

Notes to Consolidated Financial Statements

As at 31st December, 2016

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 financial statements for the year ended 31 December 2016 comprise the Parent Company and its subsidiary (together "the Group"). The separate financial statements represent the financial statements of the Parent Company on a standalone basis. The consolidated and separate financial statements are collectively referred to as "the financial statements"

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 relevant requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and 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.

Going Concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates continuity of normal activities and realization of assets and settlement of liabilities in the normal course of business.

The Board have determined that these accounts should be prepared on a going concern basis due to the following:

The Parent Company has been profitable in the past and has a dividend paying history. While the consolidated entity incurred a net loss after tax for the year ended 31 December 2016 of RO 10,929 thousand (2015: RO 29,660 thousand), the net cash flows from operating activities for the reporting period was RO 8,056 thousand (2015: 64,363 thousand).

At the end of the full-year period, cash balances totaled RO 6,636 thousand (2015: 18,035 thousand). This was significantly impacted as at the reporting date by non-payment of certified dues of RO 58,581 thousand from Government Ministries. Discussion with the relevant clients indicate that the amounts will be paid.

The Parent Company has never defaulted in servicing its lenders and the group is committed to meeting all the loan repayment obligations as they fall due. While there was certain breach of covenants with banks (as referred in note 18) as at the reporting date, the company continues to enjoy adequate ongoing banking facilities. Further, the parent company regularly pays its employees and creditors and not defaulted in tax payment.

The Parent Company continues to build on its strong market position as Oman's largest construction entity and having a strong order book at RO 650,075 thousand, and has worked to ensure that tendering activity adequately addresses potential risk associated with non-payment.

The Board of Directors has taken necessary measures to strengthen the financial position of the Group and also to improve Group's profitability in coming years. In addition to the initiatives set out in above, the Directors continue to look at various sources of funding support and other long term investment options to provide the working capital required for the business. Non-essential capital expenditure has been frozen and initiatives to reduce corporate overheads and improve cost control have been launched.

Change in accounting policy and disclosures

For the year ended 31 December 2016, the Parent Company and 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 2016.

Adoption of new and revised International Financial Reporting Standards ("IFRS")

The following standards, amendments and interpretations became effective from 1 January 2016:

- Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants
- Amendments to IAS 27: Equity method in Separate Financial Statements
- Annual Improvements 2012-2014 Cycle
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- Amendments to IAS 1 Disclosure Initiative
- IFRS 14 Regulatory Deferral Accounts

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

Notes to Consolidated Financial StatementsAs at 31st December, 2016

2. Significant Accounting Policies (continued)**Change in accounting policy and disclosures (Continued)****Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Parent Company and the Group:**

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Parent Company and Group but are not yet mandatory for the year ended 31 December 2016:

IFRS 9: In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but comparative information is not compulsory. The Parent Company and the Group has performed a high-level impact assessment of all three aspects of IFRS 9 and expects no significant impact on its balance sheet and equity. The Parent Company and the Group plans to adopt the new standard on the required effective date.

IFRS 15: IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted. The Parent Company and Group are currently assessing the impact of IFRS 15 and plan to adopt the new standard on the required effective date. The Parent Company and Group are considering the clarifications issued by the IASB in April 2016 and will monitor any further developments.

IFRS 16: IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

In 2017, the Parent Company and the Group plans to assess the potential effect of IFRS 16 on its Parent Company and the Group financial statements.

Notes to Consolidated Financial Statements

As at 31st December, 2016

2. Significant Accounting Policies (continued)

Accounting Policies

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

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2016. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if and only if the group has:

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

When the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The group's voting rights and potential voting rights.

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the group gains control until the date the group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. 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 or retained earnings, as appropriate, as would be required if the group had directly disposed of the related assets or liabilities.

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

Transactions with non-controlling interests

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

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

Notes to Consolidated Financial Statements

As at 31st December, 2016

2. Significant Accounting Policies (continued)

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. 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.

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.

Notes to Consolidated Financial StatementsAs at 31st December, 2016

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

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.

Notes to Consolidated Financial StatementsAs at 31st December, 2016

2. Significant Accounting Policies (continued)**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.

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.

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.

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.

Notes to Consolidated Financial StatementsAs at 31st December, 2016

2. Significant Accounting Policies (continued)**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:

For assets carried at fair value, impairment is the difference between cost and fair value;

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

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.

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.

Notes to Consolidated Financial StatementsAs at 31st December, 2016

2. Significant Accounting Policies (continued)**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.

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.

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2. Significant Accounting Policies (continued)**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 by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract cost exceed total contract revenue the expected loss is recognised as expense immediately.

Interest income

Interest revenue is recognised as the interest accrues.

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.

Notes to Consolidated Financial Statements

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2. Significant Accounting Policies (continued)

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.

Group Companies

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in 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.

Fair value measurement

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

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

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the separate financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

Notes to Consolidated Financial Statements

As at 31st December, 2016

2. Significant Accounting Policies (continued)

Fair value measurement (continued)

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

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

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

Offsetting of financial instruments

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

Notes to Consolidated Financial Statements

As at 31st December, 2016



3. Property, plant and equipment - Parent Company

Amount in RO '000s

Particulars	Land	Building & Camps	Plant & Machinery	Motor Vehicles & Equipment	Furniture & Equipments	Project Equipment & Tools	Capital Work-in-Progress	Total
Costs								
At 1st January 2015	1,278	32,348	122,030	69,982	8,156	9,089	16	242,899
Additions		750	7,480	9,400	578	430	(6)	18,632
Disposals	-	(147)	(4,297)	(6,251)	(56)	(2)	-	(10,753)
Transfers	-	-	-	10	-	-	(10)	-
As at 1st January 2016	1,278	32,951	125,213	73,141	8,678	9,517	-	250,778
Additions		1,797	1,427	213	651	3,663	294	8,045
Disposals	-	(856)	(4,898)	(5,560)	(77)	(7)	-	(11,398)
Transfers	-	-	(31)	-	31	-	-	-
As at 31st December, 2016	1,278	33,892	121,711	67,794	9,283	13,173	294	247,425
Depreciation								
At 1st January 2015	-	19,400	73,742	44,825	6,603	6,438	-	151,008
Charge for the year	-	1,696	11,100	6,448	514	1,014	-	20,772
Disposals	-	(144)	(3,651)	(5,431)	(56)	(2)	-	(9,284)
Transfers	-	-	-	-	-	-	-	-
As at 1st January 2016	-	20,952	81,191	45,842	7,061	7,450	-	162,496
Charge for the year	-	1,752	10,059	6,159	490	1,137	-	19,597
Disposals	-	(857)	(4,479)	(5,389)	(76)	(6)	-	(10,807)
Transfers	-	-	(20)	-	20	-	-	-
As at 31st December, 2016	-	21,847	86,751	46,612	7,495	8,581	-	171,286
Net book value								
As at 31st December, 2016	1,278	12,045	34,960	21,182	1,788	4,592	294	76,139
As at 31st December, 2015	1,278	11,999	44,022	27,299	1,617	2,067	-	88,282

Notes to Consolidated Financial Statements

As at 31st December, 2016



3. Property, plant and equipment - Consolidated

Amount in RO '000s

Description	Land	Building & Camps	Plant & Machinery	Motor Vehicles & Equipment	Furniture & Equipments	Project Equipment & Tools	Capital Work-in- Progress	Total
Costs								
At 1st January 2015	1,278	32,517	136,012	76,752	8,613	9,306	383	264,861
Additions	-	750	8,688	10,758	653	451	(2)	21,298
Disposals	-	(147)	(4,669)	(6,420)	(71)	(11)	-	(11,318)
Transfers	-	-	15	10	22	-	(74)	(27)
As at 1st January 2016	1,278	33,120	140,046	81,100	9,217	9,746	307	274,814
Additions	-	1,800	2,003	973	731	3,710	305	9,522
Disposals	-	(856)	(4,982)	(5,760)	(85)	(12)	-	(11,695)
Transfers	-	307	(31)	-	31	-	(307)	-
As at 31st December, 2016	1,278	34,371	137,036	76,313	9,894	13,444	305	272,641
Depreciation								
At 1st January 2015	-	19,459	80,070	47,383	6,787	6,473	-	160,172
Charge for the year	-	1,708	12,428	7,118	552	1,029	-	22,835
Disposals	-	(145)	(3,916)	(5,481)	(59)	(3)	-	(9,604)
Transfers	-	-	(13)	-	13	-	-	-
As at 1st January 2016	-	21,022	88,569	49,020	7,293	7,499	-	173,403
Charge for the year	-	1,783	11,461	6,908	521	1,164	-	21,837
Disposals	-	(857)	(4,531)	(5,448)	(56)	(7)	-	(10,899)
Transfers	-	-	(20)	-	20	-	-	-
As at 31st December, 2016	-	21,948	95,479	50,480	7,778	8,656	-	184,341
Net book value								
As at 31st December, 2016	1,278	12,423	41,557	25,833	2,116	4,788	305	88,300
As at 31st December, 2015	1,278	12,098	51,477	32,080	1,924	2,247	307	101,411

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015

3. Property, plant and equipment (continued)

Capital work-in-progress RO 305 (2015: RO 307) thousands represents camps under construction and plant under installation.

Land and buildings with a net book value of RO 9,747 (2015: RO 10,820) thousands have been mortgaged in favour of Bank against term loan obtained by the company. Vehicles and equipment also have been jointly registered with Bank / Finance company for insured value of RO 172,373 (2015: RO 181,420) thousands to obtain term loan.

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

Contract costs (note 27)	18,677	19,445	20,854	21,479
General and administrative expenses (note 28)	920	1,327	983	1,356
	19,597	20,772	21,837	22,835

4. Intangible assets
Costs

Balance at beginning of the year	2,716	2,689	31,288	20,793
Addition for the year	19	27	12,415	10,468
Transfer from property, plant and equipment	-	-	-	27
Balance at end of the year	2,735	2,716	43,703	31,288

Amortisation

Balance at beginning of the year	1,956	1,558	1,981	1,568
Charge for the year	383	398	412	408
Transfer from property, plant and equipment	-	-	-	5
Balance at end of the year	2,339	1,956	2,393	1,981

Net book value at end of the year

	396	760	41,310	29,307
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Intangible assets comprise of computer software RO 396 (2015: RO 760) thousands in parent company and computer software RO 439 (2015: RO 824) thousands and concessionaire rights under development RO 40871 (2015: RO 28483) thousands in consolidation.

Intangible assets of the parent company comprise of computer software.

Intangible assets of the group comprise of computer software and concessionaire rights under development as follows:

	Computer software		Concessionaire rights under development	
Costs				
Balance at beginning of the year	2,805	2,744	28,483	18,049
Addition for the year	27	34	12,388	10,434
Transfer from property, plant and equipment	-	27	-	-
Balance at end of the year	2,832	2,805	40,871	28,483
Amortisation				
Balance at beginning of the year	1,981	1,568	-	-
Charge for the year	412	408	-	-
Transfer from property, plant and equipment	-	5	-	-
Balance at end of the year	2,393	1,981	-	-
Net book value at end of the year	439	824	40,871	28,483

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
5. Investment in subsidiaries				
Galfar Engineering & Contracting India Pvt. Ltd.	6,286	4,552	-	-
Galfar Aspire Readymix LLC	2,898	2,898	-	-
Salasar Highways Pvt. Ltd.	1,276	1,276	-	-
Kashipur Sitarganj Highways Pvt. Ltd.	307	307	-	-
Al Khalij Heavy Equipment & Engineering LLC	600	600	-	-
Aspire Projects & Services LLC	200	200	-	-
Galfar Mott MacDonald LLC	163	163	-	-
Galfar Training Institute LLC	149	149	-	-
Galfar Wasen Contracting Company	58	58	-	-
	11,937	10,203	-	-

During the year ended 31st December 2016, Parent Company invested RO 1,734 thousand in Galfar Engineering & Contracting India PVT Ltd, which is a fully owned subsidiary in India.

Information on shareholding of subsidiary companies is summarised below:

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

	Shares acquired by parent company		Shares acquired by the group	
Galfar Engineering & Contracting India Pvt. Ltd.	100%	100%	100%	100%
Galfar Aspire Readymix LLC	100%	100%	100%	100%
Aspire Projects & Services LLC	100%	100%	100%	100%
Galfar Training Institute LLC	99%	99%	100%	100%
Al Khalij Heavy Equipment & Engineering LLC	52%	52%	52%	52%
Salasar Highways Pvt. Ltd.	20%	20%	100%	100%
Kashipur Sitarganj Highways Pvt. Ltd.	4%	4%	100%	100%
Galfar Mott MacDonald LLC	65%	65%	65%	65%
Galfar Wasen Contracting Company	65%	65%	65%	65%

Salasar Highways Pvt. Ltd. and Kashipur Sitarganj Highways Pvt. Ltd., the two companies are incorporated in India as concessionaire to handle DBFOT road projects with total revised project value at equivalent RO 30,733 and RO 38,896 thousands respectively. The projects were awarded to the parent company in November, 2012 and is being executed by the subsidiary company Galfar Engineering and Contracting India Pvt. Ltd. (GECIPL). The total investment in these companies made by the parent company and GECIPL is RO 1,583 thousands and RO 11,434 thousands respectively. The construction of both the project is under progress and expected to be completed in year 2017.

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
6. Investment in associates				
Galfar Engineering & Contracting Kuwait KSC (GEC)	6,966	5,323	4,384	2,598
Mahakaleswar Tollways Pvt. Ltd. (MTPL)	2,255	2,255	(1,084)	(771)
Shree Jagannath Expressway Pvt. Ltd. (SJEPL)	739	739	1,213	1,264
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL)	344	344	656	1,659
International Water Treatment LLC (IWT)	4,116	45	-	(926)
Binani Aspire LLC	-	-	75	75
	14,420	8,706	5,244	3,899
Provision for impairment in associates	(6,118)	-	-	-
	8,302	8,706	5,244	3,899

Provision for impairment in associates comprises:

(i) RO 4,116 thousand for investment in IWT, being parent companies share in cumulative loss of IWT till 2016, as IWT is unable to recover the loss from their future business.

(ii) RO 2,002 thousand for investment in MTPL, based on capitalization of earning method with discounted cash flow of next five years considering weighted average of capital cost @ 13% per annum.

Information on shareholding of associate companies is summarised below:

	Principal activity	Place and year of acquisition	
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 (iii)	Construction	Oman	2013
Binani Aspire LLC (iv)	Manufacturing	Oman	2015

	Shares acquired by parent company		Shares acquired by the group	
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 (IWT) (iii)	30%	30%	30%	30%
Binani Aspire LLC (iv)	0%	0%	50%	50%

(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. During the year, the Parent Company has invested RO 1,643 thousand

(ii) The parent company holds 26% in MTPL and the group holds 26% shareholding in these companies incorporated in India to handle DBFOT road projects. MTPL has commenced commercial activities in year 2011 while GAEPL in 2015 and SJEPL in Jan 2017.

(iii) The parent company have 30% shareholding in this company in partnership with VA Tech Wabag Ltd. of India and Cadagua SA of Spain with 32.5% and 37.5% shareholding respectively. This company has completed 'Ghurah independent water desalination project'.

(iv) Galfar Aspire Readymix, fully owned subsidiary of group has 50% shareholding in Binani Aspire LLC. The company is yet to start any operation.

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

Share of associate's statement of financial position:

Current assets	4,091	6,221
Non-current assets	53,370	51,593
Current liabilities	(9,442)	(10,840)
Non-current liabilities	(42,775)	(43,075)
Net assets and carrying amount of the investment	5,244	3,899

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015

6. Investment in associates (continued)
Share of associate's statement of income:

Revenue			5,147	11,559
Costs of revenue			9,415	12,317
Net loss for the year			(4,268)	(758)

Share of net loss for the year comprises of loss from MTPL, India RO 320 (Year 2015: RO 16) thousands, GAEPL, India RO 958 (Year 2015: RO Nil) thousands, and IWT, Oman RO 3145 (Year 2015: RO 470) thousands and profit from GEC, Kuwait RO 155 (Year 2015: RO 144) thousands

The management has carried out equity accounting for its investments in associates.

The summarised financial information of two major associate companies are stated below -

	GEC, Kuwait		MTPL, India	
Statement of financial position:				
Current assets	9,002	8,173	1,148	99
Non-current assets	15,480	15,404	14,352	15,047
Current liabilities	(6,888)	(6,654)	(798)	(1,721)
Non-current liabilities	(731)	(6,932)	(18,872)	(16,390)
Net assets and carrying amount of the investment	16,863	9,991	(4,170)	(2,965)
Reconciliation of carrying amount:				
Net assets at the beginning of the year	9,991	9,961	(2,965)	(2,730)
Share capital added during the year	6,373	-	-	-
Profit / (loss) for the year	583	554	(1,232)	(60)
Profit on self assets elimination	-	-	-	(212)
Currency translation impact	(84)	(524)	27	37
Net assets at the end of the year	16,863	9,991	(4,170)	(2,965)
Group's share in %	26%	26%	26%	26%
Carrying amount	4,384	2,598	(1,084)	(771)
Statement of comprehensive income:				
Revenue	8,261	18,204	1,035	1,329
Less: Costs of revenue	7,678	17,650	2,149	463
Profit / (loss) before tax	583	554	(1,114)	866
Less: Tax	-	-	118	926
Profit / (loss) after tax	583	554	(1,232)	(60)
7. Inventories				
Materials and consumables	13,306	16,183	15,581	17,914
Allowance for non-moving inventories	(3,197)	(2,830)	(3,226)	(2,859)
	10,109	13,353	12,355	15,055
Movement for the provisions for inventories is as follows:				
At the beginning of the year	2,830	1,785	2,859	1,811
Charged for the year	367	1,045	367	1,048
At the end of the year	3,197	2,830	3,226	2,859

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
8. Contract work in progress				
Work-in-progress on long term contracts at cost plus attributable profit considered as receivables	57,446	60,688	57,985	61,126
Provision for impairment of work in progress	(9,917)	(5,057)	(9,917)	(5,057)
	47,529	55,631	48,068	56,069
Movement on the provision for impairment of contract work in progress as follows:				
At the beginning of the year	5,057	-	5,057	-
Charge for the year	5,291	5,552	5,291	5,552
Written off during the year	(431)	(495)	(431)	(495)
At the end of the year	9,917	5,057	9,917	5,057
Due from customers on construction contracts:				
Revenue recognised at cost plus attributable profit	487,094	1,224,022	490,768	1,224,977
Less: Progress claims received and receivable	429,648	1,163,334	432,783	1,163,851
	57,446	60,688	57,985	61,126
To customers under construction contracts recorded as billings in excess of work done (note 23)	2,521	11,941	13,157	20,315
Due to customers on construction contracts:				
Progress claims received and receivable	139,086	109,418	192,251	137,892
Less: Revenue recognised at cost plus attributable profit	136,565	97,477	179,094	117,577
	2,521	11,941	13,157	20,315
9. Contract and trade receivables				
Contract billed receivables	211,655	210,067	213,897	216,540
Trade receivables	3,755	2,021	8,921	7,426
Retention receivables - current	18,682	15,278	18,797	15,327
Provision for impaired receivables and retention	(27,192)	(26,365)	(27,389)	(26,408)
	206,900	201,001	214,226	212,885
Retentions receivables				
Non-current portion	33,468	30,507	33,525	30,539

Provision for impaired receivables and contract work in progress, mentioned in note 8 and 9, includes RO 4,158 (2015: 4,031) thousands towards time value provision for substantial delay in receipts of certain receivables in line with IAS 39 requirements.

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

At the beginning of the year	26,365	-	26,408	43
Charged for the year	4,088	26,365	4,242	26,365
Written back during the year	(3,261)	-	(3,261)	-
Written off during the year	-	-	-	-
At the end of the year	27,192	26,365	27,389	26,408

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
10. Advances, prepayment and other receivables				
Advance on sub-contracts and supplies	4,458	3,147	6,642	6,464
Advances to employees	589	400	602	408
Advance tax	-	-	2,863	2,512
Prepaid expenses	4,431	5,163	4,553	5,265
Due from related parties (note 33)	8,116	13,804	9,551	11,555
Insurance claims receivable	34	905	35	906
Deposits	436	483	474	519
Other receivables	60	34	2,494	1,635
	18,124	23,936	27,214	29,264
Provision on due from related party	(695)	-	(695)	-
Provision for impaired debts	-	-	(425)	(425)
	17,429	23,936	26,094	28,839

Note:

Provision on due from related party is for receivables of a subsidiary company, Galfar Training Institute LLC, due to doubtful recoverability of the amount considering its negative networth.

Movement in the provision for impairment of debts and dues from related party are as follows:

At the beginning of the year	-	-	425	934
Charged for the year	695	-	695	(509)
At the end of the year	695	-	1,120	425

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
11. Deposits with bank				
Term deposits	8,892	1,258	8,892	1,258
Margin deposits	-	-	4	5
	8,892	1,258	8,896	1,263

The term deposit carry interest rates of 0.9% to 3.5% (2015: 1% to 2%) per annum and are kept for a period more than three months from date of placement.

12. Cash and bank balances

Cash in hand	183	330	214	365
Bank balances with current accounts	3,504	14,465	6,422	17,670
	3,687	14,795	6,636	18,035

13. Share capital**Authorised:**

500,000,000 (2015: 500,000,000) ordinary shares of par value RO 0.100 (2015: 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	41,522	37,747	41,522	37,747
Increase during the year	-	3,775	-	3,775
Balance at end of the year	41,522	41,522	41,522	41,522

The issued and fully paid share capital comprises of 415,215,637 (2015: 415,215,637) shares having a par value of RO 0.100 (2015: 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 289,980,637 (2015: 289,980,637) ordinary shares and 125,235,000 (2015: 125,235,000) preferential voting rights shares. The preferential voting rights shares are held by the promoting shareholders and carry two votes at all general meetings while otherwise ranking pari-passu with ordinary shares in all rights including the dividend receipt.

14. Share premium

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

15. Statutory reserve

As required by the Commercial Companies Law of Oman, the statutory reserve is maintained at 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 year 2015, no dividend was proposed and paid. Stock dividend 10% totalling 37,747 thousand shares of RO 0.100 each was proposed out of share premium account in the board meeting held on 7th March, 2015 for the year ended 31st December, 2014 and was approved at Annual General Meeting of share holders which was held on 25th March 2015.

For the year ended 31st December 2016, no dividend is proposed in the parent company Board meeting held on 12th March, 2017.

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
18. Term loans				
Term loans:				
- from banks	71,062	91,249	100,379	104,764
- finance companies	4,471	8,321	6,378	9,706
	75,533	99,570	106,757	114,470
Current portion				
- from banks	27,456	35,061	27,844	35,399
- finance companies	2,815	3,851	3,080	4,124
	30,271	38,912	30,924	39,523
Non-current portion				
- from banks	43,606	56,188	72,535	69,365
- finance companies	1,656	4,470	3,298	5,582
	45,262	60,658	75,833	74,947
The term loans are repayable as follows:				
Within one year	30,271	38,912	30,924	39,523
In the second year	19,818	27,007	20,518	27,728
In the third year onwards	25,444	33,651	55,315	47,219
	75,533	99,570	106,757	114,470

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

The interest rates on term loans were as follows:

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

The Company has breached the following covenants with various banks / lenders

- Norms as per banks
- Debt to Equity Ratio
- Gearing Ratio
- Minimum Net Worth
- Adjusted Leverage (Total Liabilities / (Equity - Debtor > 365 Days + Non-Current retention)

The Company has reclassified RO 92 thousand to current portion due to covenant breach

The Company is in discussion with its bankers / lenders on the breach and hope to arrive at a suitable solution / covenants / conditions which would be mutually agreed with the banker / lenders in near future so as to ensure smooth operation of facilities.

19. Short term loans

- from banks	55,600	32,750	59,318	37,547
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Short term loans from banks are repayable in one year and are secured against the contract assignments and/or joint registration of vehicle/equipment. The interest rates on these loans vary between 4.0% to 7.0% (2015: 4.0% to 4.5%) per annum.

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
20. Bank borrowings				
Bank overdrafts	2,793	3,937	3,403	4,609
Loan against trust receipts	21,964	14,684	21,964	14,684
Bills discounted	23,002	20,900	23,002	20,900
	47,759	39,521	48,369	40,193
21. Trade payables				
Sundry creditors	52,459	44,210	57,055	53,897
Provision for purchases and sub-contracts	35,195	33,891	37,154	34,875
	87,654	78,101	94,209	88,772
22. Employees' end of service benefits				
Balance at beginning of the year	12,181	11,066	12,396	11,253
Charge for the year	2,212	2,029	2,346	2,156
Paid during the year	(1,161)	(914)	(1,264)	(1,013)
Balance at end of the year	13,232	12,181	13,478	12,396
23. Other payables and provisions				
Provision for employees' leave pay and passage	6,103	6,142	6,214	6,233
Creditors for capital purchases	91	12,655	116	12,929
Advance payables -current	30,721	33,802	31,594	36,406
Due to customers on contracts (note 8)	2,521	11,941	13,157	20,315
Provision for future loss on contracts	3,610	1,141	3,610	1,141
Retention on sub-contracts	1,602	1,920	1,896	2,141
Accrued expenses	11,633	10,799	13,707	13,714
Due to related parties (note 33)	944	1,612	1,494	2,128
Statutory dues payable	534	361	1,134	982
Provision for fair value loss on forex forward contracts	-	1,229	-	1,229
Other payables	667	647	911	790
	58,426	82,249	73,833	98,008
Advance payables				
Non-current portion	22,494	27,224	22,494	27,224

Advances payables:

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, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015

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

Tax charge for the current year	1,003	774	1,809	1,234
Deferred tax charge for the year	(1,325)	(4,597)	(1,289)	(4,597)
Tax charge of prior years	-	11	-	98
	(322)	(3,812)	520	(3,265)

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

Profit before tax	(11,987)	(32,321)	(9,696)	(30,046)
Tax as per law of respective country	(1,442)	(3,882)	(807)	(3,371)
Tax effect on non admissible expenditure and adjustments	1,120	70	1,327	106
	(322)	(3,812)	520	(3,265)

Provision for tax

The parent company income tax assessment up to the year 2011 has been completed by the taxation department. 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	932	1,173	4,027	3,853
Charge during the year	1,003	785	1,809	1,252
Tax paid during the year	(759)	(1,026)	(2,087)	(1,078)
Balance at end of the year	1,176	932	3,749	4,027

On 20 February 2017, a Royal Decree was enacted in Sultanate of Oman amending the applicable tax rate from 12% to 15%. For deferred tax asset/liability computation, the Parent Company and the Group's subsidiaries incorporate in Oman have adopted an applicable tax rate of 12% being the rate applicable as of 31 December 2016. In accordance with the provisions of IAS 10, this event of tax rate amendment after the reporting date of 31 December 2016 is a non-adjusting event, however the Parent Company and the Group is required to disclose the effect of such event on future reporting periods. An early analysis of the additional deferred tax liability on the temporary tax differences at the amended tax rates applicable from 1 January 2017 onwards has been initially determined as not material to these financial statements since the Parent Company has not recognised the closing net deferred tax asset and movement in deferred tax for the year is limited to release of deferred tax liability as set out above.

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	1,325	6,039	2,004	6,638
Charge during the year	(1,325)	(4,714)	(1,289)	(4,634)
Balance at end of the year	-	1,325	715	2,004

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

Property, plant and equipment:				
Balance at beginning of the year	5,286	6,253	5,920	6,807
Release to income statement	368	(967)	404	(887)
Balance at end of the year	5,654	5,286	6,324	5,920
Trade receivables and inventories				
Balance at beginning of the year	(3,961)	(214)	(3,916)	(169)
Release to income statement	(1,693)	(3,747)	(1,693)	(3,747)
Balance at end of the year	(5,654)	(3,961)	(5,609)	(3,916)
	-	1,325	715	2,004



Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

Parent Company		Consolidated	
2016	2015	2016	2015

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
25. Sales and services income				
Sales and services	3,075	2,792	15,054	17,028
Hiring services	603	620	2,310	2,426
Training services	-	-	129	88
	3,678	3,412	17,493	19,542
26. Other income				
Gain on sale of assets	1,731	2,014	1,755	2,011
Dividend income	-	30	-	-
Miscellaneous income	995	1,378	1,158	1,411
	2,726	3,422	2,913	3,422
27. Cost of contract and sales				
Materials	90,378	97,892	92,487	102,097
Manpower costs (note 29)	92,050	93,591	96,747	97,509
Sub-contracting costs	54,250	51,423	53,075	51,587
Plant and equipments repair and maintenance	15,031	16,402	16,491	17,804
Plant and equipments hiring costs	7,879	4,383	9,519	5,998
Fuel expenses	15,768	13,412	17,739	14,949
Training expenses	-	-	285	80
Duties and taxes	-	-	233	738
Depreciation (note 3)	18,677	19,445	20,854	21,479
General and administrative expenses (note 28)	12,970	13,665	13,168	14,467
	307,003	310,213	320,598	326,708
28. General and administrative expenses				
Manpower costs (note 29)	5,178	4,006	6,268	5,182
Rent	3,724	4,134	4,123	4,446
Electricity and water charges	2,994	3,971	3,089	4,072
Insurance charges	2,601	2,664	2,754	2,841
Bank guarantee and other charges	1,239	2,165	1,285	2,212
Professional and legal charges	4,203	1,740	4,557	1,878
Communication expenses	770	960	862	1,055
Repairs and maintenance - others	835	719	862	733
Traveling expenses	407	358	506	429
Printing and stationery	258	297	291	327
Tender fees	79	160	82	162
Business promotion expenses	65	57	77	72
Directors' expenses	50	74	50	74
Corporate social responsibility expenses	10	97	16	97
Miscellaneous expenses	219	337	225	398
Depreciation and amortisation (note 3 and 4)	1,303	1,725	1,395	1,764
	23,935	23,464	26,442	25,742
Pertaining to cost of contract and sales	12,970	13,665	13,168	14,467
	10,965	9,799	13,274	11,275

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015
29. Manpower costs				
Salary and wages	71,922	71,798	75,683	74,605
Employees' service benefits	10,535	11,808	11,407	12,634
Camp and catering expenses	9,777	9,310	10,412	9,859
Hired salary and wages	1,212	1,069	1,464	1,798
Other expenses	3,782	3,612	4,049	3,795
	<u>97,228</u>	<u>97,597</u>	<u>103,015</u>	<u>102,691</u>
Pertaining to cost of contract and sales	92,050	93,591	96,747	97,509
Pertaining to general and administration expenses	<u>5,178</u>	<u>4,006</u>	<u>6,268</u>	<u>5,182</u>
30. Financing costs, net				
Interest expense	7,947	8,640	9,069	9,487
Interest income	(118)	(85)	(118)	(85)
	<u>7,829</u>	<u>8,555</u>	<u>8,951</u>	<u>9,402</u>
31. Loss 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:				
Loss for the year	(11,665)	(28,509)	(10,823)	(28,882)
Number of shares in '000 (note 13)	415,220	415,220	415,220	415,220
Loss per share for the year (RO)	<u>(0.028)</u>	<u>(0.069)</u>	<u>(0.026)</u>	<u>(0.070)</u>
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	63,039	74,704	60,912	71,831
Number of shares in '000 (note 13)	415,220	415,220	415,220	415,220
Net assets per share (RO)	<u>0.152</u>	<u>0.180</u>	<u>0.147</u>	<u>0.173</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 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	294	4,587	23,015	17,518
Sales and services	1,852	2,443	1,852	2,443
Purchase of property, plant and equipment	204	197	204	197
Purchase of goods and services	15,311	13,096	15,311	13,096
Director's remuneration	50	74	50	74

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

	Parent Company		Consolidated	
	2016	2015	2016	2015

33. Related party transactions (continued)

Balances of related parties recognised and disclosed in notes 10 and 23 respectively are as follows:

Due from shareholders	35	23	35	23
Due from subsidiary and associate companies	4,635	9,727	6,070	7,477
Due from other related parties	3,446	4,054	3,446	4,055
	8,116	13,804	9,551	11,555
Due to shareholders	54	62	54	62
Due to subsidiary and associate companies	60	93	603	609
Due to other related parties	830	1,457	837	1,457
	944	1,612	1,494	2,128

The amounts outstanding are unsecured and will be settled. During the year 2016, RO 695 thousand (2015: Nil) has been recognised towards bad and doubtful debts pertaining to related parties.

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

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

Salaries	459	497	1,008	1,002
End of service benefit	28	30	28	30
	487	527	1,036	1,032

Included in due from related parties RO 486 (2015: RO 486) thousands is due from key management personnel of the parent company.

34. Commitments and contingencies

Bonds and guarantees	178,328	178,075	178,328	178,075
Letter of credit	21,613	28,537	21,613	28,537
Corporate guarantees	10,372	17,851	55,102	62,581
Capital commitments	1,307	78	1,307	78
Forex forward contracts	-	9,420	-	9,420
	211,620	233,961	256,350	278,691

The parent company has provided corporate guarantees for subsidiaries and associates amounting to RO 7,090 (2015: RO 8,641) thousands and RO 3,282 (2015: RO 9,210) thousands respectively. The parent company does not anticipate any further material liability to arise from these guarantees.

The group 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.

Notes to Consolidated Financial Statements

For the year ended 31st December, 2016

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	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Segment revenue and expenses												
Segment revenue	350,584	342,975	20,666	20,009	1,723	1,839	150	88	(32,246)	(19,677)	340,877	345,234
Segment expenses	361,088	370,511	19,950	19,044	1,739	1,789	562	348	(31,639)	(17,599)	351,700	374,093
Segment results	(10,504)	(27,536)	716	965	(16)	50	(412)	(260)	(607)	(2,078)	(10,823)	(28,859)
Segment assets and liabilities												
Segment assets	507,805	517,583	11,097	11,061	3,072	3,208	(531)	(202)	(36,644)	(34,203)	484,799	497,447
Segment liabilities	417,378	418,380	4,158	4,838	1,223	1,343	163	80	-	-	422,922	424,641

Notes to Consolidated Financial Statements

As at 31st December, 2016

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

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

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 1,551 (2015: RO 1,772) thousands and RO 1,770 (2015: RO 1,946) thousands respectively.

Term loans RO 74,395 (2015 RO 97,068) thousands are recognised at fixed interest rates and expose the parent co to fair value interest rate risk. The remaining term loans of RO 1,138 (2015 RO 2,502) thousands are recognised at floating rates thus exposing the Parent Company to cash flow interest rate risk.

Term loans of RO 77,252 (2015: RO 99,448) thousands are recognised at fixed interest rates and expose the Group to the fair value interest rate risk. The remaining term loans of RO 29,504 (2015: RO 15,022) thousands are recognised 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.

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 2015, 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.

No forward contracts are outstanding as of 31 December 2016.

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.

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

36. Financial instruments and related risk management (continued)

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.

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 2016 and 31 December 2015.

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	
	2016	2015	2016	2015
Contract work in progress, contract and trade receivables	272,856	272,776	280,803	285,092
Retention receivables	52,150	45,785	52,322	45,866
Advances, prepayments and other receivables	17,429	23,936	26,094	28,839
Deposits with banks	8,892	1,258	8,896	1,263
Cash and bank balances	3,687	14,795	6,636	18,035
	<u>355,014</u>	<u>358,550</u>	<u>374,751</u>	<u>379,095</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	218,300	216,452	218,609	216,915
Petroleum Development Oman	35,354	42,672	35,354	42,672
Other private customers	19,202	13,652	26,840	25,505
	<u>272,856</u>	<u>272,776</u>	<u>280,803</u>	<u>285,092</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 Contract work in progress, contract and trade receivables at the reporting date was:

Not past due	106,603	121,488	111,128	129,737
Past due 0- 180 days	43,656	33,731	45,630	36,911
Past due 181 - 365 days	17,209	38,971	18,124	39,384
More than 365 days	105,388	78,586	105,921	79,060
	<u>272,856</u>	<u>272,776</u>	<u>280,803</u>	<u>285,092</u>
Impairment on Contract work in progress, contract and trade receivables	<u>(37,109)</u>	<u>(31,422)</u>	<u>(37,306)</u>	<u>(31,465)</u>

Notes to Consolidated Financial Statements

As at 31st December, 2016

Amount in RO '000s

36. Financial instruments and related risk management (continued)

Liquidity risk

The following are the financial liabilities:

Term loans	75,533	99,570	106,757	114,470
Short term loans	55,600	32,750	59,318	37,547
Bank borrowings	47,759	39,521	48,369	40,193
Trade and other payables	181,806	199,755	204,014	226,400
	<u>360,698</u>	<u>371,596</u>	<u>418,458</u>	<u>418,610</u>

The contractual maturities of above financial liabilities were:

Term Loans:

Upto 90 days	8,283	8,411	8,283	8,411
91 - 180 days	8,623	8,749	8,623	8,749
181 - 365 days	13,365	21,752	14,018	22,363
More than 365 days	45,262	60,658	75,833	74,947
	<u>75,533</u>	<u>99,570</u>	<u>106,757</u>	<u>114,470</u>

Short term loans:

Upto 90 days	53,100	27,750	53,100	27,750
91 - 180 days	2,500	5,000	2,500	5,000
181 - 365 days	-	-	3,718	4,797
	<u>55,600</u>	<u>32,750</u>	<u>59,318</u>	<u>37,547</u>

Bank Borrowings:

Upto 90 days	33,303	29,487	33,913	30,159
91 - 180 days	14,456	10,034	14,456	10,034
181 - 365 days	-	-	-	-
	<u>47,759</u>	<u>39,521</u>	<u>48,369</u>	<u>40,193</u>

Trade and other payables:

Upto 90 days	99,412	111,226	112,733	128,388
91 - 180 days	26,554	28,889	30,882	33,152
181 - 365 days	20,114	20,235	24,427	25,240
More than 365 days	35,726	39,405	35,972	39,620
	<u>181,806</u>	<u>199,755</u>	<u>204,014</u>	<u>226,400</u>

Notes to Consolidated Financial Statements

As at 31st December, 2016

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 contracts.

The fair value of financial assets and financial liabilities approximate to their carrying values. The Group's investments and forward currency contracts are recognised using level II fair value hierarchy techniques.

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

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

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

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

(ii) An estimate of the collectible amount of trade accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. At the reporting date, the Group's contract billed receivables were RO 213,897 (2015: RO 216,540) thousands, most of these receivables were from Government and quasi Government entities. This balance includes value of RO 139,265 (2015: RO 138,532) thousand certification in process, which is in the normal course of business activity in the construction industry. At 31 December 2016, the Provision for impaired contract work in progress and contract receivables was RO 37,109 (2015: RO 31,422) thousand. Management believes the balance amounts are fully recoverable. In addition to this, the Groups' trade receivables and provision for impaired debts were RO 8,921 (2015: RO 7,426) thousand and RO 1120 (2015: RO 425) thousands respectively (refer note 9).

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38. Key sources of estimation uncertainty (continued)

(b) Impairment of claims recognised in revenue and accounts receivables (continued)

(iii) During the year 2015, the Parent company has received an offer from Muscat Municipality for final account settlement of Muscat Expressway and Central corridor projects. The amount offered as settlement was less than the amounts originally recognised by the Parent company. This settlement offer was subject to certain conditions among which include clauses which the management consider represent an open-ended financial obligation that cannot be accurately quantified. Accordingly the terms of the offer have not been accepted. Further, the final offer letter with respect to Muscat Express way did not explicitly refer to any penalty amounts that may be contractually levied due to delay in projects. Accordingly management believes that no penalty is payable as the Muscat Express way was opened to traffic by end of year 2010. An Impairment provision has been recognised in 2015 being the difference between the revenue recognised by the Parent company and the final contract value proposed by Muscat Municipality in their offer letter although the Parent company continues to negotiate with its customer for a higher recovery. During the year 2016, the Parent Company's Board of Directors have again presented the Parent Company's position to the customer and Higher Authorities of the Sultanate of Oman and expects that the Parent Company will recover at least the amount recognised as receivable by the Parent Company as of 31 December 2016.

(iv) During the year 2015, Parent Company has initiated four arbitration proceedings relating to a contract awarded to it. The contract completion has been significantly delayed and as result the Parent Company had filed claims mainly relating to re-measurement of work and extension of time amounting to RO 67.3 million. The customer has rejected the claims submitted by the Parent Company and have indicated that a penalty amounting to RO 8.69 million will be levied towards the delay in completing the project and has withheld the payments to that extent. The Parent Company, based on a review of its claim by an independent third party consultant and legal position obtained, has recognised a portion of such claims including awarded amount under appeal by client amounting to RO 18.6 million as revenue. During the year, the arbitration towards re-measurement claim was awarded in the favor of the company with an award value of RO 3.6 million which is more than the related claim recognised by the Parent Company towards re-measurement work.

(v) The parent company estimated that its receivables over 365 days disclosed in note 36 of these financial statements would be collected over a period of 1 to 2 years from the reporting date. Should the actual collection period in future vary by 1 year, impairment recognised under IAS 39 will increase/decrease by RO 3 million approximately.

(c) Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value through physical verification of inventories carried out annually. As majority of the inventories are at ongoing project sites these are considered as usable in nature by management as these are closely monitored by the respective project teams. Dedicated project teams also monitors surplus inventories on closed/completed jobs for assessing their usability to consider necessary provisions. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence. Management believes that provision of RO 3,232 (2015 : RO 2,859) thousands for the group is adequate (refer note 7).

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Amount in RO '000s

38. Key sources of estimation uncertainty (continued)

(d) Useful lives of property, plant and equipment

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

(e) Impairment of intangible assets

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

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

(f) 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.

(g) Impairment of investments in subsidiaries and associates

The Group reviews its investments in associates and subsidiaries periodically and evaluates for objective evidence of impairment. Objective evidence includes the performance of associates and subsidiaries, significant decline in carrying value below its costs, the future business model, local economic conditions and other relevant factors. Based on objective evidences the group determines the need for impairment loss on investment in associates and subsidiaries. The group performs impairment assessment and assessed impairment loss on two of its associates for the year ended 31 December 2016, as set out in note 6 to the financial statements.

(h) 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

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

(i) provision for the future losses on contracts amounting to RO 1,141 thousand has been reclassified from contract work in progress to other payables and provisions

(ii) provision amounting to RO 5,057 thousand relating to the provision for work in progress has been reclassified from provision for receivables and retention.