standards

Number of new and revised standards are effective for annual periods beginning on or after 1 January 2020. These standards are presented below.

- Amendments to IFRS 3: Definition of a Business
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework of IFRS standards

The above standards do not have any material impact on the financial statements.

(2.6) Standards issued but not yet effective

The following new standards and amendments have been issued by the IASB which has not been adopted by the Group as it may not have any significant impact on the financial statements.

- IFRS 17 *Insurance Contracts* (not applicable) – Applicable for accounting period effective 1 January 2021
- Annual improvements to IFRS standards 2018 – 2020
- Classification of liabilities as Current or Non-current (amendments to IAS 1)

2. Significant accounting policies (continued)

(2.7) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 30 June 2020. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intracompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

In the Parent Company's financial statements, the investment in subsidiaries is carried at cost less impairment, if any.

2. Significant accounting policies (continued)

(2.8) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(2.9) Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. In the Parent Company's financial statements, the investment in an associate is carried at cost less impairment. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post- acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the Parent Company using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

2. Significant accounting policies (continued)

(2.10) Property, plant and equipment

All items of property, plant and equipment held for the use of Group's activities are recorded at cost less accumulated depreciation and any identified impairment. Land is not depreciated. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed; its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

Depreciation is charged so as to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	15 years
Camps	4 years
Plant & machinery	7 & 10 years
Motor vehicles & equipment	7 & 10 years
Furniture & office equipment	6 years
Project equipment & tools	6 years

Items costing less than RO 100 are expensed out in the year of purchase.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset, calculated as the difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income when the asset is derecognised.

(2.11) Capital work in progress

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

(2.12) Intangible assets - Computer software:

Computer software costs (including under development) that are directly associated with identifiable and unique software products and have probable economic benefits exceeding the costs beyond one year are recognised as an intangible asset. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Computer software costs recognised as an asset are amortised using the straight-line method over the estimated useful life of five years

2. Significant accounting policies (continued)

(2.12) Intangible assets - Computer software (continued)

The amortisation period and amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as propriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Statement of comprehensive income when the asset is derecognized.

(2.13) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase price and all direct costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution. Provision is made where necessary for obsolete, slow moving and defective items.

(2.14) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The loss arising on impairment of an asset is recognised immediately in the statement of comprehensive income. In assessing 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 specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the statement of income.

2. Significant accounting policies (continued)

(2.14) Impairment of non-financial assets (continued)

At the time of assessing the impairment on its investments in associates, the Group determines, after application of the equity method, whether it is necessary to recognise an additional impairment loss of the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in associate is impaired. If this is the case the Group calculates the amount of impairment as being the difference between the fair value of the associate and the acquisition cost and recognises the amount in the statement of comprehensive income.

Investments in subsidiaries are stated at cost less any impairment in the Parent Company's financial statements

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. For the concession business, each of the concession arrangements is considered to be a CGU. The fair value less costs to sell calculation is based on available data from binding sales transactions conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years, or, in the case of concession arrangements, for the concession period and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

(2.15) Financial instruments

(2.15) (a) Financial assets

Initial recognition and measurement
The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

2. Significant accounting policies (continued)

(2.15) Financial instruments (continued)

(2.15) (a) Financial assets (continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost include contract and trade receivables, bank balances and deposits.

Financial assets at fair value through OCI (debt instruments)

The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group does not have any such instruments.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

2. Significant accounting policies (continued)

(2.15) Financial instruments (continued)

(2.15) (a) Financial assets (continued)

Financial assets designated at fair value through OCI (equity instruments) (continued)

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets at fair value through profit or loss

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.

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 profit or loss. The Group does not have any such instruments.

Derecognition

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

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

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

Impairment of financial assets

IFRS 9 requires the Group to record an allowance for ECLs for all debt financial assets not designated at FVTPL.

2. Significant accounting policies (continued)

(2.15) Financial instruments (continued)

(2.15) (a) Financial assets (continued)

Impairment of financial assets (continued)
To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical default rates, adjusted for current and forward-looking factors specific to the debtors and the economic environment.

The credit risk on a financial instrument is considered low, if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. An external rating of ‘investment grade’ is an example of a financial instrument that may be considered as having low credit risk. They should, however, be considered to have low credit risk from a market participant perspective taking into account all of the terms and conditions of the financial instrument.

Exposure due to deposits at Banks (whether rated or not) are also considered very low on default probability. However, the appropriate default probability adjustments are made to reflect industry standard practices along with pragmatism. The rating of the respective banks and the corresponding probability of default is considered for computation of expected credit losses.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit- impaired. A financial asset is 'credit- impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit- impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being past due for 365 days or more;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

In all cases, the maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

2. Significant accounting policies (continued)

(2.15) Financial instruments (continued)

(2.15) (b) Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, due to related parties, loans and borrowings including bank overdrafts.

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss. This category generally applies to interest-bearing loans and borrowings.

Trade and other payables and due to related parties
Trade and other payables and due to related parties are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables and due to related parties are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

(2.16) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

(2.17) Term deposits

Term deposits are carried on the statement of financial position at their principal amount.

2. Significant accounting policies (continued)

(2.18) Cash and cash equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the cash flows statement, the Group considers cash in hand, bank balances and bank overdraft with a maturity of less than three months from the date of placement as cash and cash equivalents. The Group included its bank overdrafts as part of cash and cash equivalents. This is because these bank overdrafts are repayable on demand and form an integral part of the Group's cash management.

(2.19) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a. Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. *[Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term],* the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets is subject to impairment.

b. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

2. Significant accounting policies (continued)

2. Significant accounting policies (continued)

(2.19) Leases (continued)

Group as a lessee (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. a changes in future payments resulting from a change in index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

c. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(2.20) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and the risks specific to the obligation.

2. Significant accounting policies (continued)

(2.21) Foreign currency translation

The financial statements are presented in Rial Omani, which is also the functional currency of the Parent Company.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of group entities are translated into the functional currency of the Group financial statements (the Rial Omani) at the rate of exchange ruling at the reporting date and its statements of comprehensive income is translated at the average exchange rates for the year. Exchange differences arising on equity accounting of foreign subsidiary are taken directly to the foreign currency translation reserve. Foreign currency translation reserve is recognised in equity under cumulative changes in fair value. On disposal of the foreign operations, such exchange differences are recognised in the statement of comprehensive income as part of the profit or loss on sale. A write down of the carrying amount of a foreign operation does not constitute a disposal.

(2.22) Provision for employees' benefits

Termination benefits for Omani employees are contributed in accordance with the terms of the Social Securities Law.

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

(2.23) Dividend on ordinary shares

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

2. Significant accounting policies (continued)

(2.24) Taxation

Taxation is provided for based on relevant tax laws of the respective countries in which the Group operates. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

(2.25) Revenue

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 Group expects to be entitled in exchange for those goods or services. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, customer returns and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

(a) Contract revenue and revenue from sale of goods

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

1. Identify the contracts with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

2. Significant accounting policies (continued)

(2.25) Revenue (continued)

(2.25) (a) Contract revenue and revenue from sale of goods (continued)

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has concluded that for majority of its arrangements, it is either creating or enhancing an asset controlled by the customer or it is creating an asset with no alternative use and has an enforceable right to payment for work completed. Therefore it meets the criteria to recognise revenue overtime and measure progress of its projects through the cost to complete method (input method) as it best depicts the transfer of control of products and services under each performance obligation.

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Variations which are in the nature of extension of existing scope of work are accounted for using cumulative catch up adjustments to the cost to complete method of revenue recognition. Variation orders which require addition of distinct goods and services to the scope at discounted prices are accounted for prospectively and variation orders which require addition of distinct goods and services to the scope at standalone selling prices are accounted for as new contracts with the customers.

Claims are accounted for as variable consideration. They are included in contract revenue using the expected value or most likely amount approach (whichever is more predictive of the amount the entity expects to be entitled to receive) and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the claim is subsequently resolved.

A loss is recognised in the statement of comprehensive income when the expected contract costs exceed the total anticipated contract revenue.

2. Significant accounting policies (continued)

(2.25) Revenue (continued)

(2.25) (a) Contract revenue and revenue from sale of goods (continued)

The Group combines two or more contracts entered into at or near the same time with the same customer and accounts for the contracts as a single contract if one or more of the following criteria are:

- The two or more contracts entered into at or near the same time with the same customer are negotiated as a package, with a single commercial objective;
- The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

If the above criteria are met, the arrangements are combined and accounted for as a single arrangement for revenue recognition.

Pre-contract cost of obtaining a contract with a customer is recognised as an asset if those costs are expected to be recovered.

Revenue is recognised in the statement of comprehensive income to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and the revenue and costs, if applicable, can be measured reliably.

(b) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate (EIR) applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(c) Dividend income

Dividend income from investments is recognised when the rights to receive payment has been established.

(2.26) Contract costs

Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise: site labour costs (including site supervision); costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

The Group's contracts are typically negotiated for the construction of a single asset or a Group of assets which are closely interrelated or interdependent in terms of their design, technology and function. In certain circumstances, the percentage of completion method is applied to the separately identifiable components of a single contract or to a Group of contracts together in order to reflect the substance of a contract or a Group of contracts.

Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract cost exceed total contract revenue the expected loss is recognised as expense immediately.

2. Significant accounting policies (continued)

2. Significant accounting policies (continued)

(2.27) Contract work in progress

Work in progress on long term contracts is calculated at cost plus attributable profit, to the extent that this is reasonably certain after making provision for contingencies, less any losses foreseen in bringing contracts to completion and less amounts received and receivable as progress payments. These are disclosed as 'Due from customers on contracts'. Cost for this purpose includes direct labour, direct expenses and an appropriate allocation of overheads. For any contracts where receipts plus receivables exceed the book value of work done, the excess is included as 'Due to customers on contracts' in accounts payable and accruals. For impairment on contract work in progress, refer note 2.15(a).

(2.28) Directors' remuneration

The Parent Company follows the Commercial Companies Law (as amended), and other latest relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the statement of comprehensive income in the succeeding year to which they relate.

(2.29) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases it's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Parent company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent company's equity holders.

(2.30) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions. The segment information is set out in note 38.

2. Significant accounting policies (continued)

(2.31) Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit / (loss) for the year attributable to the equity shareholders of the Parent Company by the weighted average number of equity shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

(2.32) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.
The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level-1 Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level-2 Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level-3 Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2. Significant accounting policies (continued)

(2.33) Fair value measurement (continued)

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques include discounted cash flow analysis or other valuation models.

The fair value of unquoted derivatives is determined by reference to the counter party's valuation at the year end.

3. Property, plant and equipment - Parent Company

Amount in RO '000s

Particulars	Land	Building & camps	Plant & machinery	Motor vehicles & equipment	Furniture & equipment	Project equipment & tools	Capital work-in-progress	Total
Costs								
At 1 January 2019	1,278	36,222	106,084	55,052	9,860	14,886	-	223,382
Additions		69	468	1,004	112	87	53	1,793
Disposals	-	(112)	(8,086)	(5,445)	(147)	(2)	-	(13,792)
As at 1 January 2020	1,278	36,179	98,466	50,611	9,825	14,971	53	211,383
Additions		4	121	72	146	67	593	1,003
Disposals	-	-	(519)	(616)	-	-	-	(1,135)
As at 30 June 2020	**1,278**	**36,183**	**98,068**	**50,067**	**9,971**	**15,038**	**646**	**211,251**
Depreciation								
At 1 January 2019	-	25,634	83,815	42,619	8,392	10,233	-	170,693
Charge for the year	-	2,324	5,812	3,122	489	1,292	-	13,039
Relating to disposals	-	(111)	(8,013)	(5,391)	(145)	(2)	-	(13,662)
As at 1 January 2020	-	27,847	81,614	40,350	8,736	11,523	-	170,070
Charge for the period	-	1,079	2,618	1,365	214	617	-	5,893
Relating to disposals	-	-	(503)	(614)	-	-	-	(1,117)
As at 30 June 2020	**-**	**28,926**	**83,729**	**41,101**	**8,950**	**12,140**	**-**	**174,846**
Net book value								
As at 30 June 2020	**1,278**	**7,257**	**14,339**	**8,966**	**1,021**	**2,898**	**646**	**36,405**
As at 31 December 2019	1,278	8,332	16,852	10,261	1,089	3,448	53	41,313

3. Property, plant and equipment - Consolidated

Amount in RO '000s

Description	Land	Building & camps	Plant & machinery	Motor vehicles & equipment	Furniture & equipment	Project equipment & tools	Capital work-in-progress	Total
Costs								
At 1 January 2019	1,278	36,391	120,347	60,183	10,147	14,923	-	243,269
Additions	-	70	1,122	1,202	121	87	77	2,679
Disposals	-	(112)	(9,022)	(6,232)	(73)	(4)	-	(15,443)
As at 1 January 2020	1,278	36,349	112,447	55,153	10,195	15,006	77	230,505
Additions	-	4	762	109	156	68	593	1,692
Disposals	-	1	(424)	(617)	(1)	-	(24)	(1,065)
As at 30 June 2020 - unaudited	**1,278**	**36,354**	**112,785**	**54,645**	**10,350**	**15,074**	**646**	**231,132**
Depreciation								
At 1 January 2019	-	25,724	93,777	45,728	8,606	10,266	-	184,101
Charge for the year	-	2,339	6,815	3,513	526	1,294	-	14,487
Relating to disposals	-	(111)	(8,916)	(5,963)	(122)	(3)	-	(15,115)
As at 1 January 2020	-	27,952	91,676	43,278	9,010	11,557	-	183,473
Charge for the period	-	1,086	3,083	1,567	231	618	-	6,585
Relating to disposals	-	1	(409)	(613)	(1)	-	-	(1,022)
As at 30 June 2020 - unaudited	**-**	**29,039**	**94,350**	**44,232**	**9,240**	**12,175**	**-**	**189,036**
Net book value								
As at 30 June 2020 - unaudited	**1,278**	**7,315**	**18,435**	**10,413**	**1,110**	**2,899**	**646**	**42,096**
As at 31 December 2019	1,278	8,397	20,771	11,875	1,185	3,449	77	47,032

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	

3. Property, plant and equipment (continued)

Land and buildings with a net book value of RO 6,583 (2019: RO 7,083) thousand have been mortgaged in favour of a bank against term loans obtained by the Parent Company. Vehicles and equipment with a net book value of RO 7,996 (2019: RO 9,058) thousand have been jointly registered with a bank/finance company to obtain term loans.

Depreciation of property, plant and equipment is allocated as follows:

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
Cost of contract and sales (note 30)	**5,443**	6,269	**6,107**	6,984
General and administrative expenses (note 31)	**450**	464	**478**	491
	5,893	6,733	**6,585**	7,475

4. Intangible assets

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
Costs				
Balance at beginning of the period/year	**3,080**	2,899	**3,162**	2,973
Additions during the period/year	**66**	181	**96**	189
Balance at end of the period/year	**3,146**	3,080	**3,258**	3,162
Amortisation				
Balance at beginning of the period/year	**2,797**	2,719	**2,868**	2,771
Charge for the period/year	**38**	78	**43**	86
Written off during the period/year	**(1)**	-	**(2)**	11
Balance at end of the period/year	**2,834**	2,797	**2,909**	2,868
Net book value	**312**	283	**349**	294

Intangible assets comprise of computer software RO 312 (2019: RO 283) thousand in Parent Company and computer software RO 349 (2019: RO 294) thousand in consolidation.

5. Right of use assets

The Group has lease contracts for various items of land, building, vehicles and other equipment used in its operations. Leases of land and building generally have lease terms between 2 and 25 years, while vehicles and other equipment generally have lease terms between 1 and 5 years.

The Group also has certain leases of vehicles and machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the ‘short-term lease’ and 'low value lease' recognition exemptions for these leases.

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	
Costs				
Balance at beginning of the period/year	**2,018**	1,170	**2,546**	1,698
Additions during the period/year	**125**	848	**125**	848
Balance at end of the period/year	**2,143**	2,018	**2,671**	2,546
Depreciation				
Balance at beginning of the period/year	**579**	-	**684**	-
Charge for the period/year	**411**	579	**469**	684
Balance at end of the period/year	**990**	579	**1,153**	684
Right of use assets	**1,153**	1,439	**1,518**	1,862

Set out below are the carrying amounts of right-of-use assets based on the class of assets :

Land and building	**274**	234	**639**	657
Vehicle and equipment	**879**	1,205	**879**	1,205
	1,153	1,439	**1,518**	1,862

	Jun, 2020	Jun, 2019	**Jun, 2020**	Jun, 2019
		Unaudited	**Unaudited**	Unaudited
The following are the amounts recognised in profit or loss:				
Depreciation expense on right-of-use assets	**411**	-	**469**	-
Interest expense on lease liabilities	**38**	-	**49**	-
Expense relating to short-term leases (included in cost of sales)	**3,304**	-	**3,797**	-
	3,753	-	**4,315**	-

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
6. Investment in subsidiaries			**Unaudited**	
Galfar Aspire Readymix LLC	**2,898**	2,898		
Al Khalij Heavy Equipment & Engineering LLC	**600**	600		
Aspire Projects & Services LLC	**250**	250		
Galfar Mott MacDonald LLC	**163**	163		
Galfar Training Institute LLC	**149**	149		
Galfar Oman Engg. & Contg. S.P.C., Kuwait	**12**	12		
	4,072	4,072		
Provision for impaired investment	**(149)**	(149)		
	3,923	3,923		

During the period 2020, the Parent Comapany has not created any provision on investment in subsidiaries (2019: RO 149 thousand provision created related to Galfar Training Institute LLC).

Information on shareholding of subsidiary companies is summarised below:

	Principal activity	**Place and year of incorporation**	
Galfar Aspire Readymix LLC	Manufacturing	Oman	2012
Aspire Projects & Services LLC	Construction	Oman	2011
Galfar Training Institute LLC	Training	Oman	2009
Al Khalij Heavy Equipment & Engineering LLC	Hiring Equipment	Oman	2006
Galfar Mott MacDonald LLC	EPC consultancy	Oman	2013
Galfar Oman General Contracting for Building Company	Construction	Kuwait	2018

Information on shareholding in subsidiary companies is summarised below:

	Shares acquired by Parent Company		**Shares acquired by the Group**	
Galfar Aspire Readymix LLC	100%	100%	100%	100%
Aspire Projects & Services LLC	100%	100%	100%	100%
Galfar Training Institute LLC	99%	99%	100%	100%
Al Khalij Heavy Equipment & Engineering LLC	52%	52%	52%	52%
Galfar Mott MacDonald LLC	65%	65%	65%	65%
Galfar Oman General Contracting for Building Company	100%	-	100%	-

6A. Profit on sale of Investments - Subsidiaries and Associates

Particulars	**Jun, 2020**	Jun, 2019 Unaudited
Galfar Engineering & Contracting India Pvt. Ltd.	**-**	11,897
Salasar Highways Pvt. Ltd.	**-**	1,276
Kashipur Sitarganj Highways Pvt. Ltd.	**-**	307
Mahakaleshwar Tollways Pvt. Ltd. (MTPL)	**-**	2,255
Shree Jagannath Expressway Pvt. Ltd. (SJEPL)	**-**	739
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL)	**-**	344
Total Invested value before provision for impairment	**-**	16,818
Less: Provision for impairment in Investment - MTPL	**-**	(2,255)
Net book value of the Investment as on 31 December 2018	**-**	14,563
Sale value	**-**	17,200
Netting of current account receivable from Galfar India and MTPL	**-**	(1,149)
Profit on sale of Investments	**-**	1,488

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	Jun, 2020	Dec, 2019
			Unaudited	
7. Investment in associates				
Galfar Engineering & Contracting Kuwait KSC (GEC)	**6,966**	6,966	**4,945**	4,943
International Water Treatment LLC (IWT)	**4,144**	4,144	**-**	-
	11,110	11,110	**4,945**	4,943
Provision for impaired investment	**(5,644)**	(5,644)	**-**	-
	5,466	5,466	**4,945**	4,943

Provision for impairment in associates comprises:

(i) RO 4,144 (2019: RO 4,144) thousand for investment in IWT, being Parent Company's share in cumulative loss of IWT till 2016, as IWT is unable to recover the loss from their future business.

(ii) RO 1,500 (2019: RO 1,500) thousand for investment in GEC, based on capitalization of earning method with discounted cash flow of next five years considering weighted average of capital cost @ 13% per annum.

Information on shareholding of associates is summarised below:

	Principal activity	Place and year of acquisition	
Galfar Engineering & Contracting Kuwait KSC (i)	Construction	Kuwait	2010
International Water Treatment LLC (iii)	Construction	Oman	2013

	Shares acquired by Parent Company		Shares acquired by the Group	
Galfar Engineering & Contracting Kuwait KSC (i)	26%	26%	26%	26%
International Water Treatment LLC (IWT) (ii)	30%	30%	30%	30%

(i) The Parent Company holds 26% shareholding in this company (earlier known as 'Shaheen Al Ghanim Contracting Co. KSC'). The company is engaged in construction activities.

(ii) The Parent Company has 30% shareholding in this company in partnership with VA Tech Wabag Ltd. of India and Cadagua SA of Spain with 32.5% and 37.5% shareholding respectively. This company has completed "Ghubrah independent water desalination" project. The project is currently under maintenance period which is expected to be completed by end of 2020. Post completion of the maintenance period, the company would be liquidated.

The following table illustrates summarised information of the Group's investment in its associates:

Share of associates' financial position:		
Current assets	**3,710**	5,067
Non - current assets	**4,950**	3,498
Current liabilities	**(3,030)**	(2,587)
Non - current liabilities	**(685)**	(1,035)
Net assets and carrying amount of the investment	**4,945**	4,943

	Jun, 2020	Jun, 2019
		Unaudited
Share of associates' comprehensive income:		
Revenue	**2,017**	2,408
Costs of revenue	**1,934**	2,346
Net profit for the period	**83**	62

Share of profit of the group for the period comprises of profit from GEC Kuwait RO 83 (June 2019: RO 109) thousand and IWT RO Nil (June 2019: Loss RO 47) thousand.

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	

7. Investment in associates (continued)

The summarised financial information of major associate company is as stated below:

			GEC, Kuwait	
Statement of financial position:				
Current assets			**12,708**	17,927
Non-current assets			**19,034**	13,454
Current liabilities			**(10,092)**	(8,388)
Non-current liabilities			**(2,635)**	(3,981)
Net assets			**19,015**	19,012
Reconciliation of carrying amount:				
Net assets at the beginning of the year			**19,012**	18,323
Profit for the year			**318**	641
Reserves / currency translation impact			**(315)**	48
Net assets at the end of the year			**19,015**	19,012
Group's share in %			**26%**	26%
Carrying amount			**4,945**	4,943
			Jun, 2020 Unaudited	Jun, 2019 Unaudited
Statement of comprehensive income:				
Revenue			**7,758**	18,996
Less: costs of revenue			**7,440**	18,346
Profit before tax			**318**	650
Less: tax			**-**	9
Profit after tax			**318**	641

8. Inventories

	Jun, 2020	Dec, 2019	**Jun, 2020 Unaudited**	Dec, 2019
Materials and consumables	**11,043**	9,473	**12,643**	11,251
Allowance for non-moving inventories	**(439)**	(439)	**(491)**	(539)
	10,604	9,034	**12,152**	10,712
Movement for the provision for inventories is as follows:				
At the beginning of the period/year	**439**	348	**539**	410
Charge for the period/year	**-**	91	**(48)**	129
At the end of the period/year	**439**	439	**491**	539

During period ended 30 June 2020, RO 16,331 (2019: RO 19,582) thousand for the Parent Company and RO 20,571 (2019: RO 25,138) thousand for the Group was recognised as an expense in cost of sales for inventories carried at net realisable value.

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	
9. Contract work in progress				
Work-in-progress on long term contracts at cost plus attributable profit considered as receivables	**72,294**	78,560	**74,427**	79,540
Provision for impaired contract work in progress	**(21,724)**	(22,074)	**(21,724)**	(22,074)
	50,570	56,486	**52,703**	57,466
Movement on the provision for impairment of contract work in progress:				
At the beginning of the period/year	**22,074**	15,884	**22,074**	15,884
Charge for the period/year	**1,786**	6,484	**1,786**	6,484
Written back during the period/year	**(2,136)**	(16)	**(2,136)**	(16)
Written off during the period/year	**-**	(278)	**-**	(278)
At the end of the period/year	**21,724**	22,074	**21,724**	22,074
Due from customers for construction contracts:				
Revenue recognised at cost plus attributable profit	**790,377**	808,508	**790,377**	824,220
Less: Progress billings	**718,083**	729,948	**715,950**	744,680
	72,294	78,560	**74,427**	79,540
Due to customers for construction contracts:				
Amounts due to customers under construction contracts recorded as billings in excess of work done (note 25)	**3,907**	2,341	**3,907**	2,341
Progress claims received and receivable	**521,076**	536,763	**521,076**	536,763
Less: Revenue recognised at cost plus attributable profit	**517,169**	534,422	**517,169**	534,422
	3,907	2,341	**3,907**	2,341
10. Contract and trade receivables				
Contract billed receivables	**129,630**	125,707	**131,047**	126,358
Trade receivables	**4,343**	4,903	**9,487**	11,081
Retention receivables - current	**22,483**	22,820	**23,497**	23,860
	156,456	153,430	**164,031**	161,299
Provision for impaired receivables	**(16,924)**	(19,550)	**(17,696)**	(20,194)
	139,532	133,880	**146,335**	141,105
Retentions receivables				
Non-current portion	**9,334**	8,042	**9,334**	8,042

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	

10. Contract and trade receivables (continued)

Movement on the provision for impairment of receivables including current retentions are as follows:

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
At the beginning of the period/year	**19,550**	8,923	**20,194**	9,248
Charge for the period/year	**1,161**	13,959	**1,289**	14,281
Written back during the period/year	**(1,762)**	(3,327)	**(1,762)**	(3,330)
Written off during the period/year	**(2,025)**	(5)	**(2,025)**	(5)
At the end of the period/year	**16,924**	19,550	**17,696**	20,194

Movement on the provision for impairment of non-current retentions are as follows:

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
At the beginning of the period/year	**119**	16	**119**	16
Charge for the period/year	**6**	103	**6**	103
At the end of the period/year	**125**	119	**125**	119

11. Advances, prepayment and other receivables

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
Advance on sub-contracts and supplies	**2,994**	2,699	**3,119**	2,774
Advances to employees	**265**	307	**255**	307
Prepaid expenses	**5,406**	5,343	**5,508**	5,370
Due from related parties - others (note 36)	**15,905**	18,346	**15,281**	19,296
Insurance claims receivable	**(9)**	15	**(8)**	15
Deposits	**318**	365	**318**	366
Other receivables	**-**	-	**12**	6
	24,879	27,075	**24,485**	28,134
Provision for due from related parties	**(1,844)**	(1,851)	**(1,870)**	(1,877)
Provision for others	**(2)**	(2)	**(2)**	(2)
	23,033	25,222	**22,613**	26,255

Movement on the provision for due from related party and others are as follows:

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
At the beginning of the period/year	**1,853**	1,303	**1,879**	1,316
Charge for the period/year	**-**	1,164	**-**	1,177
Written back during the period/year	**(7)**	(614)	**(7)**	(614)
At the end of the period/year	**1,846**	1,853	**1,872**	1,879

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	

12. Deposits with banks

Term deposits	**2,309**	2,307	**2,309**	2,307
Margin deposits	**-**	-	**29**	22
	2,309	2,307	**2,338**	2,329

The term deposits carry interest rates of 0.9% to 3.0% (2019: 0.9% to 3.0%) per annum and are kept for a period more than three months from the date of placement.

Movement of ECL on deposits with banks are as follows:				
At the beginning of the period/year	**3**	4	**3**	4
Written back during the period/year	**-**	(1)	**-**	(1)
At the end of the period/year	**3**	3	**3**	3

13. Cash and bank balances

Cash in hand	**80**	109	**99**	119
Bank balances with current accounts	**1,427**	2,429	**2,951**	4,127
	1,507	2,538	**3,050**	4,246

For the purpose of statement of cash flows, cash and cash equivalents are presented as follows:				
Cash and bank balances	**1,507**	2,538	**3,050**	4,246
Deposit with banks (within 3 months maturity)	**946**	946	**946**	946
Bank overdrafts	**(8,759)**	(3,489)	**(9,116)**	(3,546)
	(6,306)	(5)	**(5,120)**	1,646

Movement of ECL on bank balances are as follows:				
At the beginning of the period/year	**5**	1	**5**	1
Charge for the period/year	**-**	4	**-**	4
Written back during the period/year	**(4)**	-	**(4)**	-
At the end of the period/year	**1**	5	**1**	5

14. Share capital

Authorised:				
500,000,000 (2019: 500,000,000) ordinary shares of par value RO 0.100 (2019: RO 0.100) each	**50,000**	50,000	**50,000**	50,000
Issued and fully paid:				
Balance at beginning of the period/year	**41,522**	41,522	**41,522**	41,522
Balance at end of the period/year	**41,522**	41,522	**41,522**	41,522

The issued and fully paid share capital comprises of 415,215,637 (2019: 415,215,637) shares having a par value of RO 0.100 (2019: RO 0.100) each. Pursuant to the terms of its IPO, the share capital of the Parent Company has been divided into two classes comprising of 289,980,637 (2019: 289,980,637) ordinary shares and 125,235,000 (2019: 125,235,000) preferential voting rights shares. The preferential voting rights shares are held by the promoting shareholders and carry two votes at all general meetings while otherwise ranking pari-passu with ordinary shares in all rights including the receipt of dividend.

15. Share premium

This reserve is available for distribution to the shareholders. During the period, there is no movement in share premium account.

16. Statutory reserve

As required by the Commercial Companies Law of Oman, the statutory reserve is maintained at least one third of the issued share capital. No transfer was made during the period in the Parent Company's financial statements as the Parent Company has reached the statutory requirement.

17. Foreign currency translation reserve

Foreign currency translation reserve represents impact of translation of associate company's (Galfar Kuwait) financial statements figures in foreign currency to functional currency of the Parent Company as required under IAS 21.

18. Dividend

For the period 2020 and for the year 2019, no dividend was proposed and paid.

19. Term loans

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	
Term loans:				
- from banks	**10,677**	19,910	**10,866**	20,166
- finance companies	**4,172**	5,122	**4,706**	5,965
	14,849	25,032	**15,572**	26,131
Current portion				
- from banks	**4,916**	11,812	**4,954**	11,920
- finance companies	**1,935**	1,899	**2,416**	2,498
	6,851	13,711	**7,370**	14,418
Non-current portion				
- from banks	**5,761**	8,098	**5,912**	8,246
- finance companies	**2,237**	3,223	**2,290**	3,467
	7,998	11,321	**8,202**	11,713
The term loans are repayable as follows:				
Within one year	**6,851**	13,711	**7,370**	14,418
In the second year	**2,512**	4,930	**2,625**	5,507
From third year onwards	**5,486**	6,391	**5,577**	6,206
	14,849	25,032	**15,572**	26,131

The long term loans are stated at amortised cost and amounts repayable within the next twelve months have been shown as a current liability. The term loans from banks are secured against the assignment of contract receivables and/or joint registration of vehicle/equipment/land mortgage. The term loans from finance companies are secured against the jointly registered vehicle/equipment.

The interest on term loans from banks and financial institutions having interest rates ranges between 5.75% to 8.5% (2019: 5.75% to 8.5%) per annum.

20. Lease liability

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	
At the beginning of the period/year	**1,317**	1,123	**1,932**	1,844
Addition	**141**	808	**141**	808
Accretion of interest	**38**	79	**49**	103
Payments	**(341)**	(693)	**(407)**	(823)
Balance at the end of the period/year	**1,155**	1,317	**1,715**	1,932
Current portion	**632**	467	**848**	644
Non-Current portion	**523**	850	**1,434**	1,288
	1,155	1,317	**2,282**	1,932

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	

21. Short term loans

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
- from banks	**30,322**	27,050	**30,322**	27,050

Short term loans from banks are repayable in one year and are secured against the contract assignments and/or joint registration of vehicle/equipment. The interest rates on these loans vary between 5.0% to 7.75% (2019: 5.0% to 7.75%) per annum.

22. Bank borrowings

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
Bank overdrafts	**8,759**	3,489	**9,116**	3,546
Loan against trust receipts	**9,844**	6,896	**9,844**	6,896
Bills discounted	**23,535**	23,819	**23,535**	23,819
	42,138	34,204	**42,495**	34,261

Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 4.50% to 7.0% (2019: 4.5% to 7.0%) per annum. Bank borrowings are secured against the assignment of contract receivables.

23. Trade payables

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
Sundry creditors	**49,764**	45,219	**59,002**	55,363
Provision for purchases and sub-contracts	**25,490**	24,408	**25,490**	24,452
	75,254	69,627	**84,492**	79,815

24. Employees' end of service benefits

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
Balance at beginning of the period/year	**14,818**	14,611	**15,020**	14,749
Charge for the period/year	**1,033**	1,890	**1,066**	1,971
Paid during the period/year	**(1,220)**	(1,683)	**(1,228)**	(1,700)
Balance at end of the period/year	**14,631**	14,818	**14,858**	15,020

25. Other payables and provisions

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
Provision for employees' leave pay and passage	**5,732**	4,529	**5,798**	4,581
Advance from customers - current	**25,268**	30,718	**25,676**	31,114
Due to customers for construction contracts (note 9)	**3,907**	2,341	**3,907**	2,341
Provision for future loss on contracts	**3,454**	733	**3,454**	733
Retention on sub-contracts	**5,254**	4,793	**5,254**	4,793
Accrued expenses	**9,723**	10,244	**10,541**	11,435
Due to related parties (note 36)	**8,215**	9,716	**3,692**	5,355
Statutory dues payable	**467**	459	**467**	459
Other payables	**941**	917	**1,084**	993
	62,961	64,450	**59,873**	61,804
Advance from customers				
Non-current portion	**7,858**	7,411	**7,858**	7,411

Advances from customers are secured by bank guarantees.

Advances from customers which can be adjusted against the estimated amounts to be billed in next 12 months are considered as current advances.

26. Taxation

Income tax is provided for Parent Company and Omani subsidiaries as per the provisions of the law of income tax on companies in Oman at the rate of 15% of result after adjusting disallowable items. It is provided for Indian subsidiary as per 'Income tax Act' in India @ 33% of taxable profit after adjusting non-admissible expenses and depreciation difference.

Income tax expense

	Parent Company		Consolidated	
	Jun, 2020	Jun, 2019	**Jun, 2020**	Jun, 2019
		Unaudited	**Unaudited**	**Unaudited**
Tax charge for the period	**-**	797	**156**	951
Deferred tax charge for the period	**-**	-	**(26)**	(26)
	-	797	**130**	925

As per the Sale Purchase Agreement entered with M/s PMA International LLC any tax liability that may accrue shall be borne by the buyer.

26.1 Tax computation of the Parent Company and Consolidated includes deduction from taxable income amounting to RO Nil (2019: RO 797) thousand for the write off of short recovery of dues from a Government client. The write off is based on the final account settlement of the contract dues duly signed by both parties.

The reconciliation between tax on accounting profit and tax profit is as follows:

	Parent Company		Consolidated	
	Jun, 2020	Jun, 2019	**Jun, 2020**	Jun, 2019
Accounting profit before tax from continuing operations	**(11,044)**	2,594	**(10,986)**	8,864
Loss before tax from discontinued operations	**-**	-	**-**	(6,484)
Accounting profit before income tax	**(11,044)**	2,594	**(10,986)**	2,380
Tax as per law of respective country	**-**	1,155	**36**	344
Tax effect on write-off of contract receivables and contract work in progress	**-**	315	**-**	315
Tax effect on non admissible expenditure and adjustments	**-**	(673)	**94**	1,011
	-	797	**130**	1,670
Income tax expense reported in the statement of comprehensive income	**-**	797	**130**	2,226
Income tax expense / (benefit) attributable to discontinued operation	**-**	-	**-**	(556)

Provision for tax

The Parent Company's income tax assessment up to the year 2013 has been completed by the taxation department. The income tax assessments of the subsidiaries are at various stages of completion. The management believes that the amount of additional taxes, if any, that may become payable on fainalisation of the unassessed tax years would not be material to the Group's financial position. The movement of tax provision is as follows:

	Jun, 2020	Dec, 2019	**Jun, 2020** **Unaudited**	Dec, 2019
Balance at beginning of the peirod/year	**1,402**	2,029	**1,508**	2,275
Charge during the period	**-**	271	**130**	299
Tax adjustement/paid during the period	**-**	(898)	**(114)**	(1,066)
Balance at end of the period	**1,402**	1,402	**1,524**	1,508

Deferred tax liability - for continuing operations

Deferred income taxes are calculated on all temporary differences under the asset/liability method using a principal tax rate as per tax law of the respective country.

Balance at beginning of the year	**-**	-	**323**	398
Charge during the year	**-**	-	**-**	(75)
Balance at end of the period	**-**	-	**323**	323

Deferred tax asset on deductible timing differences has been recognised in the Parent Company's financial statements to the extent of the taxable timing difference.

27. Contract revenue

(a) Disaggregation of revenue from contracts with customers

Parent Company - June 2020

Particulars	O&G	R&B	CMI	U&S	Total
Government clients	40	4,508	19,046	14,091	37,685
Private clients	55,115	9,587	460	-	65,162
	55,155	**14,095**	**19,506**	**14,091**	**102,847**
Timing of revenue recognition	Over time	Over time	Over time	Over time	

Parent Company - June 2019 (Unaudited)

Particulars	O&G	R&B	CMI	U&S	Total
Government clients	858	12,589	30,615	11,784	55,846
Private clients	56,249	3,493	3	331	60,076
	57,107	16,082	30,618	12,115	115,922
Timing of revenue recognition	Over time	Over time	Over time	Over time	

Consolidated - June 2020 (Unaudited)

Particulars	O&G	R&B	CMI	U&S	Other	Inter-Company	Total
Government clients	40	4,508	19,046	14,091	-	-	37,685
Private clients	55,115	9,587	460	-	3,318	(2,701)	65,779
	55,155	**14,095**	**19,506**	**14,091**	**3,318**	**(2,701)**	**103,464**
Timing of revenue recognition	Over time	Over time	Over time	Over time	At a point in time		

Consolidated - June 2019 (Unaudited)

Particulars	O&G	R&B	CMI	U&S	Other	Inter-Company	Total
Government clients	858	12,589	30,615	11,784	-	-	55,846
Private clients	56,249	3,493	3	331	4,383	(3,466)	60,993
	57,107	16,082	30,618	12,115	4,383	(3,466)	116,839
Timing of revenue recognition	Over time	Over time	Over time	Over time	At a point in time		

(b) Assets and liabilities related to contracts with customers

The Parent Company and group have recognized the following assets and liabilities related to contracts with customers:

	Parent Company		**Consolidated**	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	
Contract Receivables	**129,630**	125,707	**131,047**	126,358
Current contract asset relating to project revenue (receivable)	**72,294**	78,560	**74,427**	79,540
Loss allowance	**(38,648)**	(41,624)	**(39,420)**	(42,268)
Total contract assets	**163,276**	162,643	**166,054**	163,630
Contract liabilities relating to project revenue (unearned, advance)	**33,126**	38,129	**33,534**	38,525
Total current contract liabilities	**33,126**	38,129	**33,534**	38,525

The contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date on construction projects.

The contract liabilities primarily relate to the advance consideration received from customers for the construction projects.

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2020	Jun, 2019	**Jun, 2020**	Jun, 2019
		Unaudited	**Unaudited**	Unaudited
28. Sales and services income				
Sales and services - recognised at a point in time	**1,669**	1,227	**6,375**	8,528
Hiring services - recognised at a point in time	**240**	622	**917**	1,497
Training services - recognised at a point in time	**-**	-	**5**	77
	1,909	1,849	**7,297**	10,102
29. Other income				
Gain on disposal of assets	**123**	838	**123**	858
Miscellaneous income	**618**	477	**666**	499
	741	1,315	**789**	1,357
30. Cost of contract and sales				
Materials	**16,331**	19,582	**20,571**	25,138
Manpower costs (Note 31)	**50,419**	46,451	**49,801**	45,877
Sub-contracting costs	**20,615**	19,320	**20,051**	18,965
Plant and equipment repair and maintenance	**3,169**	4,555	**3,452**	4,875
Plant and equipment hiring costs	**3,304**	4,098	**3,797**	4,524
Fuel expenses	**6,297**	7,091	**6,650**	7,630
Training expenses	**12**	39	**22**	39
Depreciation on right of use assets (Note 5)	**411**	-	**469**	-
Depreciation and amortisation (Note 3 and 4)	**5,443**	6,269	**6,107**	6,984
General and administrative expenses (Note 31)	**5,772**	5,403	**6,316**	6,193
	111,773	112,808	**117,236**	120,225

	Parent Company		Consolidated	
	Jun, 2020	Jun, 2019	**Jun, 2020**	Jun, 2019
		Unaudited	**Unaudited**	Unaudited
31. General and administrative expenses				
Manpower costs (Note 32)	**2,846**	2,465	**3,861**	3,483
Sub-contract expenses	**(38)**	(1,445)	**(38)**	(1,445)
Rent	**278**	335	**360**	460
Electricity and water charges	**1,805**	1,695	**1,859**	1,778
Professional and legal charges	**833**	1,269	**853**	1,323
Insurance charges	**1,233**	789	**1,274**	841
Bank guarantee and other charges	**487**	600	**516**	602
Communication expenses	**221**	318	**238**	344
Repairs and maintenance - others	**211**	116	**220**	149
Traveling expenses	**91**	354	**102**	439
Printing and stationery	**103**	126	**107**	129
Business promotion expenses	**8**	20	**12**	26
Tender fees	**67**	69	**68**	71
Directors' expenses	**60**	58	**60**	58
Miscellaneous expenses	**64**	298	**68**	518
Depreciation and amortisation (Notes 3 and 4)	**488**	472	**521**	503
	8,757	7,539	**10,081**	9,279
Pertaining to cost of contract and sales (Note 30)	**5,772**	5,403	**6,316**	6,193
	2,985	2,136	**3,765**	3,086
32. Manpower costs				
Salary and wages	**45,994**	41,182	**45,990**	41,270
Employees' service benefits	**1,033**	1,057	**1,066**	1,092
Camp and catering expenses	**3,382**	2,887	**3,446**	2,957
Hired salary and wages	**(301)**	703	**(301)**	945
Other expenses	**3,157**	3,045	**3,461**	3,054
Staff incentives	**-**	42	**-**	42
	53,265	48,916	**53,662**	49,360
Pertaining to cost of contract and sales (Note 30)	**50,419**	46,451	**49,801**	45,877
Pertaining to general and administration expenses (Note 31)	**2,846**	2,465	**3,861**	3,483
33. Financing costs, net				
Interest expense	**2,702**	3,624	**2,775**	3,720
Interest on lease liability	**38**	-	**49**	-
	2,740	3,624	**2,824**	3,720
34. (Loss)/earnings per share				
(Loss)/profit attributable to equity shareholders of the Parent Company	**(11,044)**	1,797	**(11,139)**	2,473
Number of shares in '000 (Note 14)	**415,220**	415,220	**415,220**	415,220
Basic and diluted earnings per share for the period	**(0.027)**	0.004	**(0.027)**	0.006
Basic (loss)/profit per share	**(0.027)**	0.004	**(0.027)**	0.006

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	

35. Net assets per share

Net assets per share is calculated by dividing the equity attributable to shareholders of the Parent Company at the reporting date by the number of shares outstanding as follows:

Net assets	**33,703**	44,747	**37,050**	48,270
Number of shares in '000 (Note 14)	**415,220**	415,220	**415,220**	415,220
Net assets per share (RO)	**0.081**	0.108	**0.089**	0.116

36. Related parties

Related parties comprise of subsidiaries, associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties.

The Group maintains balances with these related parties which arise in the normal course of business from commercial transactions, and are entered into at terms and conditions which are approved by the management.

The following is a summary of significant transactions with related parties which are included in the financial statements:

	Jun, 2020	Jun, 2019	**Jun, 2020**	Jun, 2019
		Unaudited	**Unaudited**	Unaudited
Contract income				
- with subsidiaries	**-**	-	**-**	-
- with other related parties	**2,311**	27	**2,311**	27
Sales and services				
- with subsidiaries	**191**	282	**191**	282
- with other related parties	**6**	25	**6**	25
Purchase of property, plant and equipment				
- with other related parties	**-**	19	**25**	19
Purchase of goods and services				
- with subsidiaries	**4,068**	6,758	**4,068**	6,758
- with other related parties	**655**	1,556	**655**	1,556
- with shareholders	**129**	-	**129**	-
Director's sitting fees	**60**	58	**60**	58

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
			Unaudited	

36. Related parties (continued)

Balances of related parties recognised and disclosed in notes 10, 11 and 25 respectively are as follows:

	Parent Company Jun, 2020	Parent Company Dec, 2019	Consolidated Jun, 2020	Consolidated Dec, 2019
Due from shareholders	**-**	4	**-**	4
Due from subsidiary and associate companies	**1,937**	1,712	**1,313**	2,662
Due from key management personnel	**-**	486	**-**	486
Due from other related parties	**13,968**	16,144	**13,968**	16,144
Provision for due from related parties	**(1,844)**	(1,851)	**(1,870)**	(1,877)
	14,061	16,495	**13,411**	17,419
Due to shareholders	**152**	57	**152**	57
Due to subsidiary and associate companies	**5,492**	6,851	**4,880**	5,291
Due to other related parties	**2,571**	2,808	**(1,340)**	7
	8,215	9,716	**3,692**	5,355

The amounts outstanding are unsecured and will be settled. During the period, RO Nil (2019: RO 191) thousand has been recognised towards doubtful debts pertaining to related parties.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise).

	Jun, 2020	Jun, 2019 Unaudited	**Jun, 2020** **Unaudited**	Jun, 2019 Unaudited
The remuneration of the members of key management during the year was as follows:				
Salaries	**296**	315	**435**	489
End of service benefits	**12**	14	**108**	21
Directors' sitting fees	**60**	58	**60**	58
	368	387	**603**	568

At 31 December 2019, the Parent Company has receivables from Key Management personnel amounting to RO 486 thousand that has been fully provided for. Due to irregularities noted in the key management transactions and remuneration, an internal investigation on Key Management Remuneration and transactions with Key management was conducted during the year. The review has resulted in certain irregularities including violation of the Parent Company’s policies and procedures. However, the management has concluded that there are no further financial implications arising out of these transactions and the outstanding receivable balance has been fully provided.

37. Commitments and contingencies

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020** **Unaudited**	Dec, 2019
Bonds and guarantees	**72,887**	102,223	**73,120**	102,439
Letter of credit	**13,438**	18,443	**13,520**	18,443
Corporate guarantees	**4,301**	4,961	**4,301**	4,961
Capital commitments	**745**	506	**745**	506
Legal cases	**298**	208	**298**	208
	91,669	**126,341**	**91,984**	**126,557**

The Parent Company has provided corporate guarantees for subsidiaries and associates and does not anticipate any material liability to arise from these guarantees.

The Parent Company has provided support sponsor's undertakings for any shortfall in project funding and toll collection of all concessionaire companies (MTPL, SJEPL, GAEPL, KSHPL and SHPL) for DBFOT road projects in India, on joint and several basis. The contingent liability for the same is not determinable. The investments in Indian subsidiaries and associates have been sold accordingly all contingent liabilities will also be assumed by the buyer as per the SPA.

37.1 Legal cases

The Parent Company and its subsidiaries, in common with the significant majority of contractors, are subject to litigation in the normal course of business. The Parent Company and its subsidiaries, based on independent legal advice, do not believe that the outcome of these court cases will have a material impact on the Group's income or financial position.

37.2 Penalties

Penalties amounting to RO 5,256 (2019: RO 5,253) thousand have been levied on the Parent Company. Though the penalties are countered by the extension of time claims from the Parent Company, cases are under various stages of negotiations/arbitration and expected to be settled in due course, moreover the same has been recorded in the books of account.

Further imposable penalties on account of expected completion delays amounting to RO 12,268 (2019: RO 12,268) thousand on certain projects are not considered in the books of the Parent Company as the management believes that the delay in these projects are majorly due to the delay from the customer's side and based on their recent discussions with these customers these penalties are not expected to be levied on the Company.

37.3 Invalid purchase orders

During the year ended 31 December 2019, the management of the Parent Company was informed of a significant number of invalid purchase orders to suppliers that were raised by the supply chain management unit. An internal investigation carried out on these purchase orders and the procurement process resulted in a number of findings and irregularities identifying violations of procurement policies and procedures of the Parent Company. As at 30 June 2020, no impact of these irregularities on the separate financial statement is anticipated.

37.4 CMA Investigation

During the prior years, the Capital Market Authority (CMA) had carried out investigative audits relating to Parent Company certain transactions for the years from 2010 to 2014. Based on the draft investigation audit reports received from Independent auditors appointed by the CMA, the management has taken corrective actions and had filed responses to the clarifications sought by the CMA. No adjustment to the separate financial statments in respect of such years is anticipated in the Parent Company has not yet received any further communication from the CMA in respect of this matter.

38. Operating segments

Segmental information is presented in respect of the Group's operating segments. Operating segment is based on the Group's management and internal reporting structure. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Group business is divided in five segments - construction, manufacturing, hiring of equipment, toll collection and training of personnel. The principal activities of the Group are road, bridge and airport construction, oil and gas including EPC works, civil and mechanical construction, public health engineering, electrical, plumbing and maintenance contracts. The other activities are hiring out of cranes, equipment and other vehicles and training of drivers, operators, manufacturing of readymix concrete and others.

The financial results, assets and liabilities of operating segments are as follows:

Amount in RO '000s

	Construction		Manufacturing		Hiring		Training		Inter segments		Consolidated	
	Jun, 2020	Jun, 2019	**Jun, 2020**	Jun, 2019	**Jun, 2020**	Jun, 2019	**Jun, 2020**	Jun, 2019	**Jun, 2020**	Jun, 2019	**Jun, 2020**	Jun, 2019
	Unaudited	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited	**Unaudited**	Unaudited
Segment revenue and expenses												
Segment revenue	**108,074**	122,154	**6,959**	9,924	**716**	907	**19**	235	**(5,007)**	(6,279)	**110,761**	126,941
Segment expenses	**118,757**	120,158	**7,432**	9,480	**668**	893	**110**	271	**(5,090)**	(6,341)	**121,877**	124,461
Segment results	**(10,683)**	1,996	**(473)**	444	**48**	14	**(91)**	(36)	**83**	62	**(11,116)**	2,480
	Jun, 2020	Dec, 2019	Jun, 2020	Dec, 2019	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019	**Jun, 2020**	Dec, 2019	Jun, 2020	**Dec, 2019**
	Unaudited		**Unaudited**		**Unaudited**		**Unaudited**		**Unaudited**		**Unaudited**	
Segment assets and liabilities												
Segment assets	**289,856**	293,994	**9,482**	12,732	**3,583**	2,936	**(895)**	(781)	**(4,448)**	(4,450)	**297,578**	304,431
Segment liabilities	**252,923**	246,379	**5,301**	8,077	**1,363**	765	**24**	47	**(12)**	(13)	**259,599**	255,255

Inter-segment revenues are eliminated upon consolidation and reflected in the 'Inter segments' column.

39. Financial instruments and related risk management

The Group’s principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finances for the Group’s operations.The Group's financial assets include trade and other receivables, and cash and short-term deposits that arrive directly from its operations.

The Group’s activities expose it to various financial risks, primarily being, market risk (including currency risk, interest rate risk, and price risk), credit risk and liquidity risk. The Group’s risk management is carried out internally in accordance with the policies approved by the Board of Directors.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk. Financial instruments affected by market risk include loans and borrowings, deposits, investments at fair value through comprehensive income.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at 30 June 2020, the Group does not hold any financial asssets or financial liabilities subject to variable interest rate. Therefore, the Group is not exposed to any interest rate risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The management has set up a policy to require the Company to manage its foreign exchange risk against their functional currency. The Group operates in international markets and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euros, Pound sterling and all GCC currencies. As the exchange rate of the Rial Omani is pegged against most of the currencies, the Company is not subject to any significant currency risk.

Equity price risk

The Group does not hold any quoted investment.

39. Financial instruments and related risk management (continued)

Credit risk

Credit risk primarily arises from credit exposures to customers, including outstanding receivables and committed transactions. The Group has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks and with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

Exposure to credit risk

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

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020** **Unaudited**	Dec, 2019
Contract work in progress, contract and trade receivables	**206,267**	209,170	**214,961**	216,979
Retention receivables	**31,817**	30,862	**32,831**	31,902
Other receivables	**16,214**	18,726	**15,603**	19,683
Deposits with banks	**2,309**	2,307	**2,338**	2,329
Cash and bank balances	**1,507**	2,538	**3,050**	4,246
	258,114	263,603	**268,783**	275,139

The exposure to credit risk for contract billed receivables, trade receivables and work in progress at the reporting date by type of customer was:

Government customers	**135,660**	143,574	**135,660**	143,574
Petroleum Development Oman	**41,355**	44,491	**41,355**	44,491
Other private customers	**29,252**	21,105	**37,946**	28,914
	206,267	209,170	**214,961**	216,979

The Group has established credit policies and procedures that are considered appropriate for the Parent Company and its subsidiaries. The Group's business is conducted mainly by participating in tenders/bids. On acceptance of a tender/bid it enters into a detailed contract with the customer. This contract specifies the payment and performance terms as well as the credit terms. Also refer to note 40 for key sources of estimation of uncertainty for the impairment of contract work in progress, contract and trade receivables.

The age of Contract work in progress, contract and trade receivables at the reporting date was:

Not past due	**35,206**	54,320	**38,054**	54,453
Past due 1- 180 days	**88,661**	32,035	**91,339**	37,506
Past due 181 - 365 days	**14,288**	33,522	**15,884**	34,209
More than 365 days	**68,112**	89,293	**69,684**	90,811
	206,267	209,170	**214,961**	216,979
Provision for expected credit loss	**(38,648)**	(41,624)	**(39,420)**	(42,268)

39. Financial instruments and related risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business through the Group maintains adequate bank balances and credit facilities to fund its operations.

Management monitors the forecast of the Group's liquidity position on the basis of expected cash flows.

The Group is currently financed from shareholder's equity and bank borrowings. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows:

Amount in RO '000s

	Parent Company		Consolidated	
	Jun, 2020	Dec, 2019	**Jun, 2020**	Dec, 2019
The following are the financial liabilities:			**Unaudited**	
Term loans	**14,849**	25,032	**15,572**	26,131
Lease liability	**1,155**	1,317	**2,282**	1,932
Short term loans	**30,322**	27,050	**30,322**	27,050
Bank borrowings	**42,138**	34,204	**42,495**	34,261
Trade and other payables	**160,704**	156,306	**167,081**	164,050
	249,168	243,909	**257,752**	253,424
The contractual maturities of above financial liabilities were:				
Term loans: (principle+future interest)				
Up to 90 days	**3,355**	9,861	**3,513**	10,075
91 - 180 days	**1,605**	1,884	**1,764**	2,071
181 - 365 days	**2,645**	3,200	**2,889**	3,548
More than 365 days	**9,142**	11,796	**9,386**	12,228
	16,747	26,741	**17,552**	27,922
Short term loans: (principle+future interest)				
Up to 90 days	**21,344**	22,523	**21,344**	22,523
91 - 180 days	**5,931**	4,859	**5,931**	4,859
181 - 365 days	**3,512**	-	**3,512**	-
	30,787	27,382	**30,787**	27,382
Bank borrowings: (principle+future interest)				
Up to 90 days	**37,779**	26,752	**38,136**	26,809
91 - 180 days	**4,772**	7,839	**4,772**	7,839
181 - 365 days	**364**	114	**364**	114
	42,915	34,705	**43,272**	34,762
Trade and other payables:				
Up to 90 days	**67,954**	60,777	**70,997**	65,342
91 - 180 days	**35,514**	38,279	**38,974**	41,550
181 - 365 days	**34,748**	35,021	**34,395**	34,727
More than 365 days	**22,489**	22,229	**22,716**	22,431
	160,704	156,306	**167,081**	164,050

39. Financial instruments and related risk management (continued)

Amount in RO '000s

Changes in liabilities arising from financing activities

Parent Company	1 Jan 2020	Cash flows	New leases	Others	30 Jun 2020
Current interest-bearing loans and borrowings	74,965	5,936	-	(1,590)	79,311
Non-current interest-bearing loans and borrowings	11,321	(10,183)	-	6,860	7,998
Current lease liabilities	467	(341)	-	506	632
Non-current lease liabilities	850	-	179	(506)	523
Total liabilities from financing activities	87,603	(4,588)	179	5,270	88,464

Parent Company	1 Jan 2019	Cash flows	New leases	Others	31 Dec 2019
Current interest-bearing loans and borrowings	91,047	(12,847)	-	(3,235)	74,965
Non-current interest-bearing loans and borrowings	38,010	(29,924)	-	3,235	11,321
Current lease liabilities		(693)	-	1,160	467
Non-current lease liabilities	1,123	-	887	(1,160)	850
Total liabilities from financing activities	130,180	(43,464)	887	-	87,603

Changes in liabilities arising from financing activities

Group (unaudited)	1 Jan 2020	Cash flows	New leases	Others	30 Jun 2020
Current interest-bearing loans and borrowings	75,729	5,936	-	(1,478)	80,187
Non-current interest-bearing loans and borrowings	11,713	(9,799)		6,288	8,202
Current lease liabilities	644	(407)		611	848
Non-current lease liabilities	1,288	-	190	(44)	1,434
Total liabilities from financing activities	89,374	(4,270)	190	5,377	90,671

Group	1 Jan 2019	Cash flows	New leases	Others	31 Dec 2019
Current interest-bearing loans and borrowings	56,351	(12,790)	-	32,168	75,729
Non-current interest-bearing loans and borrowings	39,197	(30,623)	-	3,139	11,713
Current lease liabilities		(823)		1467	644
Non-current lease liabilities	1,844	-	911	(1,467)	1,288
Total liabilities from financing activities	97,392	(44,236)	911	35,307	89,374

The 'Others' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including lease liabilities to current due to the passage of time.

At 30 June 2020 the exposure to letter of credit facilities stood at RO 13,438 (2019: RO 18,443) thousand for the purchase of goods.

40. Fair value of financial instruments

Fair values

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances, contract, trade and other receivables and investments at fair value through other comprehensive income. Financial liabilities consist of term loans, bank borrowings, lease liabilities, trade and other payables.

The fair value of financial assets and financial liabilities approximate to their carrying values.

41. Key sources of estimation uncertainty

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below :

(a) Revenue recognition

The revenue recognition of the Group is line with IFRS 15 requirements. It uses the cost-to-cost (input method) in accounting for its construction contracts. At each reporting date, the Group is required to estimate the stage of completion and costs to complete on its construction contracts. This requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include the cost of potential claims by subcontractors and the cost of meeting other contractual obligations to the customers.

Effects of any revision to these estimates are reflected in the period in which the estimates are revised. When the expected contract costs exceeds the total anticipated contract revenue, the total expected loss is recognised immediately, as soon as foreseen, whether or not work has commenced on these contracts. The Group uses its commercial team to estimate the costs to complete of construction contracts. Factors such as delays in expected completion date, changes in the scope of work, changes in material prices, labour costs and other costs are included in the construction cost estimates based on best estimates updated on a regular basis.

The Group includes variable consideration (including claims, re-measurable contract values and) in the transaction price to which it expects to be entitled from the inception of the contract. The amount of variable consideration will have to be restricted to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(b) Impairment of claims recognised in contract work in progress and contract receivables

(i) The Group has filed certain claims with its Government and Quasi Government customers and made an assessment of the recoverable amount of claims based on ongoing negotiations at the reporting date, which in some cases involve arbitration and litigation. In accordance with the Group's accounting policy on revenue recognition, after considering the advanced stage of negotiations with customers and the independent third-party consultants reports and the internal assessments, a portion of such claims has been recognized in these financial statements based on management’s assessment of the amount of claims that will be recoverable from customers.

The claims raised by the Group against the customers are mainly in relation to variations from the originally agreed contract scope, changes in costs incurred due to the effects of royal decrees issued after the commencement of contracts and additional costs incurred due to extension of the project completion time. Claims are determined mostly based on evaluation by third party consultants appointed by the Group and the Group’s internal experts. The determination of claims to be recovered requires the use of estimates based on the evaluation performed by third party consultants and stage of negotiations of these claims with customers. The amount of claims which will be accepted by the customers after negotiations may be different from the amount claims recognized in the financial statements. Management is of the view that the amount of claims to be recovered from customers will not be less than the amount recognized in these financial statements.

41. Key sources of estimation uncertainty (continued)

(b) Impairment of claims recognised in contract work in progress and contract receivables (continued)

Other estimates that involve uncertainties and judgments which have significant effect on the financial statements include whether any liquidated damages will apply when there has been a delay in completion of contracts.

(ii) An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis.

At the reporting date, the Group's contract billed receivables were RO 131,047 (2019: RO 126,358) thousand, most of these receivables were from Government and quasi Government entities. This balance includes value of RO 58,609 (2019: RO 65,680) thousand certification in process, which is in the normal course of business activity in the construction industry. At 30 June 2020, the provision for impaired contract receivables and work in progress was RO 39,420 (2019: RO 42,268) thousand. Management believes the balance amounts are fully recoverable. In addition to this, the Groups' trade receivables were RO 9,487 (2019: RO 11,081) thousand.

(iii) Four arbitrations relating to Seeb Sewage Network project against Haya Water were awarded in favor of the Parent Company. Status of various arbitration awards are as follows:

The first arbitration awards against Haya Water towards road reinstatement measurement and other variations amounting to RO 3.58 million were awarded on 19 August 2016.

On 18 October 2018 the court issued judgment by accepting annulment case of Haya as the Award was not issued under the name of Sultan Qaboos. Galfar submitted appeal before the Supreme Court against this judgment and Court accepted Galfar challenge on 9 October 2019 and referred the case back to the Appeal Court for further proceedings and the case is held for Judgement on 26 March 2020. Cheque with the full amount received from court on 5 November 2019 for an amount of RO 3.58 million. Letter submitted to enforcement court to close the case. Appeal Court rejected Haya's nullification and Haya submitted the petition before supreme court. Final judgement awaited from Supreme court.

Second arbitration award against Haya towards extension of time cost amounting to RO 18.28 million was awarded in favour of the Parent Company with 7% interest on the claim amount on 15 February 2018.

Haya's appeal for annulment of the arbitration award was rejected by the court on 25 November 2018. Haya submitted appeal before the Supreme Court against this judgment and Court accepted Haya challenge on 31 December 2019 and referred the case back to the Appeal Court for further proceedings and the next hearing is awaited. Parent Company has received RO 4.63 million being part of the award amount till date.

2nd Appeal Court supported Haya's nullification case. Galfar submitted petition before Supreme court on 18 May 2020 as last attempt. The petition is yet to be looked at by the Supreme Court awaiting final judgment

Third arbitration against Haya towards change in legislation claim of RO 2.1 million. Award issued in favour of Galfar on 31 October 2019 for an amount of RO 1.02 million. Haya filed nullification case at Muscat Appeal Court and on 2 March 2020 the Court rejected Haya nullification case and Haya submitted the petition before supreme court. Galfar has submitted a request for execution on 31 May 2020 and further procedures are ongoing. Judgement awaited from Supreme court.

Fourth arbitration award towards variation and claims amounting to RO 1.3 million has been awarded in favour of Galfar on 1 March 2018. Haya filed nullification case at Muscat Appeal Court and on 22 October 2018 the Court rejected Haya nullification case. Haya submitted appeal before the Supreme Court against this judgment and Court rejected Haya challenge on 31 December 2019. Galfar has received the full awarded amount of RO 1.33 million on 15 January 2019 and case is closed.

(iv) The Parent Company had lodged arbitration cases against Haya towards recovery of penalty deducted by Haya towards Al Ansab STP project. Arbitration was awarded in favour of Galfar on 28 June 2018 for RO 2.63 million plus legal cost of RO 0.14 million. Haya had filed an appeal to nullify the arbitration award. On 21 January 2019 Court had rejected Haya's nullity case. Haya submitted appeal before the Supreme Court against this judgment and Court accepted Haya challenge on 31 December 2019 and referred the case back to the Appeal Court for further proceedings. On 31 May 2020 Galfar started the enforcement procedure. Hearing date awaited from Appeal court.

41. Key sources of estimation uncertainty (continued)

(b) Impairment of claims recognised in contract work in progress and contract receivables (continued)

(v) The Parent Company had lodged an arbitration case against Swissboring & Company LLC ("Swissboring") towards reimbursement of cost for repair of defects at Duqm Dry Dock Complex project. Arbitration was awarded in favour of the Parent Company on 26 February 2017 for RO 3.87 million plus 6.5% interest from the date of award till full payment. Settlement Agreement signed between Swissboring & Galfar for an amount of RO 4,69 million (including interest) on 13 October 2019. Payment shall be made in instalments including interest to complete by 31 December 2020. Copy of the Settlement Agreement submitted to court. Total amount received as on 22 July 2020 is RO 3.04 million.

(vi) Modern Chanel Services had filed an arbitration case against Galfar for an compensation of RO 0.5 million towards a consortium agreement related to Duqm fishery harbor project. A three arbitrator's panel was appointed to foresee the case, and the case has been held for judgment after exchange of memos.

Award issued on 8 Jun 2020 in favour of Modern Channels Services for total amount of RO 548,250/ plus 6.5% interest.

Galfar is entitled to file a Nullification case before Muscat Appeal Court on or before 8 Sep 2020 and Modern Channels Services is entitled to start enforcement procedures after 9 Sep 2020. Galfar will file a Nullification case before 8 Sep 2020.

(c) Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value through physical verification of inventories carried out annually. As majority of the inventories are at ongoing project sites these are considered as usable in nature by management as these are closely monitored by the respective project teams. Dedicated project teams also monitors surplus inventories on closed/completed jobs for assessing their usability to consider necessary provisions. 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. Management believes that provision of RO 491 (2019: RO 539) thousand for the Group is adequate (refer note 8).

(d) Useful lives of property, plant and equipment

The Group'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 (refer note 3).

(e) Impairment of intangible assets

The Group follows the guidance of IAS 36 to determine when an intangible asset recognised is impaired. This determination requires significant judgement and in making this judgement, the management evaluates, among other factors, the carrying amount of the entity's intangible assets and the future free cash flows from the operations of these entities which are based on the project feasibility reports and long-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and the operational and financing cash flow.

The management tests annually whether these intangible assets of the Group have suffered any impairment in accordance with IAS 36, 'Impairment of Assets' which require the use of the above estimates(refer note 4).

41. Key sources of estimation uncertainty (continued)

(f) Impairment of investments in subsidiaries and associates

The Group reviews its investments in associates and subsidiaries periodically and evaluates for objective evidence of impairment. Objective evidence includes the performance of associates and subsidiaries, significant decline in carrying value below its costs, the future business model, local economic conditions and other relevant factors. Based on objective evidences the Group determines the need for impairment loss on investment in associates and subsidiaries (refer note 6 and 7).

(g) Taxes

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 Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of respective Group companies. 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.(refer note 26)

(h) Leases

Significant judgement in determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or to terminate (e.g., a change in business strategy, construction of significant leasehold improvements or significant customization to the leased asset).

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the fund necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group ‘would have to pay’, which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit ratings).