

Galfar Engineering and Contracting SAOG and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

4 PROPERTY, PLANT AND EQUIPMENT (continued)

- (a) Capital work-in-progress represents building for staff accommodation under construction, ERP development in progress and other assets.
- (b) The insured value of plant and equipment held under finance leases at 31 December 2011 was RO 18,701 (2010 : RO 17,999) thousands. Additions during the year include RO 4,254 (2010 : RO 4,196) thousands of plant and equipment under finance leases. Leased assets are jointly registered as security for the related finance lease liabilities.
- (c) Depreciation of property, plant and equipment is allocated as follows:

| | Parent Company | | Consolidated | |
|---|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Contract costs (note 25) | 22,387 | 22,778 | 23,198 | 23,678 |
| General and administrative expenses (note 27) | 524 | 503 | 533 | 515 |
| | 22,911 | 23,281 | 23,731 | 24,193 |

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5 INVESTMENT IN SUBSIDIARIES

| <i>Name of the subsidiaries</i> | <i>Principal activity</i> | <i>Proportion of shares acquired</i> | <i>Place of incorporation</i> | 2011 Cost <i>RO 000</i> | <i>2010 Cost</i> <i>RO 000</i> |
|--|---------------------------|--------------------------------------|-------------------------------|-----------------------------------|-----------------------------------|
| Al-Khalij Heavy Equipment and Engineering LLC | Hiring out of cranes | 52.20% | Sultanate of Oman | 600 | 600 |
| Galfar Training Institute LLC | Training | 100% | Sultanate of Oman | 149 | 149 |
| Galfar Engineering and Contracting India Pvt Ltd | Construction | 100% | India | 8 | 8 |
| Aspire Projects & Services LLC | Construction | 100% | Sultanate of Oman | 200 | - |
| | | | | 957 | 757 |

6 INVESTMENT IN ASSOCIATES

| <i>Name of associate</i> | <i>Parent company</i> | | <i>Consolidated</i> | |
|--|------------------------------|------------------------------|------------------------------|------------------------------|
| | 2011 <i>RO 000</i> | <i>2010</i> <i>RO 000</i> | 2011 <i>RO 000</i> | <i>2010</i> <i>RO 000</i> |
| Galfar Engineering & Contracting Kuwait KSC (i) | 5,323 | 5,323 | 5,141 | 5,323 |
| Mahakaleshwar Tollways Pvt. Ltd, India (MTPL) (ii) | 2,255 | 2,211 | 1,738 | 2,211 |
| Shree Jagannath Expressways Pvt Ltd, India (SJEPL) (ii) | 739 | 447 | 1,286 | 447 |
| Ghaziabad Aligarh Expressway Pvt Ltd, India (GAEPL) (ii) | 304 | 304 | 1,528 | 304 |
| Galfar Wasen Contracting Company, Libya (iii) | 58 | 58 | 58 | 58 |
| Galfar Unibetton Readymix LLC, Oman (iv) | 75 | - | 75 | - |
| | 8,754 | 8,343 | 9,826 | 8,343 |

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6 INVESTMENT IN ASSOCIATES (continued)

(i) The group has acquired 26% shareholding in this company (old name 'Shaheen Al Ghanim Contracting Co. KSC') during 2010 in an auction sale. The company is incorporated in Kuwait and is engaged in construction activities.

(ii) The group holds 26% shareholding in these companies incorporated in India for funding BOT road projects. The first two companies MTPL and SJEPL have commenced commercial activities during this year while GAEPL project is under construction.

(iii) The group acquired 26% shareholding in this company incorporated in Libya during 2010. The company is yet to commence its commercial operations due to political instability in that country.

(iv) The group as a founder shareholder acquired 50% shareholding of Galfar Unibetton Readymix LLC. The company is incorporated in Oman and will be engaged in manufacturing of ready mix concrete in collaboration with Unibetton, an UAE based company. The company is yet to commence its business.

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

| | 2011 | 2010 |
|---|----------------|---------------|
| | RO 000 | RO 000 |
| Share of associate's statement of financial position: | | |
| Current assets | 3,728 | 2,981 |
| Non-current assets | 21,052 | 11,729 |
| Current liabilities | (7,384) | (5,154) |
| Non-current liabilities | (7,570) | (1,213) |
| Net assets and carrying amount of the investment | 9,826 | 8,343 |
| | 2011 | 2010 |
| | RO 000 | RO 000 |
| Share of associate statement of income: | | |
| Revenue | 8,855 | - |
| Loss | (665) | - |

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7 AVAILABLE FOR SALE INVESTMENTS

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|----------------------------|-----------------------|--------|---------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Unquoted local investments | 125 | 125 | 145 | 145 |

8 INVENTORIES

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|---|-----------------------|--------|---------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Materials and consumables | 29,174 | 24,095 | 29,365 | 24,190 |
| Less: allowance for slow-moving inventories | (325) | - | (325) | - |
| | 28,849 | 24,095 | 29,040 | 24,190 |

9 TRADE RECEIVABLES

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|-----------------------------|-----------------------|---------|---------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Contract billed receivables | 153,973 | 160,960 | 155,965 | 162,696 |
| Trade receivables | 1,848 | 731 | 2,827 | 1,467 |
| Retention receivables | 26,250 | 19,888 | 26,331 | 20,468 |
| | 182,071 | 181,579 | 185,123 | 184,631 |

10 WORK IN PROGRESS

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|---|-----------------------|--------|---------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Work-in-progress on long term contracts at cost plus attributable profit | 27,420 | 45,382 | 27,660 | 45,576 |
| To customers under construction contracts recorded as billings in excess of work done (note 23) | 9,733 | 27,474 | 11,152 | 28,946 |

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11 ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|------------------------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Due from related parties (note 27) | 6,026 | 5,446 | 4,734 | 4,477 |
| Advance on sub-contracts | 4,697 | 1,968 | 4,893 | 1,968 |
| Prepaid expenses | 4,062 | 3,920 | 4,096 | 3,956 |
| Deposits | 1,247 | 537 | 1,276 | 625 |
| Advances to employees | 1,007 | 480 | 1,009 | 504 |
| Insurance claims receivable | 814 | 3,366 | 814 | 3,366 |
| Advance tax | 128 | 128 | 437 | 432 |
| Other receivables | 32 | 9 | 36 | 11 |
| | 18,013 | 15,854 | 17,295 | 15,339 |

12 DEPOSITS WITH BANKS

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|-----------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Term deposits | 169 | 1,574 | 169 | 1,585 |
| Margin deposits | 841 | 671 | 881 | 807 |
| | 1,010 | 2,245 | 1,050 | 2,392 |

The term deposits carry interest rates of 1.00% to 4.15% per annum (2010 - 1.00% to 2.75% per annum) and are kept for a period of more than three months from the date of placement.

13 CASH AND BANK BALANCES

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Cash in hand | 258 | 147 | 268 | 159 |
| Bank balances: | | | | |
| Current accounts | 1,693 | 1,242 | 2,091 | 1,550 |
| | 1,951 | 1,389 | 2,359 | 1,709 |

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14 SHARE CAPITAL

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|--|-----------------------|--------|---------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Authorised: | | | | |
| 500,000,000 (2010 - 500,000,000) ordinary shares of par value RO 0.100 (2010 - RO0.100) baize each | 50,000 | 50,000 | 50,000 | 50,000 |
| Issued and fully paid: | | | | |
| At 1 January | 33,000 | 30,000 | 33,000 | 30,000 |
| Increased during the year – bonus shares | - | 3,000 | - | 3,000 |
| At 31 December | 33,000 | 33,000 | 33,000 | 33,000 |

At the reporting date the issued and fully paid share capital comprises of 330,000,000 (2010: 330,000,000) shares having a par value of RO 0.100 (2010: 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 231,000,000 (2010 - 231,000,000) ordinary shares and 99,000,000 (2010 - 99,000,000) 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.

In 2007 pursuant to the Parent Company's IPO, the promoting shareholders of the Company offered a portion of their shares to the public for subscription and proposed to increase the Company's share capital through a fresh issue of share capital.

As part of the IPO process, the par value of the shares was split from RO 1 per share to RO 0.100 per share thereby increasing the number of shares from then existing 21,000,000 to 210,000,000.

15 SHARE PREMIUM

Under the terms of the IPO, 100 million shares were offered for subscription to the general public at RO 0.600 per share representing RO 0.100 nominal value and RO 0.500 share premium. This resulted in a cash inflow of RO 60 million. Of the amount collected, RO 36 million (comprising premium of RO 30 million and nominal value of RO 6 million for 60 million shares of RO 0.100 per share) was repaid to the promoting shareholders as consideration for their shares offered for sale, while the remaining RO 24,000,000 accrued to the Company resulting in a share premium of RO 20,000,000 and an increase in share capital of RO 4,000,000 for 40 million shares of RO 0.100 per share. Share premium is stated net of share issue expenses of RO 830,491. In the prior years, RO 2,667 thousand was also transferred to statutory reserve account.

16 DIVIDEND

For the previous year 2010, a cash dividend of RO 0.010 per ordinary shares totalling RO 3,300,000, proposed by the Board of Directors was approved at Annual General Meeting of the parent company held in March 2011 and subsequently credited to shareholders' account during the year.

For the current year 2011, a cash dividend of RO 0.012 per ordinary shares totalling RO 3,960,000 has been proposed by the Board of Directors and will be submitted for approval at Annual General Meeting of the parent company to be held in March 2012.

17 STATUTORY RESERVE

As required by the Commercial Companies Law of Oman, 10% of the profit for the year is required to be transferred to a statutory reserve until the reserve totals one third of the issued share capital. This having been achieved, the parent company has elected to discontinue such transfers. The reserve is not available for distribution.

18 RETAINED EARNINGS

Retained earnings includes statutory reserve of the subsidiary of RO 85 (2010 - RO 85) thousands, which is not available for distribution.

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19 TERM LOANS

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|--|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Term loans: | | | | |
| - from banks | 45,323 | 41,922 | 45,323 | 41,922 |
| - finance companies (note 33) | - | - | 1,641 | 1,149 |
| | 45,323 | 41,922 | 46,964 | 43,071 |
| Less: Current portion | | | | |
| - from banks | 20,258 | 20,873 | 20,258 | 20,873 |
| - finance companies (note 33) | - | - | 714 | 534 |
| | 20,258 | 20,873 | 20,972 | 21,407 |
| Long term portion | | | | |
| - from banks | 25,065 | 21,049 | 25,065 | 21,049 |
| - finance companies (note 33) | - | - | 927 | 615 |
| | 25,065 | 21,049 | 25,992 | 21,664 |
| The term loans are repayable as follows: | | | | |
| Within one year | 20,258 | 20,873 | 20,972 | 21,407 |
| In the second year | 14,975 | 15,473 | 15,474 | 15,772 |
| In the third to fifth year inclusive | 10,090 | 5,576 | 10,518 | 5,892 |
| | 45,323 | 41,922 | 46,964 | 43,071 |

The term loans are stated at the proceeds received net of repayments and amounts repayable within next twelve months have been shown as a current liability. The term loans from banks are secured against the contract assignments and/or joint registration of vehicle/equipment. The term loans from finance companies are secured against the jointly registered vehicle/equipment.

The interest rates on term loans were as follows:

| | 2011 | 2010 |
|---------------------------|-------------------------------|------------------------|
| Floating rate loans | LIBOR + 1.75% to 2.00% | LIBOR + 1.25% to 2.40% |
| Fixed interest rate loans | 5.00% to 8.25% | 5.65% to 8.25% |

20 EMPLOYEES' END OF SERVICE BENEFITS

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|---------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| At 1 January | 7,209 | 6,051 | 7,308 | 6,147 |
| Charge for the year | 1,940 | 2,414 | 1,951 | 2,424 |
| Amounts paid | (1,695) | (1,256) | (1,700) | (1,263) |
| At 31 December | 7,454 | 7,209 | 7,559 | 7,308 |

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21 BANK BORROWINGS

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|-----------------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Loan against trust receipts | 33,231 | 41,198 | 33,231 | 41,198 |
| Bank overdrafts | 7,537 | 2,429 | 8,838 | 2,601 |
| Bills discounted | 5,155 | 3,850 | 5,155 | 3,850 |
| | 45,923 | 47,477 | 47,224 | 47,649 |

Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 5.50% to 8.00% (2010 - 6.00% to 9.00%) per annum. Bank borrowings are secured against the contract assignments and/or joint registration of vehicle/equipment.

22 SHORT TERM LOANS

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|--------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| - From banks | 25,850 | 18,000 | 25,850 | 18,000 |

Short term loans are repayable in one year and are secured against the contract assignments and/or joint registration of vehicle/equipment. The interest rates on these loans vary between 4.5% to 7.5% (2010 - 2.8% to 9.0%) per annum.

23 TRADE AND OTHER PAYABLES

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|--|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Sundry creditors | 56,158 | 35,560 | 56,644 | 35,916 |
| Provision for purchases and sub-contracts | 30,713 | 60,163 | 30,713 | 60,163 |
| Advances on contracts | 27,585 | 34,724 | 27,585 | 34,748 |
| Billings in excess of contract income recognised | 9,733 | 27,474 | 11,152 | 28,946 |
| Accrued expenses | 8,505 | 12,799 | 9,030 | 13,155 |
| Provision for employees' leave pay and passage | 4,457 | 5,324 | 4,457 | 5,341 |
| Retention on sub-contracts | 2,495 | 2,563 | 2,516 | 2,563 |
| Due to related parties (note 27) | 1,663 | 2,418 | 2,084 | 3,016 |
| Creditors for capital purchases -current portion | 1,061 | 2,324 | 1,238 | 2,383 |
| Other payables | 487 | 440 | 506 | 467 |
| | 142,857 | 183,789 | 145,925 | 186,698 |

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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 at the rate of 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 at the rate of 33% of taxable profit after adjusting non-admissible expenses and depreciation difference.

(a) Income tax expense

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|-----------------------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Tax charge- current year | 1,034 | - | 1,182 | 745 |
| Deferred tax charge [note 24 (b)] | (261) | 617 | (183) | 602 |
| | 773 | 617 | 999 | 1,347 |

The tax rate applicable to the parent company is 12% For the purpose of determining the taxable result for the year, the accounting profit has been adjusted for tax purposes. Adjustments for tax purposes include items relating to both income and expense. After giving effect to these adjustments, the average effective tax rate is estimated to be 16% (2010 –Nil).

The difference between the applicable tax rates of 12% (2010 – 12%) and the effective tax rate of 16% (2010 - Nil) arises due to the tax effect of income not considered to be taxable and expenses that are not considered to be deductible. The adjustments are based on the current understanding of the existing tax laws, regulations and practices.

The parent company income tax assessment up to the year 2007 has been finalized by the taxation department. The income assessments of the subsidiary companies 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:

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|----------------------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Balance at beginning of the year | - | - | 745 | - |
| Charge for the year | 1,034 | - | 1,182 | 745 |
| Balance at end of the year | 1,034 | - | 1,927 | 745 |

b) 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.

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24 TAXATION (continued)

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

Parent company

| | 1 Jan 2011 RO 000 | Release to income statement RO 000 | 31 Dec 2011 RO 000 | 1 Jan 2010 RO 000 | Release to income statement RO 000 | 31 Dec 2010 RO 000 |
|-----------------------------------|-------------------------|---|--------------------------|-------------------------|---|--------------------------|
| Property, plant and equipment | 7,826 | (443) | 7,383 | 8,197 | (370) | 7,827 |
| Unabsorbed losses (per tax laws) | (221) | 221 | - | (1,244) | 953 | (291) |
| Trade receivables and inventories | - | (39) | (39) | 35 | 34 | 69 |
| | <u>7,605</u> | <u>(261)</u> | <u>7,344</u> | <u>6,988</u> | <u>617</u> | <u>7,605</u> |

Consolidated

| | 1 Jan 2011 RO 000 | Release to income statement RO 000 | 31 Dec 2011 RO 000 | 1 Jan 2010 RO 000 | Release to income statement RO 000 | 31 Dec 2010 RO 000 |
|-----------------------------------|-------------------------|---|--------------------------|-------------------------|---|--------------------------|
| Property, plant and equipment | 8,043 | (461) | 7,582 | 8,485 | (442) | 8,043 |
| Unabsorbed losses (per tax laws) | (221) | 221 | - | (1,175) | 954 | (221) |
| Trade receivables and inventories | - | 57 | 57 | (37) | 37 | - |
| Effect of unutilised tax | - | - | - | (53) | 53 | - |
| | <u>7,822</u> | <u>(183)</u> | <u>7,639</u> | <u>7,220</u> | <u>602</u> | <u>7,822</u> |

25 CONTRACT COSTS

| | Parent company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 2011 RO 000 | 2010 RO 000 | 2011 RO 000 | 2010 RO 000 |
| Manpower costs | 88,551 | 86,948 | 89,879 | 88,321 |
| Materials | 74,537 | 106,030 | 75,133 | 109,293 |
| Sub-contracting costs | 42,315 | 68,968 | 43,162 | 70,613 |
| Depreciation | 22,387 | 22,778 | 23,198 | 23,678 |
| Plant and equipment repair and maintenance | 19,357 | 18,178 | 19,709 | 18,708 |
| Fuel expenses | 14,678 | 15,824 | 15,116 | 16,673 |
| General and administrative expenses (note 27) | 11,903 | 12,053 | 12,257 | 12,848 |
| Plant and equipments hiring costs | 5,320 | 7,478 | 5,494 | 7,981 |
| Training expenses | - | - | 200 | 187 |
| | <u>279,048</u> | <u>338,257</u> | <u>284,148</u> | <u>348,302</u> |

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26 SALES AND SERVICES INCOME

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|-------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Sales | 3,065 | 1,333 | 3,065 | 1,333 |
| Hiring services | - | - | 1,701 | 1,806 |
| Training services | - | - | 806 | 970 |
| | 3,065 | 1,333 | 5,572 | 4,109 |

27 GENERAL AND ADMINISTRATIVE EXPENSES

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|--|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Manpower costs | 5,178 | 5,348 | 5,657 | 5,720 |
| Insurance charges | 3,574 | 3,115 | 3,655 | 3,188 |
| Rent | 2,897 | 2,704 | 3,018 | 2,770 |
| Electricity and water charges | 2,368 | 2,859 | 2,390 | 2,890 |
| Legal and professional charges | 2,171 | 1,088 | 2,308 | 1,255 |
| Bank guarantee and other charges | 1,661 | 1,700 | 1,668 | 1,714 |
| Communication expenses | 989 | 970 | 1,019 | 994 |
| Business promotion | 909 | 808 | 920 | 811 |
| Traveling expenses | 645 | 617 | 680 | 682 |
| Depreciation | 524 | 503 | 533 | 515 |
| Repairs and maintenance -others | 343 | 284 | 361 | 298 |
| Printing and stationery | 307 | 291 | 317 | 303 |
| Tender fees | 286 | 155 | 286 | 155 |
| Miscellaneous expenses | 268 | 667 | 333 | 736 |
| Directors expenses | 196 | 145 | 196 | 145 |
| Preincorporation expenses | - | - | - | 19 |
| Indirect taxes | - | - | 166 | 349 |
| | 22,316 | 21,254 | 23,507 | 22,544 |
| Less: Pertaining to contract and operating costs | (11,903) | (12,053) | (12,257) | (12,848) |
| | 10,413 | 9,201 | 11,250 | 9,696 |

28 NET FINANCING COSTS

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Interest expense | 6,728 | 6,697 | 6,879 | 6,998 |
| Interest income | (93) | (49) | (101) | (58) |
| | 6,635 | 6,648 | 6,778 | 6,940 |

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29 OTHER INCOME

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|--------------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Gain on sale of assets | 767 | 89 | 850 | 168 |
| Gain on foreign exchange | 81 | - | (38) | 5 |
| Miscellaneous income | 1,037 | 550 | 1,069 | 584 |
| | <u>1,885</u> | <u>639</u> | <u>1,881</u> | <u>757</u> |

30 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit of the group and parent company for the year attributable to the shareholders of the parent company, by the weighted average number of shares outstanding during the year.

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|---|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Profit for the year | 5,697 | 4,546 | 5,235 | 5,994 |
| Weighted average number of shares (000) | 330,000 | 330,000 | 330,000 | 330,000 |
| Basic earnings per share (RO) | <u>0.017</u> | <u>0.014</u> | <u>0.016</u> | <u>0.018</u> |

The diluted earnings per share is identical to the basic earnings per share.

31 NET ASSETS PER SHARE

Net assets per share is calculated by dividing the equity attributable to the shareholders of the group and parent company at the reporting date by the number of shares outstanding as follows:

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|--|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Net assets | 85,849 | 83,452 | 86,945 | 85,010 |
| Number of shares outstanding at the year end (000) | 330,000 | 330,000 | 330,000 | 330,000 |
| Basic earnings per share (RO) | <u>0.260</u> | <u>0.253</u> | <u>0.263</u> | <u>0.258</u> |

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32 RELATED PARTY TRANSACTIONS

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

The group maintains significant balances with these related parties which arise in the normal course of business from commercial transactions, and are entered into at terms and conditions which the management consider to be comparable with those adopted for arm's length transactions with third parties.

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

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|---|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Contract income | 1,166 | 1,398 | 1,166 | 1,398 |
| Hire services | 14 | 305 | 765 | 1,164 |
| Purchase of property, plant and equipment | 301 | 245 | 301 | 245 |
| Purchase of goods and services | 7,138 | 3,676 | 7,190 | 3,739 |
| Directors' remuneration | 193 | 144 | 193 | 144 |

Amount due from and due to related parties are disclosed in notes 11 and 23 respectively.

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by 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:

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|--------------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Short term benefits | 1,252 | 837 | 1,532 | 928 |
| Post employment benefits | 11 | 10 | 12 | 11 |
| | 1,263 | 847 | 1,544 | 939 |

Galfar Engineering and Contracting SAOG and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

33 COMMITMENTS AND CONTINGENCIES

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|----------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Bonds and guarantees | 163,465 | 174,456 | 181,397 | 174,693 |
| Letter of credit | 13,311 | 24,434 | 13,311 | 24,434 |
| Capital commitments | 409 | 298 | 409 | 298 |
| | 177,185 | 199,188 | 195,117 | 199,425 |

The company has finance lease for various items of plant and machinery. These leased assets are capitalised and depreciated in the company's accounting records. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

| | 2011 | | 2010 | |
|---|-------------------------|----------------------------------|-------------------------|----------------------------------|
| | Minimum payments | Present value of payments | Minimum payments | Present value of payments |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Within one year | 5,346 | 4,104 | 3,576 | 3,140 |
| After one year but not more than five years | 4,648 | 5,273 | 5,233 | 4,809 |
| Total minimum lease payments | 9,994 | 9,377 | 8,809 | 7,949 |
| Less amounts representing finance charges | (617) | - | (860) | - |
| Present value of minimum lease payments | 9,377 | 9,377 | 7,949 | 7,949 |

Legal cases

(i) A lawsuit is filed against the parent company for a disputed leasehold plot of land on which parent company has constructed a building. According to the expert evaluation, the Enforcement Court ordered the parent company to pay approximately RO 1 million, being the difference between the value of the immovable property and the market annual rent for the period under dispute. The parent company deposited RO 500,000 with Enforcement Court for staying enforcement of its decision, which is recorded under deposits in these financial statements. The parent company intends to appeal to Supreme Court and based on the advice obtained from its lawyer, the parent company's management is confident that no liability is expected to ultimately arise and therefore no provision for any financial effect that may arise has been included in these consolidated financial statements.

(ii) 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.

34 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 three segments - construction, hiring of equipment and training of personnel. The principal activities of parent company and indian subsidiary are civil and mechanical construction, public health engineering, road construction, electrical, plumbing and maintenance contracts. The other activities are hiring out of cranes, equipment and other vehicles and training of drivers, operators and others.

Galfar Engineering and Contracting SAOG and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

34 BUSINESS SEGMENTS (Continued)

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

| | | | | | | | | | | Amount in RO 000 | |
|--------------------------------|--------------|---------|--------|-------|----------|------|-------------|-------|--------------|------------------|--|
| | Construction | | Hiring | | Training | | Elimination | | Consolidated | | |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | |
| Segment revenue and expenses | | | | | | | | | | | |
| Segment revenue | 304,715 | 368,752 | 1,701 | 1,806 | 806 | 970 | (14) | (305) | 307,208 | 371,223 | |
| Segment expenses | 299,356 | 362,843 | 1,638 | 1,793 | 964 | 892 | (14) | (305) | 301,944 | 365,223 | |
| Segment results | 5,359 | 5,909 | 63 | 13 | (158) | 78 | - | - | 5,264 | 6,000 | |
| Segment assets and liabilities | | | | | | | | | | | |
| Segment assets | 400,621 | 417,161 | 3,492 | 4,067 | 191 | 260 | (958) | (758) | 403,346 | 420,730 | |
| Segment liabilities | 313,539 | 332,338 | 2,055 | 2,693 | 121 | 32 | - | - | 315,715 | 335,063 | |

Galfar Engineering and Contracting SAOG and its Subsidiaries

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35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT

The group's principal financial liabilities, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finances for the group's operations. The group has loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The group also holds available-for-sale investments.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments, and derivative financial instruments

Interest rate risk

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

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

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 demoninated in local currency (Rials Omani) or currency fixed against Rials Omani. A portion of 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.

Equity price risk

The group is exposed to price risk related to quoted investments held by the group and traded in organized financial markets. To manage its price risk arising from investments in equity, the management continuously monitors the market and the key factors that effect stock market movements. The management believes that the impact of price fluctuation on the quoted investments will not be material considering the amount of quoted investments at the reporting date.

Galfar Engineering and Contracting SAOG and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

Credit risk

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

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.

Management is confident of maintaining the current level of profitability by enhancing top line growth and prudent cost management. The group is not subject to externally imposed capital requirements.

There has been no change in the group's objectives, policies or process during the year ended 31 December 2011 and 31 December 2010.

(A) CREDIT RISK

a) 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:

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|---|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Retention receivables | 43,000 | 36,293 | 43,081 | 36,873 |
| Trade receivables | 155,821 | 161,691 | 158,792 | 164,163 |
| Advances, prepayments and other receivables | 18,013 | 15,854 | 17,295 | 15,339 |
| Deposits with banks | 1,010 | 2,245 | 1,050 | 2,392 |
| Cash and bank balances | 1,951 | 1,389 | 2,359 | 1,709 |
| | 219,795 | 217,472 | 222,577 | 220,476 |

Galfar Engineering and Contracting SAOG and its Subsidiaries

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At 31 December 2011

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

(A) CREDIT RISK (continued)

The exposure to credit risk for trade receivables at the reporting date by type of customer was:

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|----------------------------|-----------------------|---------------|---------------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| Government customers | 131,640 | 113,016 | 132,120 | 113,780 |
| Petroleum Development Oman | 13,677 | 27,469 | 13,677 | 27,469 |
| Private customers | 10,504 | 21,206 | 12,995 | 22,914 |
| | 155,821 | 161,691 | 158,792 | 164,163 |

The group has established credit policies and procedures that are considered appropriate for the operations of the Company. The group's business is conducted mainly by participating in tenders / bids. On acceptance of a tender / bid it enters into a detailed contract with the customer. This contract specifies the payment and performance terms as well as the credit terms.

b) The age of trade receivables at the reporting date was:

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|-------------------------|-----------------------|-------------------|---------------------|-------------------|
| | Gross | Impairment | Gross | Impairment |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| 31 December 2011 | | | | |
| Not past due | 108,824 | - | 109,641 | - |
| Past due 0 - 180 days | 16,186 | - | 17,463 | - |
| Past due 181 - 365 days | 6,056 | - | 6,573 | - |
| More than 365 days | 24,755 | - | 25,115 | - |
| | 155,821 | - | 158,792 | - |

| | <i>Parent company</i> | | <i>Consolidated</i> | |
|-------------------------|-----------------------|-------------------|---------------------|-------------------|
| | Gross | Impairment | Gross | Impairment |
| | RO 000 | RO 000 | RO 000 | RO 000 |
| 31 December 2010 | | | | |
| Not past due | 35,024 | - | 35,143 | - |
| Past due 0 - 180 days | 93,730 | - | 96,083 | - |
| Past due 181 - 365 days | 3,743 | - | 3,743 | - |
| More than 365 days | 29,194 | - | 29,194 | - |
| | 161,691 | - | 164,163 | - |

Galfar Engineering and Contracting SAOG and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

(B) LIQUIDITY RISK

The following are the contractual maturities of financial liabilities:

a) Parent company

| <i>Year ended</i> 31 December 2011 | <i>Carrying amount</i> RO 000 | <i>0 - 90 days</i> RO 000 | <i>91 - 180 days</i> RO 000 | <i>181 - 365 days</i> RO 000 | <i>>365 days</i> RO 000 |
|---|---|-------------------------------------|---|--|--------------------------------------|
| Term loans | 45,323 | 4,736 | 5,193 | 10,329 | 25,065 |
| Finance lease liability | 9,377 | 704 | 1,112 | 2,288 | 5,273 |
| Bank borrowings | 45,923 | 36,496 | 9,427 | - | - |
| Short term loans | 25,850 | 22,350 | 3,500 | - | - |
| Non current creditors for purchase of property, plant and equipment | 698 | - | - | - | 698 |
| Trade and other payables | 173,561 | 110,455 | 22,012 | 10,390 | 30,704 |
| | 300,732 | 174,741 | 41,244 | 23,007 | 61,740 |

b) Consolidated

| <i>Year ended</i> 31 December 2011 | <i>Carrying amount</i> RO 000 | <i>0 - 90 days</i> RO 000 | <i>91 - 180 days</i> RO 000 | <i>181 - 365 days</i> RO 000 | <i>>365 days</i> RO 000 |
|---|---|-------------------------------------|---|--|--------------------------------------|
| Term loans | 46,964 | 4,951 | 5,380 | 10,641 | 25,992 |
| Finance lease liability | 9,377 | 704 | 1,112 | 2,288 | 5,273 |
| Bank borrowings | 47,224 | 37,797 | 9,427 | - | - |
| Short term loans | - | - | - | - | - |
| Non current creditors for purchase of property, plant and equipment | 698 | - | - | - | 698 |
| Trade and other payables | 176,734 | 110,455 | 22,012 | 13,458 | 30,809 |
| | 280,997 | 153,907 | 37,931 | 26,387 | 62,772 |

Galfar Engineering and Contracting SAOG and its Subsidiaries

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35 FINANCIAL INSTRUMENTS AND RELATED RISK MANAGEMENT (continued)

(B) LIQUIDITY RISK (continued)

The following are the contractual maturities of financial liabilities:

a) Parent company

| | <i>Carrying amount</i> | <i>0 - 90 days</i> | <i>91 - 180 days</i> | <i>181 - 365 days</i> | <i>>365 days</i> |
|---|----------------------------|--------------------|--------------------------|---------------------------|---------------------|
| <i>Year ended</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> |
| <i>31 December 2010</i> | | | | | |
| Term loans | 41,923 | 6,917 | 6,699 | 7,258 | 21,049 |
| Finance lease liability | 5,547 | 619 | 627 | 1,246 | 3,055 |
| Bank borrowings | 47,478 | 32,139 | 15,327 | 12 | - |
| Short term loans | 18,000 | 18,000 | - | - | - |
| Non current creditors for purchase of property, plant and equipment | 1,733 | - | - | - | 1,733 |
| Trade and other payables | 183,790 | 147,497 | 27,220 | 9,073 | - |
| | <u>298,471</u> | <u>205,172</u> | <u>49,873</u> | <u>17,589</u> | <u>25,837</u> |

b) Consolidated

| | <i>Carrying amount</i> | <i>0 - 90 days</i> | <i>91 - 180 days</i> | <i>181 - 365 days</i> | <i>>365 days</i> |
|---|----------------------------|--------------------|--------------------------|---------------------------|---------------------|
| <i>Year ended</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> |
| <i>31 December 2010</i> | | | | | |
| Term loans | 43,070 | 7,139 | 6,921 | 7,603 | 21,407 |
| Finance lease liability | 7,949 | 676 | 683 | 1,358 | 5,233 |
| Bank borrowings | 47,650 | 32,311 | 15,327 | 12 | - |
| Short term loans | 18,000 | 18,000 | - | - | - |
| Non current creditors for purchase of property, plant and equipment | 1,757 | - | - | - | 1,757 |
| Trade and other payables | 186,699 | 149,835 | 27,647 | 9,216 | - |
| | <u>305,125</u> | <u>207,961</u> | <u>50,578</u> | <u>18,189</u> | <u>28,397</u> |

(C) INTEREST RATE RISK

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

Term loans of RO 33,407 (2010 - RO 19,580) thousands are recognized at fixed interest rates and expose the group to the fair value interest rate risk. The remaining term loans of RO 11,916 (2010 - RO 22,342) thousands are recognized at floating rates thus exposing the group to cash flow interest rate risk.

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

Galfar Engineering and Contracting SAOG and its Subsidiaries

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36 FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values

Financial instruments comprise financial asset and financial liabilities.

Financial assets consist of bank balances, receivables and available for sale investments. Financial liabilities consist of term loans and payables.

Set out below is a comparison by class of the carrying amounts and fair value of the group's financial instruments that are carried in the financial statements.

| | Carrying amount | | | | Fair value | | | |
|--------------------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2011 | | 2010 | | 2011 | | 2010 | |
| | Group | Parent | Group | Parent | Group | Parent | Group | Parent |
| Financial assets | | | | | | | | |
| Trade receivables | 185,123 | 182,071 | 184,631 | 181,579 | 185,123 | 182,071 | 184,631 | 181,579 |
| Available for sale investments | 145 | 125 | 145 | 125 | 145 | 125 | 145 | 125 |
| Due from related parties | 4,734 | 6,026 | 4,477 | 5,446 | 4,734 | 6,026 | 4,477 | 5,446 |
| Bank balances and deposits | 3,409 | 2,961 | 4,101 | 3,634 | 3,409 | 2,961 | 4,101 | 3,634 |
| Investment in associates | 9,826 | 9,711 | 8,343 | 9,100 | 9,826 | 9,711 | 8,343 | 9,100 |
| Total | <u>203,237</u> | <u>200,894</u> | <u>201,697</u> | <u>199,884</u> | <u>203,237</u> | <u>200,894</u> | <u>201,697</u> | <u>199,884</u> |
| Financial liabilities | | | | | | | | |
| Trade and other payables | 87,357 | 86,871 | 96,079 | 95,723 | 87,357 | 86,871 | 96,079 | 95,723 |
| Due to related parties | 2,084 | 1,663 | 3,016 | 2,418 | 2,084 | 1,663 | 3,016 | 2,418 |
| Bank borrowings | 47,224 | 45,923 | 47,649 | 47,477 | 47,224 | 45,923 | 47,649 | 47,477 |
| Term loans | 72,814 | 71,173 | 61,071 | 59,922 | 72,814 | 71,173 | 61,071 | 59,922 |
| Segment liabilities | <u>209,479</u> | <u>205,630</u> | <u>207,815</u> | <u>205,540</u> | <u>209,479</u> | <u>205,630</u> | <u>207,815</u> | <u>205,540</u> |

37 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 :

Impairment of accounts receivable

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

At the reporting date, gross trade accounts receivable and retention receivables were RO 201,873 (2010: RO 201,036) thousands, and the provision for doubtful debts was RO nil (2010: RO nil). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

Percentage of completion

The company uses the survey method when accounting for contract revenue. Use of the survey method requires the company to reliably estimate the costs by reference to the stage of completion of the construction activity at the reporting date. The accuracy of this estimate has a material impact on the amount of revenue and related profits recognised. Any revision to profit arising from changes in estimates is accounted for in the period when the changes become known.

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. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

At the reporting date, gross inventories were RO 29,365 (2010: RO 24,190) thousands with provisions for old and obsolete inventories of RO 325 (2010: RO Nil) thousands respectively. Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the statement of comprehensive income.

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.

37 KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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.

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.

Claims

The group has filed certain claims with its customers and is confident that on the completion of ongoing negotiations, these will be accepted by the customer in due course. In accordance with the group's policy on revenue recognition, a portion of such claims has been recognized in these consolidated financial statements.

38 COMPARATIVE AMOUNTS

Certain of the corresponding figures for 2010 have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit or shareholder's equity.

Galfar Engineering and Contracting SAOG and its Subsidiaries
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1 ACTIVITIES

Galfar Engineering and Contracting SAOG ("the parent company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman. The registered address of the parent company is P O Box 533, Muscat, Postal Code 100, Sultanate of Oman.

The principal activities of Galfar Engineering and Contracting SAOG and its subsidiary ("the group") are civil and mechanical construction, public health engineering, road construction, oil and gas including EPC works, electrical, plumbing and maintenance contracts.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and applicable requirements of the Commercial Companies Law and the Capital Market Authority of the Sultanate of Oman.

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.

Accounting Convention

These consolidated financial statements have been prepared under the historical cost basis, except for available for sale investments which are stated at fair value.

Change in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2011:

- IAS 24 Related Party Transactions (Amendment)
- IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations applicable to the group is described below.

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the group.

Galfar Engineering and Contracting SAOG and its Subsidiaries
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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the group because the group does not have these type of instruments.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

In November 2009, the IASB issued IFRIC 19 Extinguishing Financial Liabilities with Equity. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation has had no effect on the financial statements of the group.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments resulting from improvements to IFRSs did not have any impact on the accounting policies, financial positions or performance of the group.

Accounting Policies

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

Basis of consolidation

The consolidated financial statements comprise those of Galfar Engineering and Contracting SAOG and its subsidiaries as at 31 December each year. A subsidiary is a company in which the parent company owns, directly or indirectly more than half of the voting power.

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

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

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

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

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

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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

If the group loses control over a subsidiary, it:

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

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

Business combinations and goodwill

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

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

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

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

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

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

Galfar Engineering and Contracting SAOG and its Subsidiaries
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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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.

Property, plant and equipment

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

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

| | |
|------------------------------|-------------------|
| Building and camp | Over 3 - 15 years |
| Plant and machinery | Over 5-10 years |
| Motor vehicles and equipment | Over 7-10 years |
| Furniture and equipment | Over 6 years |
| Site accommodation | Over 4 years |
| Computer and software | Over 4-5 years |
| Lab equipment | Over 5 years |
| Tools | Over 4 years |

Galfar Engineering and Contracting SAOG and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Sundry assets costing less than RO 100 are written off 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.

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.

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. 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 in accounts payable and accruals.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Trade and other receivables

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

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

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recorded at the proceeds received, net of direct issue costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

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. 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.

Galfar Engineering and Contracting SAOG and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases

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

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

Group as a lessee

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

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

Derecognition of financial assets and liabilities

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

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

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

Impairment of financial assets

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

Galfar Engineering and Contracting SAOG and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Impairment is determined as follows:

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

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 are recognised when the group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Provision for employees' benefits

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

Provision for non-Omani employees has been made for termination gratuities, leave pay and passage in accordance with the terms of the Labour Law of the Sultanate of Oman.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

Contract revenue and profit recognition

Contract revenue comprises the value of work executed during the period. Where the outcome of a construction contract can be estimated reliably, revenue is recognised by reference to the stage of completion of the construction activity at the reporting date, as measured by surveys of work performed. In the case of unprofitable contracts provision is made for foreseeable losses in full.

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.

Contract costs

Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an 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.

Galfar Engineering and Contracting SAOG and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2011

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 year to which they relate.

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.

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.

Translation of foreign operations

Exchange differences arising on equity accounting of foreign associates are taken directly to the foreign currency translation reserve. Foreign currency translation reserve is recognised in equity under cumulative changes in fair value. On disposal of the foreign associate, such exchange differences are recognised in the statement of comprehensive income as part of the profit or loss on sale. A write down of the carrying amount of a foreign operation does not constitute a disposal.

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 34.

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, 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 37.

Galfar Engineering and Contracting SAOG and its Subsidiaries
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At 31 December 2011

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following IASB standards, amendments and interpretations are not yet effective:

Standards issued but not yet effective up to the date of issuance of the group's financial statements are listed below. This listing of standards and interpretations issued are those the group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The group intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets, but will potentially have no impact on classification and measurement of financial liabilities. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

3 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation —Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not have any impact the financial position of the group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

The group, however, expects no impact from the adoption of the amendments on its financial position or performance.

Galfar Engineering and Contracting SAOG and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

4 PROPERTY, PLANT AND EQUIPMENT - Parent Company

| | <i>Land RO 000</i> | <i>Building and camps RO 000</i> | <i>Plant and machinery RO 000</i> | <i>Motor vehicles and equipment RO 000</i> | <i>Furniture and equipment RO 000</i> | <i>Site accommodation RO 000</i> | <i>Computers and software RO 000</i> | <i>Lab equipment RO 000</i> | <i>Tools RO 000</i> | <i>Capital work- in- progress RO 000</i> | <i>Total RO 000</i> |
|-----------------------|------------------------|--|---|--|---|--|--|-------------------------------------|-------------------------|--|-------------------------|
| Cost | | | | | | | | | | | |
| At 1 January 2010 | 522 | 8,978 | 104,648 | 69,652 | 13,200 | 20,479 | 719 | 124 | 1,998 | 1,812 | 222,132 |
| Additions | - | - | 5,139 | 1,640 | 998 | 653 | 217 | 46 | 11 | 1,400 | 10,104 |
| Disposals | - | (383) | (1,472) | (1,054) | (48) | (42) | (11) | - | (1) | - | (3,011) |
| Transfers | - | 791 | 92 | - | - | 23 | - | - | - | (906) | - |
| At 31 December 2010 | 522 | 9,386 | 108,407 | 70,238 | 14,150 | 21,113 | 925 | 170 | 2,008 | 2,306 | 229,225 |
| Additions | - | 1,068 | 7,003 | 3,408 | 859 | 1,019 | 634 | 95 | 100 | 1,752 | 15,938 |
| Disposals | - | (114) | (6,517) | (3,083) | (164) | (384) | - | (1) | (15) | (3) | (10,281) |
| Transfers | 756 | 219 | 111 | 525 | - | 33 | 3 | 6 | - | (1,653) | - |
| At 31 December 2011 | 1,278 | 10,559 | 109,004 | 71,088 | 14,845 | 21,781 | 1,562 | 270 | 2,093 | 2,402 | 234,882 |
| Depreciation | | | | | | | | | | | |
| At 1 January 2010 | - | 3,023 | 39,449 | 25,777 | 6,684 | 14,117 | 409 | 75 | 1,595 | - | 91,129 |
| Charge for the year | - | 890 | 10,177 | 6,955 | 1,863 | 3,038 | 127 | 27 | 204 | - | 23,281 |
| Disposals | - | (384) | (1,102) | (680) | (34) | (9) | (1) | - | (1) | - | (2,211) |
| At 31 December 2010 | - | 3,529 | 48,524 | 32,052 | 8,513 | 17,146 | 535 | 102 | 1,798 | - | 112,199 |
| Charge for the year | - | 875 | 10,311 | 7,140 | 2,017 | 2,155 | 224 | 44 | 145 | - | 22,911 |
| Disposals | - | (40) | (5,541) | (2,572) | (130) | (291) | - | (1) | (14) | - | (8,589) |
| Transfers | - | - | - | - | - | - | - | - | - | - | - |
| At 31 December 2011 | - | 4,364 | 53,294 | 36,620 | 10,400 | 19,010 | 759 | 145 | 1,929 | - | 126,521 |
| Net book value | | | | | | | | | | | |
| At 31 December 2011 | 1,278 | 6,195 | 55,710 | 34,468 | 4,445 | 2,771 | 803 | 125 | 164 | 2,402 | 108,361 |
| At 31 December 2010 | 522 | 5,857 | 59,883 | 38,186 | 5,637 | 3,967 | 390 | 68 | 210 | 2,306 | 117,026 |

Galfar Engineering and Contracting SAOG and its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2011

4 PROPERTY, PLANT AND EQUIPMENT - Consolidated

| | <i>Land</i> | <i>Building and camps</i> | <i>Plant and machinery</i> | <i>Motor vehicles and equipment</i> | <i>Furniture and equipment</i> | <i>Site accommodation</i> | <i>Computers and software</i> | <i>Lab equipment</i> | <i>Tools</i> | <i>Capital work- in-progress</i> | <i>Total</i> |
|-----------------------|---------------|-------------------------------|--------------------------------|---|--|-------------------------------|---------------------------------------|--------------------------|---------------|--------------------------------------|----------------|
| | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> | <i>RO 000</i> |
| Cost | | | | | | | | | | | |
| At 1 January 2010 | 522 | 8,978 | 109,145 | 73,917 | 13,291 | 20,479 | 719 | 124 | 1,998 | 1,812 | 230,985 |
| Additions | - | 149 | 6,428 | 2,553 | 1,107 | 671 | 229 | 46 | 11 | 1,400 | 12,594 |
| Disposals | - | (383) | (1,575) | (1,675) | (48) | (42) | (11) | - | (1) | - | (3,735) |
| Transfers | - | 791 | 92 | - | - | 23 | - | - | - | (906) | - |
| At 31 December 2010 | 522 | 9,535 | 114,090 | 74,795 | 14,350 | 21,131 | 937 | 170 | 2,008 | 2,306 | 239,844 |
| Additions | - | 1,068 | 7,971 | 4,017 | 955 | 1,019 | 637 | 95 | 100 | 1,752 | 17,614 |
| Disposals | - | (114) | (7,137) | (3,216) | (167) | (384) | - | (1) | (15) | (3) | (11,037) |
| Transfers | 756 | 218 | 1,924 | (1,288) | 19 | 15 | 3 | 6 | - | (1,653) | - |
| At 31 December 2011 | 1,278 | 10,707 | 116,848 | 74,308 | 15,157 | 21,781 | 1,577 | 270 | 2,093 | 2,402 | 246,421 |
| Depreciation | | | | | | | | | | | |
| At 1 January 2010 | - | 3,023 | 41,911 | 28,684 | 6,769 | 14,117 | 409 | 75 | 1,595 | - | 96,583 |
| Charge for the year | - | 892 | 10,769 | 7,253 | 1,880 | 3,040 | 128 | 27 | 204 | - | 24,193 |
| Disposals | - | (384) | (1,206) | (1,297) | (34) | (9) | (1) | - | (1) | - | (2,932) |
| At 31 December 2010 | - | 3,531 | 51,474 | 34,640 | 8,615 | 17,148 | 536 | 102 | 1,798 | - | 117,844 |
| Charge for the year | - | 885 | 10,815 | 7,417 | 2,042 | 2,155 | 228 | 44 | 145 | - | 23,731 |
| Disposals | - | (40) | (6,070) | (2,704) | (132) | (291) | - | (1) | (14) | - | (9,252) |
| At 31 December 2011 | - | 4,376 | 56,219 | 39,353 | 10,525 | 19,012 | 764 | 145 | 1,929 | - | 132,323 |
| Net book value | | | | | | | | | | | |
| At 31 December 2011 | 1,278 | 6,331 | 60,629 | 34,955 | 4,632 | 2,769 | 813 | 125 | 164 | 2,402 | 114,098 |
| At 31 December 2010 | 522 | 6,004 | 62,616 | 40,155 | 5,735 | 3,983 | 401 | 68 | 210 | 2,306 | 122,000 |