

**Notes to Consolidated Financial Statements**As at 31st December, 2014

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**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 in Muscat Security Exchange.

The principal activities of Galfar Engineering and 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, plumbing and maintenance contracts and Design, Build, Finance, Operate and Transfer (DBFOT) projects.

**2. Significant Accounting Policies****Basis of preparation**

These consolidated financial statements are prepared on the historical cost basis, as modified by the revaluation of derivative financial instruments at fair value through statement of comprehensive income, available-for-sale financial assets that have been measured at fair value and in accordance with International Financial Reporting Standards (IFRS), the requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and comply with the disclosure requirements set out in the 'Rules and Guidelines on Disclosure by issuer of Securities and Insider Trading' issued by the Capital Market Authority (CMA) of the Sultanate of Oman.

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. 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. The assumptions concerning the key sources of estimation uncertainty at the reporting date are set out in note 38.

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

**Change in accounting policy estimates and disclosures**

The accounting policies are consistent with those used in the previous financial year except for below:

In the current year, the company has changed the method of recognising the contract revenue from 'surveys of work performed method' to 'percentage completion method'. Hence from 2014, the company uses the 'percentage of completion method' to determine the appropriate amount of contract revenue to be recognised in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

The Company has considered the above to be a 'change in accounting estimate'. Accordingly, the effect of this change has been recognised prospectively in the financial statements, in line with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors. The amount of effect in the current period and the future periods have not been disclosed in these financial statements due to its impracticability.

Standards and amendments effective in 2014 and relevant for the group's operations:

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

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

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the group:

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2015 or later periods, but the group has not early adopted them and the impact of these standards and interpretations is not reasonably estimable as at 31 December 2014:

IFRS 9, 'Financial instruments', (effective on or after 1 January 2015); and

IFRS 15, 'Revenue from contracts with customers' (effective on or after 1 January 2017);

**Accounting Policies**

The significant accounting policies adopted by the group are as follows:

**Basis of consolidation**

The consolidated financial statements comprise those of Galfar Engineering and Contracting SAOG, its subsidiaries and its associates as at closing of each period. A subsidiary is a company in which the parent company owns, directly or indirectly more than half of the voting power.

**Notes to Consolidated Financial Statements**As at 31st December, 2014

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**2. Significant Accounting Policies (continued)****Basis of consolidation (continued)**

The subsidiary is consolidated from the date on which control is transferred to the group and ceases to be consolidated from the date on which control is transferred out of the group.

The financial statements of the subsidiary 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.

All intercompany balances, income and expenses, unrealised gains and losses and dividends resulting from intra-group transactions are eliminated.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interests
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss

In the parent company's separate financial statements, the investment in the subsidiary is carried at cost less impairment.

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest, over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed off, the goodwill associated with the operation disposed off is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Notes to Consolidated Financial Statements**

As at 31st December, 2014

**2. Significant Accounting Policies (continued)**

**Business combinations and goodwill (continued)**

Changes in ownership interests in subsidiaries without change of control:

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.

Disposal of subsidiaries:

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.

**Investments in associates**

The group's investments in its associates are accounted for under the equity method of accounting. In the parent company's separate 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 recognise 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.

**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 loss. 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 and machinery	7 & 10 years
Motor vehicles and heavy equipment	7 & 10 years
Furniture and office equipment	6 years
Project equipment and 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.

**Notes to Consolidated Financial Statements**As at 31st December, 2014

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**2. Significant Accounting Policies (continued)****Property, plant and equipment (continued)**

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.

**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.

**Intangible assets**

Computer software:

Computer software costs 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.

Concessionaire rights:

Concessionaire rights arising from Design, Build, Finance, Operate and Transfer (DBFOT) road projects are shown at historical cost. These have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of intangible assets over their lease period and is recognised in the statement of comprehensive income.

**Available-for-sale investments**

Available-for-sale investments are initially recognised at cost, which includes transaction costs, and are, in general, subsequently carried at fair value. Available-for-sale equity investments that do not have a quoted market price in an active market, and for which other methods of reasonably estimating fair value are inappropriate, are measured at cost, as reduced by allowances for estimated impairment. Changes in fair value are reported as other comprehensive income.

An assessment is made at each reporting date to determine whether there is objective evidence that an investment may be impaired. If such evidence exists, any impairment loss (being the difference between cost and fair value, less any impairment loss previously recognised) is removed from other comprehensive income and recognised in the income statement.

**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.

**Impairment of non-financial assets**

At each reporting date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. For the purpose of assessing the impairment, assets are grouped at the lowest level for which they are largely independent cash flows (cash generating units). 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.

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and carrying amount of the asset and is recognised immediately in the statement of comprehensive income.

**Notes to Consolidated Financial Statements**As at 31st December, 2014

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**2. Significant Accounting Policies (continued)****Impairment of non-financial assets (Continued)**

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

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.

**Financial instruments**

Financial assets and financial liabilities are recognised on the group's statement of financial position when the group becomes a party to the contractual provisions of the instrument.

The principal financial assets are trade and other receivables, term deposits, available for sale investments and cash and bank balances.

The principal financial liabilities are trade payables, liabilities against finance leases, term loans, bank borrowings and overdrafts.

**Derivative financial instruments**

Derivatives are initially recognised at cost on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in the fair value of derivative instruments are recognised immediately in the statement of comprehensive income.

**Trade and other receivables**

Trade receivables are amounts due from customers for billing in the ordinary course of business for construction contracts. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

**Term deposits**

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

**Cash and cash equivalents**

For the purpose of the cash flows statement, the group considers cash on hand and bank balances with a maturity of less than three months from the date of placement as cash and cash equivalents.

**Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable 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.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Interest-bearing loans and borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**Notes to Consolidated Financial Statements**As at 31st December, 2014

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**2. Significant Accounting Policies (continued)****Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets until such time as the assets are substantially ready for their intended use. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Leases**

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

**Group as a lessee**

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the statement of comprehensive income.

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

**Derecognition of financial assets and liabilities**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised 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:
  - The group has transferred substantially all the risks and rewards of the asset, or
  - The group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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 a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

**Impairment of financial assets**

The group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Impairment is determined as follows:

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

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**2. Significant Accounting Policies (continued)****Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts and the group intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**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.

**Provision for employees' benefits**

Termination benefits for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

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 and in accordance with IAS 19. 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.

**Dividend on ordinary shares**

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

**Taxation***Current income tax*

Taxation is provided based on relevant laws of the respective countries in which the group operates. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

*Deferred taxation*

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

**Notes to Consolidated Financial Statements**As at 31st December, 2014

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**2. Significant Accounting Policies (continued)****Taxation (continued)**

The carrying amount of deferred tax assets is 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

**Contract revenue and profit recognition**

A construction contract is defined by IAS 11 as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Contract revenue corresponds to the initial amount of revenue agreed in the contract and any variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue, and they can be reliably measured.

A variation is included in contract revenue when:

- (a) it is probable that the customer will approve the variation and the amount of revenue arising from the variation; and
- (b) the amounts of revenue can be reliably measured.

Claims are included in contract revenue only when:

- (a) negotiations have reached an advanced stage such that it is probable that the customer will accept the claim; and
- (b) the amount that it is probable will be accepted by the customer can be measured reliably.

Incentive payments are included in contract revenue when:

- (a) the contract is sufficiently advanced that it is probable that the specified performance standards will be met or exceeded; and
- (b) the amount of the incentive payment can be measured reliably.

The company uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

**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.

**Sales and service income**

Revenue from sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the reporting date.

**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 in the period in which they are incurred.

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**2. Significant Accounting Policies (continued)****Interest income**

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

**Dividend income**

Dividend income is recognised when the right to receive the dividend is established.

**Directors' remuneration**

The Parent Company follows the Commercial Companies Law 1974 (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 after its approval in AGM.

**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 the company'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 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 company's equity holders.

**Foreign currency translation**

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. Items included in the financial statements of the company are measured and presented in Rials Omani being the currency of the primary economic environment in which the parent company operates.

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. The results of the translations in foreign currency investments of foreign subsidiaries and associates are disclosed under other comprehensive income.

**Segment reporting**

A segment is a distinguishable component of the group that is engaged in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The segment information is set out in note 35.

## Notes to Consolidated Financial Statements

As at 31st December, 2014

### 3. Property, plant and equipment - Parent Company

Amount in RO '000s

Particulars	Land	Building & Camps	Plant & Machinery	Motor Vehicles & Equipment	Furniture & Office Equipment	Project Equipment & Tools	Capital Work-in-Progress	Total
<b>Costs</b>								
<b>At 1 January 2013</b>	1,278	25,596	114,450	69,955	13,772	13,818	5,063	243,932
Additions	-	849	15,832	7,941	952	1,254	2,089	28,917
Disposals	-	(193)	(2,588)	(2,897)	(140)	(17)	-	(5,835)
Transfers	-	7,152	-	-	-	-	(7,152)	-
<b>At 1 January 2014</b>	<b>1,278</b>	<b>33,404</b>	<b>127,694</b>	<b>74,999</b>	<b>14,584</b>	<b>15,055</b>	<b>-</b>	<b>267,014</b>
Additions	-	772	2,076	1,508	401	252	16	5,025
Disposals/written off	-	(2,040)	(8,055)	(6,525)	(5,443)	(6,888)	-	(28,951)
Transfers to intangible assets	-	212	315	-	(1,386)	670	-	(189)
<b>At 31 December 2014</b>	<b>1,278</b>	<b>32,348</b>	<b>122,030</b>	<b>69,982</b>	<b>8,156</b>	<b>9,089</b>	<b>16</b>	<b>242,899</b>
<b>Depreciation</b>								
<b>At 1 January 2013</b>	-	18,493	59,033	38,728	11,828	10,100	-	138,182
Charge for the year	-	1,341	11,584	7,256	864	1,404	-	22,449
Disposals	-	(193)	(1,674)	(2,133)	(4)	(17)	-	(4,021)
<b>At 1 January 2014</b>	<b>-</b>	<b>19,641</b>	<b>68,943</b>	<b>43,851</b>	<b>12,688</b>	<b>11,487</b>	<b>-</b>	<b>156,610</b>
Charge for the year	-	1,606	11,484	6,870	664	1,170	-	21,794
Disposals/written off	-	(2,018)	(6,983)	(5,896)	(5,426)	(6,886)	-	(27,209)
Transfers to intangible assets	-	171	298	-	(1,323)	667	-	(187)
<b>At 31 December 2014</b>	<b>-</b>	<b>19,400</b>	<b>73,742</b>	<b>44,825</b>	<b>6,603</b>	<b>6,438</b>	<b>-</b>	<b>151,008</b>
<b>Net book amount</b>								
<b>At 31 December 2014</b>	<b>1,278</b>	<b>12,948</b>	<b>48,288</b>	<b>25,157</b>	<b>1,553</b>	<b>2,651</b>	<b>16</b>	<b>91,891</b>
At 31 December, 2013	1,278	13,763	58,751	31,148	1,896	3,568	-	110,404

## Notes to Consolidated Financial Statements

As at 31st December, 2014

### 3. Property, plant and equipment - Consolidated

Amount in RO '000s

Description	Land	Building & Camps	Plant & Machinery	Motor Vehicles & Equipment	Furniture & Office Equipment	Project Equipment & Tools	Capital Work-in- Progress	Total
<b>Costs</b>								
<b>At 1 January 2013</b>	1,278	25,759	124,540	74,221	14,071	13,932	5,555	259,356
Additions	-	853	17,614	8,683	1,083	1,298	1,838	31,369
Disposals	-	(193)	(3,164)	(2,742)	(126)	(42)	(16)	(6,283)
Transfers	-	7,152	-	-	-	-	(7,152)	-
<b>At 1 January 2014</b>	<b>1,278</b>	<b>33,571</b>	<b>138,990</b>	<b>80,162</b>	<b>15,028</b>	<b>15,188</b>	<b>225</b>	<b>284,442</b>
Additions	-	774	4,744	3,241	455	336	158	9,708
Disposals/written off	-	(2,040)	(8,055)	(6,651)	(5,466)	(6,888)	-	(29,100)
Transfers to intangible assets	-	212	333	-	(1,404)	670	-	(189)
<b>At 31 December 2014</b>	<b>1,278</b>	<b>32,517</b>	<b>136,012</b>	<b>76,752</b>	<b>8,613</b>	<b>9,306</b>	<b>383</b>	<b>264,861</b>
<b>Depreciation</b>								
<b>At 1 January 2013</b>	-	18,525	63,360	40,391	11,962	10,108	-	144,346
Charge for the year	-	1,357	12,495	7,715	899	1,414	-	23,880
Disposals	-	(193)	(1,784)	(2,132)	(2)	(20)	-	(4,131)
<b>At 1 January 2014</b>	<b>-</b>	<b>19,689</b>	<b>74,071</b>	<b>45,974</b>	<b>12,859</b>	<b>11,502</b>	<b>-</b>	<b>164,095</b>
Charge for the period	-	1,617	12,678	7,393	693	1,190	-	23,571
Disposals/written off	-	(2,018)	(6,988)	(5,984)	(5,427)	(6,886)	-	(27,303)
Transfers to intangible assets	-	171	309	-	(1,334)	667	-	(187)
<b>At 31 December 2014</b>	<b>-</b>	<b>19,459</b>	<b>80,070</b>	<b>47,383</b>	<b>6,791</b>	<b>6,473</b>	<b>-</b>	<b>160,176</b>
<b>Net book amount</b>								
<b>At 31 December 2014</b>	<b>1,278</b>	<b>13,058</b>	<b>55,942</b>	<b>29,369</b>	<b>1,822</b>	<b>2,833</b>	<b>383</b>	<b>104,685</b>
At 31 December, 2013	1,278	13,882	64,919	34,188	2,169	3,686	225	120,347

**Notes to Consolidated Financial Statements**

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013

**3. Property, plant and equipment (continued)**

Capital work-in-progress represents machinery under installation in parent company and building under construction in a subsidiary company.

Land and buildings with a net book value of RO 11,674 (2013: RO 12,215) thousands have been mortgaged in favour of banks, against term loan obtained by the company. Vehicles and equipment also have been jointly registered with banks/finance companies for insured value of RO 121,958 (2013: RO 82,457) thousands to obtain term loan (note 18).

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

Contract costs (note 27)	20,402	21,524	22,149	22,916
General and administrative expenses (note 28)	1,392	925	1,422	964
	<b>21,794</b>	<b>22,449</b>	<b>23,571</b>	<b>23,880</b>

**4. Intangible assets**
**Costs**

Balance at beginning of the year	2,693	2,558	2,713	2,566
Addition for the year	15	135	18,099	147
Written off	(208)	-	(208)	-
Transfer from property, plant and equipment	189	-	189	-
Balance at end of the year	<b>2,689</b>	<b>2,693</b>	<b>20,793</b>	<b>2,713</b>

**Amortisation**

Balance at beginning of the year	1,179	774	1,180	774
Charge for the year	400	405	409	406
Written off	(208)	-	(208)	-
Transfer from property, plant and equipment	187	-	187	-
Balance at end of the year	<b>1,558</b>	<b>1,179</b>	<b>1,568</b>	<b>1,180</b>

**Net book value at end of the year**

	<b>1,131</b>	<b>1,514</b>	<b>19,225</b>	<b>1,533</b>
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The intangible assets of the parent company comprise of the computer soft ware.

The intangible assets of the group comprise of the computer soft ware and concessionaire rights under development as follows:

	Computer soft ware		Concessionaire rights under development	
	2014	2013	2014	2013
<b>Costs</b>				
Balance at beginning of the year	2,713	2,566	-	-
Addition for the year (Refer note 5(1))	50	147	18,049	-
Written off	(208)	-	-	-
Transfers	189	-	-	-
Balance at end of the period	<b>2,744</b>	<b>2,713</b>	<b>18,049</b>	<b>-</b>
<b>Amortisation</b>				
Balance at beginning of the year	1,180	774	-	-
Charge for the year	409	406	-	-
Written off	(208)	-	-	-
Transfers	187	-	-	-
Balance at end of the period	<b>1,568</b>	<b>1,180</b>	<b>-</b>	<b>-</b>
<b>Net book value at end of the period</b>	<b>1,176</b>	<b>1,533</b>	<b>18,049</b>	<b>-</b>

**5. Investment in subsidiaries**

Galfar Engineering & Contracting India Pvt. Ltd.	1,595	8	-	-
Salasar Highways Pvt. Ltd. (i)	1,276	307	-	-
Al Khalij Heavy Equipment & Engineering LLC	600	600	-	-
Kashipur Sitarganj Highways Pvt. Ltd. (KSHPL) (i)	307	307	-	-
Aspire Projects & Services LLC	200	200	-	-
Galfar Mott MacDonald LLC	163	163	-	-
Galfar Training Institute LLC	149	149	-	-
Galfar Aspire Readymix LLC	148	148	-	-
Galfar Wasen Contracting Company	58	58	-	-
	<b>4,496</b>	<b>1,940</b>	<b>-</b>	<b>-</b>

Information of subsidiary companies is summarised below:

	Shares held by parent company		Shares held by group	
Al Khalij Heavy Equipment & Engineering LLC	52%	52%	52%	52%
Galfar Training Institute LLC	99%	99%	100%	100%
Galfar Engineering & Contracting India Pvt. Ltd.	100%	100%	100%	100%
Aspire Projects & Services LLC	100%	100%	100%	100%
Galfar Aspire Readymix LLC (ii)	99%	99%	100%	100%
Salasar Highways Pvt. Ltd. (i)	24%	98%	100%	100%
Kashipur Sitarganj Highways Pvt. Ltd. (i)	9%	98%	100%	100%
Galfar Mott MacDonald LLC	65%	65%	65%	65%
Galfar Wasen Contracting Company	65%	65%	65%	65%

**Notes to Consolidated Financial Statements**

As at 31st December, 2014

Amount in RO '000s

	<b>Parent Company</b>		<b>Consolidated</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>

**5. Investment in subsidiaries (continued)**

	Principal activity	Place of incorporation	Year of incorporation
Galfar Engineering & Contracting India Pvt. Ltd.	Construction	India	2009
Salasar Highways Pvt. Ltd. (i)	Concessionaire	India	2013
Al Khalij Heavy Equipment & Engineering LLC	Hiring equipment	Oman	2006
Kashipur Sitarganj Highways Pvt. Ltd. (KSHPL) (i)	Concessionaire	India	2013
Aspire Projects & Services LLC	Construction	Oman	2011
Galfar Mott MacDonald LLC	EPC consultancy	Oman	2013
Galfar Training Institute LLC	Training	Oman	2009
Galfar Aspire Redymix LLC (ii)	Manufacturing	Oman	2012
Galfar Wasen Contracting Company	Construction	Libya	2010

(i) Salasar Highways Pvt. Ltd. and Kashipur Sitarganj Highways Pvt. Ltd., the two companies are incorporated in India as concessionaire to handle DBFOT road projects 'Fatehpur-Salasar highway' and 'Kashipur-Sitarganj highway' with total project costs at equivalent RO 37,750 and RO 42,500 thousands respectively. The projects are awarded to the parent company in November, 2012 and to be executed by the subsidiary company Galfar Engineering and Contracting India Pvt. Ltd. (GECIPL). The investment made by the parent company and GECIPL is RO 1,583 thousands and RO 7,046 thousands respectively in each company, which is part of the total investment of equivalent RO 6,318 and RO 6,929 thousands respectively. The shareholding of the parent company is reduced in both subsidiaries as investment during the year made by GECIPL. The construction of both the project's are under progress and expected to be completed in August, 2016. Also refer note (4).

(ii) During the year, Galfar Aspire Redimix LLC where the parent company owns 99% of the issued share capital, has issued additional shares amounting to 100 thousands by capitalising the retained earnings. No adjustments have been made in the parent company financial statements in line with the parent company's accounting policy to carry the investments in subsidiaries at cost less impairment.

**6. Investment in associates**

Galfar Engineering & Contracting Kuwait KSC (GEC) (i)	<b>5,323</b>	5,323	<b>2,590</b>	3,229
Mahakaleswar Tollways Pvt. Ltd. (MTPL) (ii)	<b>2,255</b>	2,255	<b>(710)</b>	(406)
Shree Jagannath Expressway Pvt. Ltd. (SJEPL) (ii)	<b>739</b>	739	<b>1,427</b>	1,608
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL) (ii)	<b>344</b>	344	<b>2,010</b>	1,983
International Water Treatment LLC (IWT) (iii)	<b>45</b>	45	<b>(456)</b>	30
	<b>8,706</b>	8,706	<b>4,861</b>	6,444

Information of associate companies is summarised below:

	<b>Shares acquired by parent company</b>		<b>Shares acquired by group</b>	
Galfar Engineering & Contracting Kuwait KSC (i)	26%	26%	26%	26%
Mahakaleswar Tollways Pvt. Ltd. (MTPL) (ii)	26%	26%	26%	26%
Shree Jagannath Expressway Pvt. Ltd. (SJEPL) (ii)	6%	6%	26%	26%
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL) (ii)	2%	2%	26%	26%
International Water Treatment LLC (iii)	30%	30%	30%	30%

  

	<b>Principal activity</b>	<b>Place of incorporation</b>	<b>Year of incorporation</b>
Galfar Engineering & Contracting Kuwait KSC (i)	Construction	Kuwait	2010
Mahakaleswar Tollways Pvt. Ltd. (MTPL) (ii)	Concessionaire	India	2010
Shree Jagannath Expressway Pvt. Ltd. (SJEPL) (ii)	Concessionaire	India	2011
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL) (ii)	Concessionaire	India	2011
International Water Treatment LLC (IWT) (iii)	Construction	Oman	2013

(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 group holds 26% shareholding in these companies incorporated in India to handle DBFOT road projects. The MTPL has commenced commercial activities in year 2011 while SJEPL and GAEPL projects are still under construction.

(iii) The parent company has acquired 30% share of this company during the year 2013. The company is incorporated 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 been awarded 'Al Ghubrah Independent Water Desalination Project', which is being executed by the parent company as one of the sub-contractors.

**Notes to Consolidated Financial Statements**

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013

**6. Investment in associates (continued)**

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

**Share of associates statement of financial position:**

Current assets	10,124	10,667
Non-current assets	54,543	42,097
Current liabilities	(12,139)	(12,513)
Non-current liabilities	(47,667)	(33,807)
Net assets and carrying amount of the investment	4,861	6,444

**Share of associates statement of income:**

Revenue	18,635	10,708
Costs of revenue	20,001	12,326
Loss for the period	(1,366)	(1,618)

Loss for the period comprises of loss from GEC, Kuwait RO 584 ( 2013 - RO 1,068) thousands, MTPL, India RO 296 ( 2013 - RO 535) thousands and IWT, Oman RO 486 ( 2013 - RO 15) thousands.

**7. Inventories**

Materials and consumables	22,916	36,020	24,190	36,965
Less: allowance for non-moving inventories	(1,785)	(451)	(1,811)	(477)
	21,131	35,569	22,379	36,488

Movement for the provision for inventories is as follows:

At the beginning of the year	451	325	477	351
Charged for the year	1,334	126	1,334	126
At the end of the year	1,785	451	1,811	477

**8. Due from/(to) customers on contracts**

Work-in-progress on long term contracts at cost plus attributable profit considered as receivables	67,557	53,582	68,743	54,737
To customers under construction contracts recorded as billings in excess of work done (note 23)	1,470	3,692	7,713	6,169

**Due from customers on construction contracts:**

Revenue recognised at cost plus attributable profit	1,162,655	1,029,690	1,166,071	1,040,558
Less: Progress claims received and receivable	(1,095,098)	(976,108)	(1,097,328)	(985,821)
	67,557	53,582	68,743	54,737

**Due to customers on construction contracts:**

Progress claims received and receivable	154,627	307,709	181,117	323,319
Less: Revenue recognised at cost plus attributable profit	(153,157)	(304,017)	(173,404)	(317,150)
	1,470	3,692	7,713	6,169

**9. Contract and trade receivables**

Contract billed receivables	182,382	172,119	190,647	172,871
Trade receivables	1,491	1,089	5,951	3,713
Retention receivables - current	29,289	28,261	29,372	28,783
Provision for impaired debts	-	-	(43)	(39)
	213,162	201,469	225,927	205,328
Retentions receivables				
Non-current portion	30,816	32,246	30,896	32,246

**Notes to Consolidated Financial Statements**

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013
<b>10. Advances, prepayment and other receivables</b>				
Advance on sub-contracts and supplies	5,316	3,947	6,468	4,559
Advances to employees	452	1,078	458	1,078
Prepaid expenses	4,139	4,411	4,247	4,526
Due from related parties (note 33)	11,024	9,414	7,570	7,827
Insurance claims receivable	606	235	606	235
Income tax receivables	-	-	2,418	2,045
Deposits	510	496	544	522
Other receivables	47	267	155	289
Provision for impaired advances	-	-	(934)	(274)
	<u>22,094</u>	<u>19,848</u>	<u>21,532</u>	<u>20,807</u>
<b>11. Deposits with bank</b>				
Short term deposits	1,293	11,551	1,293	11,551
Margin deposits	-	-	31	40
	<u>1,293</u>	<u>11,551</u>	<u>1,324</u>	<u>11,591</u>

The term deposits carry interest rates of 1.0% to 2.0% (2013 - 1% to 2%) per annum and are kept for a period three to twelve months from date of placement.

**12. Cash and bank balances**

Cash in hand	204	271	223	300
Bank balances with current accounts	531	3,898	2,345	5,792
	<u>735</u>	<u>4,169</u>	<u>2,568</u>	<u>6,092</u>

**13. Share capital**
**Authorised:**

500,000,000 (2013: 500,000,000) ordinary shares of par value RO 0.100 (2013: RO 0.100) each	50,000	50,000	50,000	50,000
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**Issued and fully paid:**

Balance at beginning of the year	37,747	33,000	37,747	33,000
Proceeds from 47,468,761 shares issued during the year	-	4,747	-	4,747
Balance at end of the period	<u>37,747</u>	<u>37,747</u>	<u>37,747</u>	<u>37,747</u>

At the reporting date, the issued and fully paid share capital comprises of 377,468,761 (2013: 377,468,761) shares having a par value of RO 0.100 (2013: RO 0.100) each. Pursuant to the terms of its IPO, as detailed below, the share capital of the Company has been divided into two classes comprising of 263,618,761 (2013: 263,618,761) ordinary shares and 113,850,000 (2013: 113,850,000) 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 dividend receipt.

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013

**14. Share premium**

During the year the company has not issued any right shares to the shareholders.

However during the last year, the company has issued 47,468,761 right shares to shareholders at RO 0.280 with a nominal value of RO 0.100 and a share premium of RO 0.180. An amount of RO 13,196 thousands were collected comprising nominal value RO 4,747 thousands and share premium of RO 8,449 thousands. An amount of RO1,582 thousands during the last year were transferred to statutory reserve account from Share premium.

This reserve is available for distribution to the members.

**15. Statutory reserve**

As required by the Commercial Companies Law of Oman, the statutory reserve is to be maintained at least one third of the issued share capital.

**16. Foreign currency translation reserve**

Foreign currency translation reserve represents impact of translation of subsidiaries and associates financial statement figures in foreign currency to functional currency of the parent company as allowed under IAS 21.

**17. Dividend**

For the previous year 2013, a cash dividend of RO 0.010 per ordinary shares totaling RO 3,775 thousands proposed by the Board of Directors was approved at Annual General Meeting of the company held on 26th March, 2014 and subsequently credited to shareholders' account during the year.

For the year 2014, a stock dividend of 10% totalling to 37,747 thousands shares of RO 0.100 each has been proposed out of share premium in the Board meeting on 7 March, 2015 to be approved at Annual General Meeting of the parent company to be held on 25 March, 2015.

**18. Term loans**

Term loans:

- from banks	89,665	64,281	94,449	64,281
- finance companies	10,917	12,494	12,121	13,549
	<u>100,582</u>	<u>76,775</u>	<u>106,570</u>	<u>77,830</u>
Current portion				
- from banks	28,108	26,179	28,342	26,179
- finance companies	4,272	4,446	4,640	4,937
	<u>32,380</u>	<u>30,625</u>	<u>32,982</u>	<u>31,116</u>
Non-current portion				
- from banks	61,557	38,102	66,107	38,102
- finance companies	6,645	8,048	7,481	8,612
	<u>68,202</u>	<u>46,150</u>	<u>73,588</u>	<u>46,714</u>
The term loans are repayable as follows:				
Within one year	32,380	30,625	32,982	31,116
In the second year	27,002	18,536	27,589	18,856
In the third year onwards	41,200	27,614	45,999	27,858
	<u>100,582</u>	<u>76,775</u>	<u>106,570</u>	<u>77,830</u>

The long term loans are stated at the proceeds received net of repayments and amounts repayable within next twelve months have been shown as a current liability. The term loans from banks are secured against the contract assignments and/or joint registration of vehicle/equipment. The term loans from finance companies are secured against the jointly registered vehicle/equipment. Also refer note 3 for land and buildings mortgaged in favour of a commercial bank against term loan obtained by the company.

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013

**18. Term loans (continued)**

The interest rates on term loans were as follows:

	Current period	Previous period
Floating rate loans	LIBOR + 2.0%	LIBOR + 2.0%
Fixed interest rate loans	4.25% to 7.0%	4.5% to 7.0%

**19. Short term loans**

- from banks	28,000	35,400	33,027	35,400
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Bank short term loans 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 4.0% to 4.75% (2013: 4.0% to 5.0%) per annum.

**20. Bank borrowings**

Bank overdrafts	6,950	10,093	7,762	12,628
Loan against trust receipts	48,491	77,620	48,491	77,620
Bills discounted	7,250	-	7,250	-
	62,691	87,713	63,503	90,248

Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 4.0% to 5.5% (2013: 4.0% to 7%) per annum. Bank borrowings are secured against the contract assignments and/or joint registration of vehicle/equipment.

**21. Trade payables**

Sundry creditors	46,318	58,619	55,256	62,416
Provision for purchases and sub-contracts	31,189	33,059	31,788	33,755
	77,507	91,678	87,044	96,171

**22. Employees' end of service benefits**

Balance at beginning of the year	10,919	8,658	11,067	8,788
Charge for the year	2,084	2,619	2,213	2,724
Paid during the year	(1,937)	(358)	(2,027)	(445)
Balance at end of the year	11,066	10,919	11,253	11,067

**23. Other payables and provisions**

Advances from customers - current	32,776	28,453	35,798	28,481
Accrued expenses	9,926	9,564	13,021	9,789
Provision for employees' leave pay and passage	6,637	6,957	6,664	7,007
Retention on sub-contracts	2,006	1,941	2,200	2,013
Due to related parties (note 33)	1,980	1,830	2,422	2,218
Creditors for capital purchases -current portion	1,034	1,993	1,139	1,995
Due to customers on contracts (note 8)	1,470	3,692	7,713	6,169
Other payables	891	903	1,202	1,647
	56,720	55,333	70,159	59,319
Advance payables				
Non-current portion	16,146	9,450	17,744	9,450

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

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013

**24. 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 @ 12% of taxable profit after adjusting non-assessable and disallowable items and statutory exemption of RO 30,000. 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**

Current tax charge for current year	1,045	1,240	1,397	2,284
Deferred tax credit for current year	(860)	(221)	(670)	(28)
Current tax credit for prior years	-	-	(4)	(31)
Deferred tax charge for prior years	-	-	3	31
	<u>185</u>	<u>1,019</u>	<u>726</u>	<u>2,256</u>

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

Profit before tax	1,394	7,910	923	9,840
Tax on accounting profit	164	946	494	2,120
Tax effect on non admissible expenditure and adjustments	21	73	232	136
	<u>185</u>	<u>1,019</u>	<u>726</u>	<u>2,256</u>

**Provision for tax**

The parent company income tax assessment up to the year 2008 has been finalised by the taxation department. During the year 2014, parent company income tax assessment for the years 2008 has been completed and the resulted additional tax liability was immaterial. The income assessments of the subsidiaries are at various stages of completion. The management believes that any taxation for the unassessed years will not be material to the financial position of the Group as at the reporting date. The status of tax provision is as follows:

Balance at beginning of the year	1,177	1,482	2,787	2,003
Charge during the period	1,045	1,240	1,397	2,253
Tax paid during the year	(1,049)	(1,545)	(331)	(1,469)
Balance at end of the year	<u>1,173</u>	<u>1,177</u>	<u>3,853</u>	<u>2,787</u>

**Deferred tax liability**

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

Balance at beginning of the year	6,899	7,120	7,305	7,302
(Credit) /charge during the year	(860)	(221)	(667)	3
Balance at end of the year	<u>6,039</u>	<u>6,899</u>	<u>6,638</u>	<u>7,305</u>

The net deferred tax liability and deferred tax charge/(release) in the comprehensive income statement are attributable to following items:

**Deferred tax liability:**

Property, plant and equipment:				
Balance at beginning of the year	6,953	7,159	7,314	7,296
(Release)/charged to income statement	(700)	(206)	(507)	18
Balance at end of the year	<u>6,253</u>	<u>6,953</u>	<u>6,807</u>	<u>7,314</u>

**Deferred tax asset:**

Trade receivables and inventories:				
Balance at beginning of the year	(54)	(39)	(9)	6
Release to income statement	(160)	(15)	(160)	(15)
Balance at end of the year	<u>(214)</u>	<u>(54)</u>	<u>(169)</u>	<u>(9)</u>
<b>Net deferred tax liability</b>	<u>6,039</u>	<u>6,899</u>	<u>6,638</u>	<u>7,305</u>

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013
<b>25. Sales and services income</b>				
Sales and services	2,024	1,407	12,014	5,244
Hiring services	958	690	2,738	2,507
Training services	-	-	476	934
	<u>2,982</u>	<u>2,097</u>	<u>15,228</u>	<u>8,685</u>
<b>26. Other income</b>				
Gain on sale of property, plant and equipment	1,549	437	1,555	453
Dividend income	38	-	-	-
Miscellaneous income	1,425	1,197	1,484	1,391
	<u>3,012</u>	<u>1,634</u>	<u>3,039</u>	<u>1,844</u>
<b>27. Contract and other direct costs</b>				
Materials	111,600	121,814	115,733	122,984
Manpower costs (note 29)	99,187	105,624	103,031	109,233
Sub-contracting costs	53,527	54,196	52,951	55,290
Depreciation (note 3)	20,402	21,524	22,149	22,916
Plant and equipment repair and maintenance	18,180	20,529	19,518	21,911
General and administrative expenses (note 28)	14,375	15,982	14,973	16,580
Fuel expenses	13,868	17,576	15,536	19,457
Plant and equipment hiring costs	4,326	10,272	5,070	11,306
Training expenses	-	-	368	272
Duties and taxes	-	-	741	308
	<u>335,465</u>	<u>367,517</u>	<u>350,070</u>	<u>380,257</u>
<b>28. General and administrative expenses</b>				
Manpower costs (note 29)	5,035	5,490	6,139	6,171
Rent	4,357	5,042	4,640	5,266
Insurance charges	3,740	3,660	3,959	3,848
Electricity and water charges	3,250	3,293	3,364	3,440
Bank guarantee and other charges	2,045	1,973	2,123	1,984
Depreciation and amortisation (note 3 and 4)	1,792	1,330	1,831	1,370
Communication expenses	1,105	1,118	1,187	1,178
Professional and legal charges	1,079	2,205	1,314	2,297
Repairs and maintenance - others	679	695	695	743
Traveling expenses	400	611	474	686
Printing and stationery	386	410	415	436
Business promotion	274	846	287	964
Directors expenses	200	204	200	204
Tender fees	153	165	161	169
Miscellaneous expenses	237	344	343	470
Debts and advances impaired	-	-	660	313
	<u>24,732</u>	<u>27,386</u>	<u>27,792</u>	<u>29,539</u>
Pertaining to contract and other direct costs (note 27)	14,375	15,982	14,973	16,580
	<u>10,357</u>	<u>11,404</u>	<u>12,819</u>	<u>12,959</u>

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013
<b>29. Manpower costs</b>				
Salary and wages	73,731	79,494	76,891	82,696
Employees service benefits	12,144	12,992	12,600	13,368
Camp and catering expenses	12,049	10,921	12,606	11,328
Hired salary and wages	2,996	2,435	3,413	2,632
Staff incentives	-	2,804	234	2,896
Other expenses	3,302	2,468	3,426	2,484
	<u>104,222</u>	<u>111,114</u>	<u>109,170</u>	<u>115,404</u>
Pertaining to cost of contract and sales (note 27)	99,187	105,624	103,031	109,233
Pertaining to general and administration expenses (note 28)	<u>5,035</u>	<u>5,490</u>	<u>6,139</u>	<u>6,171</u>
<b>30. Financing costs, net</b>				
Interest expense	9,853	9,385	10,481	9,897
Interest income	(98)	(307)	(110)	(319)
	<u>9,755</u>	<u>9,078</u>	<u>10,371</u>	<u>9,578</u>

**31. Earnings per share**

The basic earnings per share is calculated by dividing the profit for the period attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year as follows:

Profit for the year	1,209	6,891	197	7,584
Weighted average number of shares in '000 (note 13)	<u>377,470</u>	<u>377,470</u>	<u>377,470</u>	<u>377,470</u>
Basic earnings per share (RO)	<u>0.003</u>	<u>0.018</u>	<u>-</u>	<u>0.020</u>

The diluted earnings per share is identical to the basic earnings per share as there are no potential dilutive shares at the reporting date.

**32. 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	103,213	105,779	101,514	105,195
Number of shares outstanding at the year end in '000 (note 13)	<u>377,470</u>	<u>377,470</u>	<u>377,470</u>	<u>377,470</u>
Net assets per share (RO)	<u>0.273</u>	<u>0.280</u>	<u>0.269</u>	<u>0.279</u>

**33. Related party transactions**

Related parties comprise the directors and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The group maintains significant 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 the management consider to be comparable with those adopted for arm's length transactions with third parties.

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

Contract income	2,835	1,124	18,457	14,595
Sales and services	2,001	1,975	2,009	1,985
Sale of property, plant and equipment	617	719	617	719
Purchase of property, plant and equipment	169	312	169	312
Purchase of goods and services	16,949	18,950	16,949	19,016
Director's remuneration	200	200	200	200

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

	Parent Company		Consolidated	
	2014	2013	2014	2013
<b>33. Related party transactions (continued)</b>				
Balances of related parties recognised and disclosed in notes 10 and 23 respectively are as follows:				
Due from shareholders	171	150	171	150
Due from subsidiary and associate companies	8,254	6,890	4,799	5,303
Due from other related parties	2,599	2,374	2,600	2,374
	<u>11,024</u>	<u>9,414</u>	<u>7,570</u>	<u>7,827</u>
Due to shareholders	156	168	156	168
Due to subsidiary and associate companies	322	195	764	582
Due to other related parties	1,502	1,467	1,502	1,468
	<u>1,980</u>	<u>1,830</u>	<u>2,422</u>	<u>2,218</u>

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).

The remuneration of the members of key management during the year was as follows:

Short term benefits	505	613	997	1,036
Post employment benefits	30	29	30	29
	<u>535</u>	<u>642</u>	<u>1,027</u>	<u>1,065</u>

**34. Commitments and contingencies**

Bonds and guarantees	167,018	167,927	167,483	171,882
Corporate guarantees	27,021	20,383	75,396	68,758
Letter of credit	25,727	37,950	25,727	26,822
Forex forward contracts	10,895	-	10,895	-
Capital commitments	260	1,478	260	1,701
	<u>230,921</u>	<u>227,738</u>	<u>279,761</u>	<u>269,163</u>

The parent company has provided corporate guarantees for subsidiaries and associates amounting to RO 8,334 (2013: RO 1,696) thousands and RO 18,687 (2013: RO 18,687) thousands respectively. The parent company 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.

**Legal cases**

The parent company and its subsidiaries, in common with the significant majority of contractors, is subject to litigation in the normal course of its business. The parent company and its subsidiaries, based on independent legal advice, does not believe that the outcome of these court cases will have a material impact on the group's income or financial condition.

**Penalties**

Penalties amounting to RO 9,203 (2013: RO 9,203) thousands have been levied on the parent company. The penalties are countered by the extension of time and other claims from the parent company. The cases are under various stages of negotiations /arbitrations and expected to be settled during the current year. Accordingly management believes that no liability is expected to ultimately arise and therefore no provision for any financial effect that may arise has been included in these financial statements.

## Notes to Consolidated Financial Statements

For the year ended 31st December, 2014

### 35. Business segments

The Group operates in two geographical segments, Sultanate of Oman and India.

Segmental information is presented in respect of the Group's business segments. Business 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 four segments - construction, manufacturing, hiring of equipment 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 business segments are as follows:

											Amount in RO '000s	
	Construction		Manufacturing		Hiring		Training		Inter segments		Consolidated	
	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013	December 2014	December 2013
Segment revenue and expenses												
Segment revenue	371,742	409,322	17,381	15,474	1,814	1,858	476	934	(18,903)	(15,180)	372,510	412,408
Segment expenses	370,192	400,313	16,327	14,391	1,753	1,751	602	929	(16,560)	(12,560)	372,313	404,824
Segment results	1,550	9,009	1,054	1,083	61	107	(126)	5	(2,343)	(2,620)	197	7,584
Segment assets and liabilities												
Segment assets	514,568	496,539	6,387	4,641	2,893	3,138	133	178	(21,696)	(8,738)	502,285	495,758
Segment liabilities	394,736	385,064	3,879	3,184	1,021	1,254	155	75	-	-	399,791	389,577

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

### 36. Financial instruments and related risk management

The Group's principal financial liabilities other than derivatives, 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 has loans and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also holds available-for-sale investments.

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 of 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, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments

#### 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.

The Group is exposed to interest rate risk on its interest bearing assets and liabilities (short term bank deposits, held to maturity investments, bank borrowings and term loans). The management manages the interest rate risk by constantly monitoring the changes in interest rates and availing lower interest bearing facilities.

As at the reporting date, had the interest rate were to move up or down by 1%, the impact on the parent and consolidated income statement would have been RO 2,004 thousands (2013 - RO 1,618 thousands) and RO 2,134 thousands (2013 -RO 1,677 thousands) respectively.

#### 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 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.

The majority of the Group's financial assets and financial liabilities are either denominated in local currency (Rials Omani) or currency fixed against Rials Omani. Term loan is due in US Dollars. As the Omani Rial is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk, hence the management believes that there would not be a material impact on the profitability if these foreign currencies weakens or strengthens against the Omani Rials with all other variables held constant.

However, the management has set up a policy to require the Company to manage its foreign exchange risk against their functional currency. The Company is required to hedge its foreign exchange risk exposure as needed. To manage its foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Company uses forward contracts. These contracts are not however designated as hedges under IAS 39 and are consequently initially recognised at cost and subsequently re-measured to their fair value at each reporting date. Material changes in the fair value of foreign currency forward contracts are recorded in the statement of comprehensive income account as they arise. At 31 December 2014, with all the other variables held constant, management believes that there would be no significant impact on the post tax profits due to fluctuations in these currencies.

#### Commodity price risk

The Group is affected by the volatility of certain commodities. Due to the significantly increased volatility of the price of the underlying, the Group's Board of Directors has developed and enacted a risk management strategy regarding commodity price risk and its mitigation.

#### Equity price risk

The Group do not hold any quoted investment.

#### 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.

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

## 36. Financial instruments and related risk management (continued)

## Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

There has been no change in the group's objectives, policies or process during the year ended 31 December 2014 and 31 December 2013.

## 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:

	Parent Company		Consolidated	
	2014	2013	2014	2013
Contract and trade receivables	251,430	226,790	265,341	231,321
Retention receivables	60,105	60,507	60,268	61,029
Advances, prepayments and other receivables	22,094	19,848	21,532	20,807
Deposits with banks	1,293	11,551	1,324	11,591
Cash and bank balances	735	4,169	2,568	6,092
	<u>335,657</u>	<u>322,865</u>	<u>351,033</u>	<u>330,840</u>

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	163,028	163,028	163,797	164,168
Petroleum Development Oman	48,534	48,534	48,534	48,534
Other private customers	39,868	15,228	53,010	18,619
	<u>251,430</u>	<u>226,790</u>	<u>265,341</u>	<u>231,321</u>

The group has established credit policies and procedures that are considered appropriate for the parent company and its subsidiaries. The Company'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 38 key sources of estimation of uncertainty for the impairment of the trade receivables.

The age of trade receivables at the reporting date was:

Not past due	129,844	101,488	141,247	103,695
Past due 0- 180 days	33,311	57,706	34,702	59,269
Past due 181 - 365 days	25,048	12,731	25,771	13,306
More than 365 days	63,227	54,865	63,621	55,051
	<u>251,430</u>	<u>226,790</u>	<u>265,341</u>	<u>231,321</u>
Impairment	-	-	(43)	39

The credit quality of the cash at bank and deposits with bank are as follows:

## Rating

P - 1	1,420	5,851	2,188	6,947
P - 2	226	1,658	1,119	1,733
P - 3	-	-	184	740
Not rated	178	7,940	178	7,963
	<u>1,824</u>	<u>15,449</u>	<u>3,669</u>	<u>17,383</u>

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

## 36. Financial instruments and related risk management (continued)

## Liquidity risk

The following are the financial liabilities including interest payments:

	Parent Company		Consolidated	
	2014	2013	2014	2013
Term loans	100,582	76,775	106,570	77,830
Short term loans	28,000	35,400	33,027	35,400
Bank borrowings	62,691	87,713	63,503	90,248
Trade and other payables	161,439	167,380	186,200	166,557
	<u>352,712</u>	<u>367,268</u>	<u>389,300</u>	<u>370,035</u>

The contractual maturities of above financial liabilities were:

## Term Loans:

Upto 90 days	6,170	5,512	7,209	5,676
91 - 180 days	8,972	5,425	10,012	5,571
181 - 365 days	17,238	19,688	15,761	19,869
More than 365 days	68,202	46,150	73,588	46,714
	<u>100,582</u>	<u>76,775</u>	<u>106,570</u>	<u>77,830</u>

## Short term loans:

Upto 90 days	23,000	22,900	23,000	22,900
91 - 180 days	5,000	12,500	5,000	12,500
181 - 365 days	-	-	5,027	-
	<u>28,000</u>	<u>35,400</u>	<u>33,027</u>	<u>35,400</u>

## Bank Borrowings:

Upto 90 days	51,049	62,711	51,861	65,246
91 - 180 days	11,642	25,002	11,642	25,002
	<u>62,691</u>	<u>87,713</u>	<u>63,503</u>	<u>90,248</u>

## Trade and other payables:

Upto 90 days	98,550	123,604	115,698	111,485
91 - 180 days	18,403	21,455	21,774	23,076
181 - 365 days	17,274	1,952	19,731	11,479
More than 365 days	27,212	20,369	28,997	20,517
	<u>161,439</u>	<u>167,380</u>	<u>186,200</u>	<u>166,557</u>

## Interest rate risk

The Group's exposure to interest rate risk relates to its bank deposits, borrowings, and term loans.

Term loans of RO 104,068 (2013: RO 75,329) thousands are recognized at fixed interest rates and expose the Group to the fair value interest rate risk. The remaining term loans of RO 2,502 (2013: RO 2,502) thousands are recognized at floating rates thus exposing the Group to cash flow interest rate risk.

The company's short term bank deposits carry fixed rates of interest and therefore are not exposed to interest rate risk.

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

### 37. Fair values of financial instruments

#### Fair values

Financial instruments comprise financial asset, financial liabilities and derivatives.

Financial assets consist of bank balances, receivables and available for sale investments. Financial liabilities consist of term loans, government soft loan and payables. Derivatives relates to forward currency and commodity hedging contracts.

Group's financial instruments that are carried in the financial statements are having same fair value as set out below:

#### Financial assets

	Parent Company		Consolidated	
	2014	2013	2014	2013
Contract and trade receivables	251,430	226,790	265,341	231,321
Retention receivables	60,105	60,507	60,268	61,029
Due from related parties	11,024	9,414	7,570	7,827
Other receivables (excluding prepaid expenses, advances and due from related parties)	1,163	998	2,789	2,817
Investment in associates and subsidiaries	13,202	10,646	4,861	6,444
Investment available for sale	125	125	145	145
Cash and bank balances and deposits	2,028	15,720	3,892	17,683
	<u>339,077</u>	<u>324,200</u>	<u>344,866</u>	<u>327,266</u>

#### Financial liabilities

Trade payables	77,507	91,678	87,044	96,171
Due to related parties	1,980	1,830	2,422	2,218
Other payables and provisions (excluding advances and due to related parties)	21,964	25,050	31,939	28,620
Bank borrowings	62,691	87,713	63,503	90,248
Term loans	128,582	112,175	139,597	113,230
	<u>292,724</u>	<u>318,446</u>	<u>324,505</u>	<u>330,487</u>

### 38. 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 company uses the percentage-of-completion method in recognising its project revenues. Use of this method requires the company to estimate revenues and costs over the remaining period of the projects. However, the deviations are not anticipated to be of a material nature as the estimates are based on historical experience, progress to date on contracts and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are regularly evaluated.

#### (b) Claims

The group has filed certain claims with its Government and Quasi Government customers and made an assessment of recoverable amounts based on ongoing negotiations at the reporting date. In accordance with the group's accounting policy on revenue recognition, a portion of such claims has been recognised in these consolidated financial statements based on these assessments. Management believes that such amounts are in the normal course of the business activity.

The claims raised by the company against the customers are mainly in relation to variations from the originally agreed contract scope, changes in costs incurred due to effects of the royal decrees issued after the commencement of contracts, additional costs incurred due to extension of the project completion time etc., which are under various stages of negotiations with customers at the reporting date. Board of directors believe that the full disclosure of the total amount of claims involved can prejudice the position of the group in these claims which are uncertified by the customers. The group has also incurred losses on certain contracts which are still being executed at 31 December 2014. The management has recognised future estimated losses on these contracts in accordance with IAS 11- Construction Contracts at the year end .

## Notes to Consolidated Financial Statements

As at 31st December, 2014

Amount in RO '000s

### 38. Key sources of estimation uncertainty (continued)

#### (b) Claims (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 and it is unsure as to which party is at fault.

#### (c) Impairment of accounts receivable

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

At the reporting date, the contract receivables were RO 190,647 (2013: RO 172,871) thousands of the group, which are mostly receivable from Government and Quasi Government entities, includes value of RO 117,226 (2013: RO 117,035) thousands certification in process, which is in normal course of the business activity in the construction industry. The management believes that these amounts are recoverable in full. In addition to this, groups' trade receivables and provision for impaired debts were RO 5,951 (2013: RO 3,713) thousands and RO 43 (2013: RO 39) thousands respectively. (refer note 9).

#### (d) 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 1,785 thousand (2013 : RO 451 thousand) is adequate. (refer note 7).

#### (e) 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.

#### (f) 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)

#### (g) Impairment of equity investments

The group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment, which is critically evaluated by the Group on a case to case basis.

**Notes to Consolidated Financial Statements**

As at 31st December, 2014

Amount in RO '000s

**38. Key sources of estimation uncertainty (continued)****(h) Impairment of investments in associates**

The parent company test annually whether investment in associates have suffered any impairment in accordance with IAS 36, 'Impairment of Assets' which require the use of estimates. The parent company considers impairment of investments in associate companies when there has been a significant decline in the carrying value below its cost or where other objective evidence of impairment exists. At 31 December 2014, management has made a specific assessment with respect to loss making associates (GEC, Kuwait and MTPL, India) based on the future cash flows and profits of these associates and believes that the future profits would be sufficient to recover the accumulated losses existing at the reporting date. Accordingly no impairment was considered necessary in these financial statements (refer note 6).

**(i) 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 24)

**39. Comparative amounts**

Certain of the corresponding figures of previous year have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholder's equity.