

## **Notes to Financial Statements**

As at 31 December 2017

### **1. Activities**

Galfar Engineering and Contracting SAOG ("The Parent Company") is an Omani joint stock company registered under the Commercial Companies Law of the Sultanate of Oman and listed in Muscat Security Exchange.

The principal activities of Galfar Engineering and Contracting SAOG and its subsidiaries ("The Group") are road, bridge and airport construction, oil and gas including EPC works, civil and mechanical construction, public health engineering, electrical, plumbing and maintenance contracts and Design, Build, Finance, Operate and Transfer (DBFOT) projects. The Parent Company has a branch in Kingdom of Saudi Arabia.

### **2. Significant Accounting Policies**

#### **Basis of preparation**

These financial statements for the year ended 31 December 2017 comprise the Parent Company and its subsidiary (together "the Group"). The separate financial statements represent the financial statements of the Parent Company on a standalone basis. The consolidated and separate financial statements are collectively referred to as "the financial statements"

These financial statements are prepared on the historical cost basis, as modified by the revaluation of derivative financial instruments at fair value through statement of comprehensive income, available-for-sale financial assets that have been measured at fair value and in accordance with International Financial Reporting Standards (IFRS), the relevant requirements of the Commercial Companies Law of the Sultanate of Oman, 1974 (as amended) and Capital Market Authority (CMA) of the Sultanate of Oman.

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of financial assets and liabilities at the date of the financial statements and the resultant provisions and changes in fair value for the year. Such estimates are necessarily based on assumptions about several factors involving varying, and possibly significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated assets and liabilities. The assumptions concerning the key sources of estimation uncertainty at the reporting date are set out in note 38.

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

#### **Going concern**

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

The Group has accumulated losses of RO 16,238 (2016: RO 10,459) thousands and its subsidiaries in India are facing liquidity challenges. The Group is in the process of restructuring banking arrangements for its subsidiaries in India and is confident of a favourable outcome.

On 23 February 2018 the Parent Company has received demand letter from a lender for repayment of working capital facility including interest amounting to RO 6.75 million under the corporate guarantee provided to a Subsidiary in India. The Group does not expect to pay based on the negotiation with the bank and the amount due is expected to be settled by issue of debentures by the Indian Subsidiary.

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

The Parent Company has been profitable in the past and has a dividend paying history. While the consolidated entity incurred a net loss after tax for the year of RO 5,843 (2016: RO 10,823) thousand, the net cash flows from operating activities for the reporting period was RO 56,352 (2016: RO 8,056) thousand.

At the end of the year, cash balances totalled RO 4,062 (2016: RO 6,636) thousand. This was significantly impacted as at the reporting date by non-payment of certified dues of RO 56,148 (2016: RO 58,581) from Government Ministries. Discussion with the relevant clients indicate that the amounts will be paid.

The Parent Company estimates to collect RO 328 million from its customers on the contract. The budgeted expenses for the 2018 amounts to RO 257 million thus leaving a surplus cash of RO 71 million during the year. In view of this, the Parent Company estimates that there will be sufficient cash flows in the 2018 to carry out business with out any disruption.

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

## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Going concern (continued)

The Parent Company continues to build on its strong market position as one of the Oman's largest construction entity and having a strong order book at RO 483 (2016: RO 650) million, and has worked to ensure that tendering activity adequately addresses potential risk associated with non-payment.

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

#### Change in accounting policy and disclosures

For the year ended 31 December 2017, the Parent Company and Group has adopted all of the following new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for periods beginning on 1 January 2017.

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements Cycle - 2014-2016
- Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

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

The following new standards and amendments have been issued by the International Accounting Standards Board (IASB) which may impact the financial statements of the Parent Company and Group but are not yet mandatory for the year ended 31 December 2017:

#### IFRS 9: Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date and will not restate comparative information. The Group is in the process of assessing the impact of the initial application, thus, the impact assessment as of reporting date cannot be reasonably estimated.

#### IFRS 15: Revenue from Contracts with Customers

IFRS 15 was issued in May 2014, and amended in April 2016, and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group plans to adopt the new standard on the required effective date using the modified retrospective approach. The Group is in the process of assessing the impact of the initial application, thus, the impact assessment as of reporting date cannot be reasonably estimated.

#### IFRS 16: Leases

The IASB issued IFRS 16 Leases (IFRS 16), which requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). For lessors, there is little change to the existing accounting in IAS 17 Leases. The Group will perform a detailed assessment in the future to determine the extent. The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15, has been applied, or is applied at the same date as IFRS 16. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

#### Accounting Policies

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

## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

If the Group loses control over a subsidiary, it:

- derecognises the assets (including goodwill) and liabilities of the subsidiary
- derecognises the carrying amount of any non-controlling interests
- derecognises the cumulative translation differences recorded in equity
- recognises the fair value of the consideration received
- recognises the fair value of any investment retained
- recognises any surplus or deficit in profit or loss
- reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the group had directly disposed of the related assets or liabilities.

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

#### Transactions with non-controlling interests

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

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

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

## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Investments in associates

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

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

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

#### Property, plant and equipment

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

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

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

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

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

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

#### Capital work in progress

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

#### Intangible assets

##### Computer software:

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

## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Available-for-sale investments

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

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

#### Inventories

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

#### Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined, had no impairment loss been recognised earlier.

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

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

#### Financial instruments

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

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

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

#### Derivative financial instruments

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

## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Trade and other receivables

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

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

#### Term deposits

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

#### Cash and cash equivalents

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

#### Trade and other payables

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

#### Interest-bearing loans and borrowings

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

#### Borrowing costs

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

#### Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date: whether fulfilment 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.

## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Impairment of financial assets

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

Impairment is determined as follows:

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

#### Offsetting

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

#### Provisions

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

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

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

#### Provision for employees' benefits

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

End of service benefits are accrued in accordance with the terms of employment of the Group's employees at the reporting date, having regard to the requirements of the applicable labour laws of the countries in which the Group operates and in accordance with IAS 19. Employee entitlements to annual leave and leave passage are recognised when they accrue to employees and an accrual is made for the estimated liability arising as a result of services rendered by employees up to the reporting date. These accruals are included in current liabilities, while that relating to end of service benefits is disclosed as a non-current liability.

#### Dividend on ordinary shares

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

#### Taxation

##### *Current income tax*

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

##### *Deferred taxation*

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

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



## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Contract revenue and profit recognition

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

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

A variation is included in contract revenue when:

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

Claims are included in contract revenue only when:

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

Incentive payments are included in contract revenue when:

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

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

#### Concession intangible and financial assets

The Group constructs and uses the infrastructure to provide a public service and also operates and maintains that infrastructure (operation services) for a specified period of time. These arrangements may include Infrastructure used in a public-to-private service concession arrangement for its entire useful life.

These arrangements are accounted for based on the nature of the consideration. The intangible asset model is used to the extent that the Group receives a right (a licence) to charge users of the public service. The financial asset model is used when the Group has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. When the unconditional right to receive cash covers only part of the service, the two models are combined to account separately for each component. If the Group performs more than one service (i.e., construction or upgrade services and operation services) under a single contract or arrangement, consideration received or receivable is allocated by reference to the relative fair values of the services delivered, when the amounts are separately identifiable.

- An intangible asset is measured at the fair value of consideration transferred to acquire the asset, which is the fair value of the consideration received or receivable for the construction services delivered. The intangible asset is amortised over its expected useful life in a way that reflects the pattern in which the asset's economic benefits are consumed by the entity, starting from the date when the right to operate starts to be used (for example, in a toll road concession the Group uses the number of cars that use the road). Based on these principles, the intangible asset is amortised in line with the actual usage of the specific public facility, with a maximum of the duration of the concession.
- In the financial asset model, the amount due from the grantor meets the definition of a receivable which is measured at fair value. It is subsequently measured at amortised cost. The amount initially recognised plus the cumulative interest on that amount is calculated using the effective interest method. Any asset carried under concession arrangements is derecognised on disposal or when no future economic benefits are expected from its future use or disposal or when the contractual rights to the financial asset expire.



## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Revenue recognition under Concession arrangements

The Group manages concession arrangements which mainly include the construction of roads followed by a period in which the Group maintains and services the infrastructure. This may also include, in a secondary period, asset replacement or refurbishment. These concession arrangements set out rights and obligations relative the infrastructure and the service to be provided. For fulfilling those obligations, the Group is entitled to receive either cash from the grantor or a contractual right to charge the users of the service. The consideration received or receivable is allocated by reference to the relative fair values of the services provided; typically:

- A construction component
- A service element for operating and maintenance services performed

As set out above, the right to consideration gives rise to an intangible asset, or financial asset:

- Revenue from the concession arrangements earned under the financial asset model consists of the (i) fair value of the amount due from the grantor; and (ii) interest income related to the capital investment in the project.
- Revenue from the concession arrangements earned under the intangible asset model consists of the fair value of contract revenue, which is deemed to be fair value of consideration transferred to acquire the asset and payments actually received from the users.

#### Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is reduced from the carrying value of the asset.

#### Contract work in progress

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

#### Sales and service income

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

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

#### Contract costs

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

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

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

#### Interest income

Interest revenue is recognised as the interest accrues.

#### Dividend income

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

#### Directors' remuneration

The Parent Company follows the Commercial Companies Law of 1974 (as amended), and other latest relevant directives issued by CMA, in regard to determination of the amount to be paid as Directors' remuneration. Directors' remuneration is charged to the statement of comprehensive income in the succeeding year to which they relate after its approval in AGM.

## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Share capital

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

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

#### Foreign currency translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Items included in the financial statements of the company are measured and presented in Rials Omani being the currency of the primary economic environment in which the parent company operates.

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

#### Group companies

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

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

#### Segment reporting

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

#### Fair value measurement

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

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

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

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

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

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

## Notes to Financial Statements

### 2. Significant Accounting Policies (continued)

#### Fair value measurement (continued)

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

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

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

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

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

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

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

#### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable

## Notes to Financial Statements

As at 31 December 2017



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

Amount in RO '000s

Particulars	Land	Building & Camps	Plant & Machinery	Motor Vehicles & Equipment	Furniture & Equipment	Project Equipment & Tools	Capital Work-in-Progress	Total
<b>Costs</b>								
At 1st January 2016	1,278	32,951	125,213	73,141	8,678	9,517	-	250,778
Additions		1,797	1,427	213	651	3,663	294	8,045
Disposals	-	(856)	(4,898)	(5,560)	(77)	(7)	-	(11,398)
Transfers	-		(31)	-	31		-	-
As at 1st January 2017	1,278	33,892	121,711	67,794	9,283	13,173	294	247,425
Additions		2,694	763	446	583	1,879		6,365
Disposals	-	(475)	(9,930)	(7,495)	(210)	(1,192)	-	(19,302)
Transfers	-	166	100	-	28		(294)	-
As at 31 December 2017	1,278	36,277	112,644	60,745	9,684	13,860	-	234,488
<b>Depreciation</b>								
At 1st January 2016	-	20,952	81,191	45,842	7,061	7,450	-	162,496
Charge for the year	-	1,752	10,059	6,159	490	1,137	-	19,597
Disposals	-	(857)	(4,479)	(5,389)	(76)	(6)	-	(10,807)
Transfers	-		(20)		20			-
As at 1st January 2017	-	21,847	86,751	46,612	7,495	8,581	-	171,286
Charge for the year	-	2,313	8,816	5,034	561	1,381	-	18,105
Disposals	-	(473)	(9,548)	(7,256)	(203)	(1,192)	-	(18,672)
As at 31 December 2017	-	23,687	86,019	44,390	7,853	8,770	-	170,719
<b>Net book value</b>								
As at 31 December 2017	1,278	12,590	26,625	16,355	1,831	5,090	-	63,769
As at 31st December, 2016	1,278	12,045	34,960	21,182	1,788	4,592	294	76,139

## Notes to Financial Statements

As at 31 December 2017



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

Amount in RO '000s

Description	Land	Building & Camps	Plant & Machinery	Motor Vehicles & Equipment	Furniture & Equipment	Project Equipment & Tools	Capital Work-in- Progress	Total
<b>Costs</b>								
At 1st January 2016	1,278	33,120	140,046	81,100	9,217	9,746	307	274,814
Additions	-	1,800	2,003	973	731	3,710	305	9,522
Disposals	-	(856)	(4,982)	(5,760)	(85)	(12)	-	(11,695)
Transfers	-	307	(31)	-	31	-	(307)	-
As at 1st January 2017	1,278	34,371	137,036	76,313	9,894	13,444	305	272,641
Additions	-	2,718	1,554	997	643	1,899	-	7,811
Disposals	-	(475)	(9,930)	(7,987)	(210)	(1,192)	-	(19,794)
Transfers	-	166	111	-	28	-	(305)	-
As at 31 December 2017	1,278	36,780	128,771	69,323	10,355	14,151	-	260,658
<b>Depreciation</b>								
At 1st January 2016	-	21,022	88,569	49,020	7,293	7,499	-	173,403
Charge for the year	-	1,783	11,461	6,908	521	1,164	-	21,837
Disposals	-	(857)	(4,531)	(5,448)	(56)	(7)	-	(10,899)
Transfers	-	-	(20)	-	20	-	-	-
As at 1st January 2017	-	21,948	95,479	50,480	7,778	8,656	-	184,341
Charge for the year	-	2,317	10,138	5,820	611	1,410	-	20,296
Disposals	-	(473)	(9,516)	(7,651)	(194)	(1,186)	-	(19,020)
As at 31 December 2017	-	23,792	96,101	48,649	8,195	8,880	-	185,617
<b>Net book value</b>								
As at 31 December 2017	1,278	12,988	32,670	20,674	2,160	5,271	-	75,041
As at 31st December, 2016	1,278	12,423	41,557	25,833	2,116	4,788	305	88,300

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016

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

Land and buildings with a net book value of RO 8,893 (2016: RO 9,747) thousands have been mortgaged in favour of Bank against term loan obtained by the parent company. Vehicles and equipment also have been jointly registered with Bank / Finance company for insured value of RO 92,591 (2016: RO 172,373) thousands to obtain term loan.

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

Contract costs (note 27)	17,170	18,677	19,308	20,854
General and administrative expenses (note 28)	935	920	988	983
	<b>18,105</b>	<b>19,597</b>	<b>20,296</b>	<b>21,837</b>

### 4. Intangible assets

#### Costs

Balance at beginning of the year	2,735	2,716	43,703	31,288
Addition for the year to date	8	19	8,712	12,415
Balance at end of the year	<b>2,743</b>	<b>2,735</b>	<b>52,415</b>	<b>43,703</b>

#### Amortisation

Balance at beginning of the year	2,339	1,956	2,393	1,981
Charge for the year to date	361	383	1,380	412
Balance at end of the year	<b>2,700</b>	<b>2,339</b>	<b>3,773</b>	<b>2,393</b>

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

	<b>43</b>	<b>396</b>	<b>48,642</b>	<b>41,310</b>
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Intangible assets comprise of computer software RO 43 (2016: RO 396) thousands in parent company and computer software RO 69 (2016: RO 439) thousands and concessionaire rights RO 48,573 (2016: RO 40,871) thousands in consolidation.

Intangible assets of the parent company comprise of computer software.

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

	Computer software		Concessionaire rights	
Costs				
Balance at beginning of the year	2,832	2,805	40,871	28,483
Addition for the year	10	27	8,702	12,388
Balance at end of the year	<b>2,842</b>	<b>2,832</b>	<b>49,573</b>	<b>40,871</b>
Amortisation				
Balance at beginning of the year	2,393	1,981	-	-
Charge for the period	380	412	1,000	-
Balance at end of the year	<b>2,773</b>	<b>2,393</b>	<b>1,000</b>	<b>-</b>
<b>Net book value</b> at end of the year	<b>69</b>	<b>439</b>	<b>48,573</b>	<b>40,871</b>

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016
<b>5. Investment in subsidiaries</b>				
Galfar Engineering & Contracting India Pvt. Ltd.	9,059	6,286	-	-
Galfar Aspire Readymix LLC	2,898	2,898	-	-
Salasar Highways Pvt. Ltd.	1,276	1,276	-	-
Kashipur Sitarganj Highways Pvt. Ltd.	307	307	-	-
Al Khalij Heavy Equipment & Engineering LLC	600	600	-	-
Aspire Projects & Services LLC	200	200	-	-
Galfar Mott MacDonald LLC	163	163	-	-
Galfar Training Institute LLC	149	149	-	-
Galfar Wasen Contracting Company	-	58	-	-
	<b>14,652</b>	<b>11,937</b>	<b>-</b>	<b>-</b>

During the year, Parent Company invested RO 2,773 (2016: RO 1,734) thousands in Galfar Engineering & Contracting India Pvt. Ltd., which is a fully owned subsidiary and written off investment in Galfar Wasen Contracting Company of RO 58 thousand.

Information on shareholding of subsidiary companies is summarised below:

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

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

**5(i)** Salasar Highways Pvt. Ltd. and Kashipur Sitarganj Highways Pvt. Ltd., the two companies are incorporated in India as concessionaire to handle DBFOT road projects. The projects are awarded to the parent company in November, 2012 and is being executed by the subsidiary company Galfar Engineering and Contracting India Pvt. Ltd. (GECIPL). The total investment in these companies made by the Parent Company and GECIPL is RO 1,583 thousands and RO 11,434 thousands respectively. The construction of both the projects was substantially completed during 2017. These arrangements fall within the scope of IFRIC 12 Service Concession Arrangements and warrants accounting in accordance the requirements of IFRIC 12. The revenue and net loss contributions made by these subsidiary companies during 2017 and recorded in the consolidated financial statements amounted to RO 2,696 thousand and RO 1,435 thousand, respectively. The total assets of these subsidiaries amounted to RO 50,181 thousands as of 31 December 2017.

The Parent Company has issued certain guarantees in respect of Indian subsidiaries and associates.



## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016

### 5. Investment in subsidiaries (continued)

5 (ii) The financial information relating to the Group's three subsidiaries in India (Galfar Engineering & Contracting India Pvt. Ltd., Salasar Highways Pvt. Ltd., Kashipur Sitarganj Highways Pvt. Ltd.) is set out below:

Total assets and total liabilities of these subsidiaries as of 31 December 2017 amounted to RO 61,445 thousand and RO 56,701 thousand, respectively.

Revenue and loss for the year ended 31 December 2017 amounted to RO 2,962 thousand and RO 3,927 thousand, respectively.

Contingent liabilities as of 31 December 2017 amounted to RO 42,529 thousand.

Carrying value of the Parent Company's investment in these three subsidiaries amounted to RO 10.64 million as of 31 December 2017.

### 6. Investment in associates

Galfar Engineering & Contracting Kuwait KSC (GEC)	6,966	6,966	4,737	4,384
Mahakaleswar Tollways Pvt. Ltd. (MTPL)	2,255	2,255	(1,185)	(1,084)
Shree Jagannath Expressway Pvt. Ltd. (SJEPL)	739	739	1,161	1,213
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL)	344	344	744	656
International Water Treatment LLC (IWT)	4,144	4,116	-	-
Binani Aspire LLC	-	-	-	75
	14,448	14,420	5,457	5,244
Provision for impaired investment	(6,399)	(6,118)	-	-
	8,049	8,302	5,457	5,244

Provision for impairment in associates comprises:

(i) RO 4,144 (2016: 4116) thousands for investment in IWT, being parent companies share in cumulative loss of IWT till 2016, as IWT is unable to recover the loss from their future business.

(ii) RO 2,255 (2016: 2002) thousands for investment in MTPL.

Information on shareholding of associate companies is summarised below:

	Principal activity	Place and year of acquisition	
Galfar Engineering & Contracting Kuwait KSC (i)	Construction	Kuwait	2010
Mahakaleswar Tollways Pvt. Ltd. (MTPL) (ii)	Concessionaire	India	2010
Shree Jagannath Expressway Pvt. Ltd. (SJEPL) (ii)	Concessionaire	India	2011
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL) (ii)	Concessionaire	India	2011
International Water Treatment LLC (iii)	Construction	Oman	2013

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

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

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

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

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016

### 6. Investment in associates (continued)

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

#### Share of associate's statement of financial position:

Current assets	6,190	4,091
Non-current assets	54,955	53,370
Current liabilities	(12,119)	(9,442)
Non-current liabilities	(43,570)	(42,775)
Net assets and carrying amount of the investment	5,457	5,244

#### Share of associate's statement of income:

Revenue	10,065	5,147
Costs of revenue	10,173	9,415
Net loss for the year	(108)	(4,268)

Share of net profit for the year comprises of profit from GEC Kuwait RO 285 (Year 2016: profit RO 155) thousands and loss from MTPL India RO 66 (Year 2016: RO 320) thousands, GAEPL India RO 111 (Year 2016: RO 958) thousands, SJEPL India RO 188 thousands (Year 2016: RO nil) and IWT RO 28 thousands.

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

	GEC, Kuwait		MTPL, India	
<b>Statement of financial position:</b>				
Current assets	15,705	9,002	999	1,148
Non-current assets	12,381	15,480	14,780	14,352
Current liabilities	(7,544)	(6,888)	(78)	(798)
Non-current liabilities	(2,322)	(731)	(19,436)	(18,872)
Net assets and carrying amount of the investment	18,220	16,863	(3,735)	(4,170)
<b>Reconciliation of carrying amount:</b>				
Net assets at the beginning of the year	16,863	9,991	(4,170)	(2,965)
Share capital added during the year	-	6,373	-	-
Profit / (loss) for the year	1,140	583	(363)	(1,232)
Currency translation impact	217	(84)	(25)	27
Net assets at the end of the year	18,220	16,863	(4,558)	(4,170)
Group's share in %	26%	26%	26%	26%
Carrying amount	4,737	4,384	(1,185)	(1,084)
<b>Statement of comprehensive income:</b>				
Revenue	16,549	8,261	1,506	1,035
Less: Costs of revenue	15,397	7,678	1,869	2,149
Profit / (loss) before tax	1,152	583	(363)	(1,114)
Less: Tax	12	-	-	118
Profit / (loss) after tax	1,140	583	(363)	(1,232)

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016
<b>7. Inventories</b>				
Materials and consumables	11,631	13,306	13,532	15,581
Allowance for non-moving inventories	(1,572)	(3,197)	(1,601)	(3,226)
	<u>10,059</u>	<u>10,109</u>	<u>11,931</u>	<u>12,355</u>
Movement for the provisions for inventories is as follows:				
At the beginning of the year	3,197	2,830	3,226	2,859
Charged for the year	76	367	76	367
Written back during the year	(1,701)	-	(1,701)	-
At the end of the year	<u>1,572</u>	<u>3,197</u>	<u>3,302</u>	<u>3,226</u>
<b>8. Contract work in progress</b>				
Work-in-progress on long term contracts at cost plus attributable profit considered as receivables	56,872	57,446	57,788	57,985
Provision for impaired contract work in progress	(17,116)	(9,917)	(17,116)	(9,917)
	<u>39,756</u>	<u>47,529</u>	<u>40,672</u>	<u>48,068</u>
Movement on the provision for impairment of contract work in progress:				
At the beginning of the year	9,917	5,057	9,917	5,057
Charged for the year	7,769	5,291	7,769	5,291
Written back during the year	(227)	-	(227)	-
Written off during the year	(343)	(431)	(343)	(431)
At the end of the year	<u>17,116</u>	<u>9,917</u>	<u>17,116</u>	<u>9,917</u>
<b>Due from customers on construction contracts:</b>				
Revenue recognised at cost plus attributable profit	641,214	487,094	645,385	490,768
Less: Progress claims received and receivable	584,342	429,648	587,597	432,783
	<u>56,872</u>	<u>57,446</u>	<u>57,788</u>	<u>57,985</u>
To customers under construction contracts recorded as billings in excess of work done (note 23)	<u>5,376</u>	<u>2,521</u>	<u>9,323</u>	<u>13,157</u>
<b>Due to customers on construction contracts:</b>				
Progress claims received and receivable	182,085	139,086	252,024	192,251
Less: Revenue recognised at cost plus attributable profit	176,709	136,565	242,701	179,094
	<u>5,376</u>	<u>2,521</u>	<u>9,323</u>	<u>13,157</u>
<b>9. Contract and trade receivables</b>				
Contract billed receivables	167,961	211,655	169,655	213,897
Trade receivables	4,923	3,755	11,213	8,921
Retention receivables - current	18,640	18,682	18,765	18,797
	<u>191,524</u>	<u>234,092</u>	<u>199,633</u>	<u>241,615</u>
Provision for impaired receivables	(13,315)	(27,192)	(13,432)	(27,389)
	<u>178,209</u>	<u>206,900</u>	<u>186,201</u>	<u>214,226</u>
Retentions receivables				
Non-current portion	<u>29,122</u>	<u>33,468</u>	<u>29,185</u>	<u>33,525</u>

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016

### 9. Contract and trade receivables (continues)

Provision for impaired receivables and contract work in progress, mentioned in note 8 and 9, includes RO 1,700 (2016: 4,158) thousands towards time value provision for substantial delay in receipts of certain receivables in line with IAS 39 requirements.

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

At the beginning of the year	27,192	26,365	27,389	26,408
Charge for the year	1,015	4,088	935	4,242
Written back during the year	(4,295)	(3,261)	(4,295)	(3,261)
Written off during the year	(10,597)	-	(10,597)	-
At the end of the year	13,315	27,192	13,432	27,389

### 10. Advances, prepayment and other receivables

Advance on sub-contracts and supplies	6,042	4,458	7,261	6,642
Advances to employees	384	589	416	602
Advance tax	-	-	998	2,863
Prepaid expenses	4,565	4,431	4,690	4,553
Due from related parties - others (note 33)	3,806	8,116	9,849	9,551
Insurance claims receivable	34	34	34	35
Deposits	425	436	469	474
Other receivables	36	60	1,578	2,494
	15,292	18,124	25,295	27,214
Provision for due from related party -others	(1,304)	(695)	(1,304)	(695)
Provision for impaired debts	-	-	(1,217)	(425)
	13,988	17,429	22,774	26,094

Movement on the provision for impairment of debts are as follows:

At the beginning of the year	695	-	1,120	425
Charge for the year	692	695	1,484	695
Written off during the year	(83)	-	(83)	-
At the end of the year	1,304	695	2,521	1,120

### 11. Deposits with bank

Term deposits	3,953	8,892	3,953	8,892
Margin deposits	-	-	4	4
	3,953	8,892	3,957	8,896

The term deposit carry interest rates of 0.9% to 2.0% (2016: 0.9% to 3.5%) per annum and are kept for a period more than three months from the date of placement.

### 12. Cash and bank balances

Cash in hand	177	183	253	214
Bank balances with current accounts	1,596	3,504	3,809	6,422
	1,773	3,687	4,062	6,636

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016
<b>13. Share capital</b>				
<b>Authorised:</b>				
500,000,000 (2016: 500,000,000) ordinary shares of par value RO 0.100 (2016: RO 0.100) each	50,000	50,000	50,000	50,000
<b>Issued and fully paid:</b>				
Balance at beginning of the year	41,522	41,522	41,522	41,522
Balance at end of the year	41,522	41,522	41,522	41,522

The issued and fully paid share capital comprises of 415,215,637 (2016: 415,215,637) shares having a par value of RO 0.100 (2016: RO 0.100) each. Pursuant to the terms of its IPO, as detailed below, the share capital of the Company has been divided into two classes comprising of 289,980,637 (2016: 289,980,637) ordinary shares and 125,235,000 (2016: 125,235,000) preferential voting rights shares. The preferential voting rights shares are held by the promoting shareholders and carry two votes at all general meetings while otherwise ranking pari-passu with ordinary shares in all rights including the dividend receipt.

### 14. Share premium

During the current year, there is no movement in share premium account.

### 15. Statutory reserve

As required by the Commercial Companies Law of Oman, the statutory reserve is maintained at least one third of the issued share capital. No transfer was made during the year as the Parent Company has reported a loss for the year.

### 16. Foreign currency translation reserve

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

### 17. Dividend

For the year 2016, no dividend was proposed and paid.

For the year 2017, no dividend was proposed for the Parent Company in the Board meeting held on 8 March 2018.

### 18. Term loans

Term loans:

- from banks	41,438	71,062	79,006	100,379
- finance companies	4,489	4,471	7,317	6,378
	45,927	75,533	86,323	106,757
<b>Current portion</b>				
- from banks	19,724	27,456	21,106	27,844
- finance companies	1,698	2,815	2,471	3,080
	21,422	30,271	23,577	30,924
<b>Non-current portion</b>				
- from banks	21,714	43,606	57,900	72,535
- finance companies	2,791	1,656	4,846	3,298
	24,505	45,262	62,746	75,833

The term loans are repayable as follows:

Within one year	21,422	30,271	23,577	30,924
In the second year	12,134	19,818	12,949	20,518
In the third year onwards	12,371	25,444	49,797	55,315
	45,927	75,533	86,323	106,757

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016

### 18. Term loans (continued)

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

The interest rates on term loans were as follows:

	Current year	Previous year
Floating rate loans	LIBOR + 2.0%	LIBOR + 2.0%
Fixed interest rate loans	4.25% to 7.5%	4.25% to 7.0%

The Parent Company has breached the following covenants with various banks

Norms as per banks

-- Minimum Net Worth

-- Adjusted Leverage (Total Liabilities / (Equity - Debtor > 365 Days +Non-Current retention)

The Parent Company has reclassified non current portion of term loan to current one due to above covenant breach RO nil (2016: RO 92) thousands.

The Parent Company is in discussion with its bankers on the breach and hope to arrive at a amicable solution to ensure smooth operation of facilities.

The Indian subsidiaries are facing certain liquidity challenges and the Group is in the process of restructuring its banking arrangements and is confident of a favourable outcome.

### 19. Short term loans

- from banks	<u>30,900</u>	<u>55,600</u>	<u>36,777</u>	<u>59,318</u>
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Short term loans from banks are repayable in one year and are secured against the contract assignments and/or joint registration of vehicle/equipment. The interest rates on these loans vary between 4.75% to 7.0% (2016: 4.0% to 7.0%) per annum.

### 20. Bank borrowings

Bank overdrafts	<u>8,108</u>	<u>2,793</u>	<u>8,891</u>	<u>3,403</u>
Loan against trust receipts	<u>25,895</u>	<u>21,964</u>	<u>26,052</u>	<u>21,964</u>
Bills discounted	<u>17,365</u>	<u>23,002</u>	<u>17,365</u>	<u>23,002</u>
	<u>51,368</u>	<u>47,759</u>	<u>52,308</u>	<u>48,369</u>

Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 4.0% to 7.5% (2016: 4.0% to 7.0%) per annum. Bank borrowings are secured against the contract receivables assignments.

### 21. Trade payables

Sundry creditors	<u>53,890</u>	<u>52,459</u>	<u>63,007</u>	<u>57,055</u>
Provision for purchases and sub-contracts	<u>28,637</u>	<u>35,195</u>	<u>31,249</u>	<u>37,154</u>
	<u>82,527</u>	<u>87,654</u>	<u>94,256</u>	<u>94,209</u>

### 22. Employees' end of service benefits

Balance at beginning of the year	<u>13,232</u>	<u>12,181</u>	<u>13,478</u>	<u>12,396</u>
Charge for the year to date	<u>2,118</u>	<u>2,212</u>	<u>2,253</u>	<u>2,346</u>
Paid during the year to date	<u>(1,720)</u>	<u>(1,161)</u>	<u>(1,860)</u>	<u>(1,264)</u>
Balance at end of the year	<u>13,630</u>	<u>13,232</u>	<u>13,871</u>	<u>13,478</u>

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016
<b>23. Other payables and provisions</b>				
Provision for employees' leave pay and passage	5,826	6,103	5,982	6,214
Creditors for capital purchases	349	91	349	116
Advance from customers -current	29,783	30,721	30,211	31,594
Due to customers on contracts (note 8)	5,376	2,521	9,323	13,157
Provision for future loss on contracts	2,209	3,610	2,209	3,610
Retention on sub-contracts	2,328	1,602	2,297	1,896
Accrued expenses	9,690	11,633	10,274	13,707
Due to related parties (note 33)	3,901	944	4,564	1,494
Statutory dues payable	368	534	1,033	1,134
Other payables	757	667	1,068	911
	<u>60,587</u>	<u>58,426</u>	<u>67,310</u>	<u>73,833</u>
Advance payables				
Non-current portion	<u>19,214</u>	<u>22,494</u>	<u>19,214</u>	<u>22,494</u>

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

## 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 15% (2016: 12%) of result after adjusting non-assessable and disallowable items. It is provided for Indian subsidiary as per 'Income tax Act' in India @ 33% of taxable profit after adjusting non-admissible expenses and depreciation difference

### Income tax expense

Tax charge for the current year	-	1,003	317	1,809
Deferred tax charge for the year	-	(1,325)	(15)	(1,289)
	<u>-</u>	<u>(322)</u>	<u>302</u>	<u>520</u>

**24.1** Tax computation of the Parent Company includes deduction from taxable income amounting to RO 10.5 million for the write off of short recovery of dues from a Government client. The write off is based on the final account settlement of the contract dues duly signed by both parties, as per the provisions of the 'Law of Income Tax on Companies' in Oman.

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

Loss before tax	(3,699)	(11,987)	(3,289)	(10,712)
Tax as per law of respective country	(555)	(1,442)	(492)	(807)
Tax effect on non admissible expenditure and adjustments	555	1,120	794	1,327
	<u>-</u>	<u>(322)</u>	<u>302</u>	<u>520</u>

### Provision for tax

The parent company income tax assessment up to the year 2013 has been completed by the taxation department. The income assessments of the subsidiaries are at various stages of completion. The management believes that any taxation for the unassessed years will not be material to the financial position of the Group as at the reporting date. The status of tax provision is as follows:

Balance at beginning of the year	1,176	932	3,749	4,027
Charge during the year	-	1,003	317	1,809
Tax paid during the year	(1,171)	(759)	(3,579)	(2,087)
Balance at end of the year	<u>5</u>	<u>1,176</u>	<u>487</u>	<u>3,749</u>



## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016
<b>24. Taxation (continued)</b>				
<b>Deferred tax liability</b>				
Deferred income taxes are calculated on all temporary differences under the balance sheet liability method using a principal tax rate as per tax law of the respective country.				
Balance at beginning of the year	-	1,325	715	2,004
Charge during the year	-	(1,325)	(15)	(1,289)
Balance at end of the year	-	-	700	715
The net deferred tax liability and deferred tax release in the comprehensive income statement are attributable to following items:				
Property, plant and equipment:				
Balance at beginning of the year	5,654	5,286	6,324	5,920
Release to income statement	(1,361)	368	(1,376)	404
Balance at end of the year	4,293	5,654	4,948	6,324
Trade receivables and inventories				
Balance at beginning of the year	(5,654)	(3,961)	(5,609)	(3,916)
Release to income statement	1,361	(1,693)	1,361	(1,693)
Balance at end of the year	(4,293)	(5,654)	(4,248)	(5,609)
	-	-	700	715
<b>25. Sales and services income</b>				
Sales and services	3,316	3,075	15,908	15,054
Hiring services	1,145	603	2,790	2,310
Toll collection	-	-	2,696	-
Training services	-	-	28	129
	4,461	3,678	21,422	17,493
<b>26. Other income</b>				
Gain on sale of assets	2,163	1,731	2,184	1,755
Miscellaneous income	1,209	995	1,345	1,158
	3,372	2,726	3,529	2,913
<b>27. Cost of contract and sales</b>				
Materials	64,098	90,378	68,548	92,487
Manpower costs (note 29)	89,130	92,050	94,167	96,747
Sub-contracting costs	46,833	54,250	42,054	53,075
Plant and equipment repair and maintenance	11,551	15,031	12,857	16,491
Plant and equipment hiring costs	6,808	7,879	8,202	9,519
Fuel expenses	14,183	15,768	16,209	17,739
Training expenses	-	-	787	285
Duties and taxes	-	-	24	233
Depreciation and amortisation (notes 3 and 4)	17,170	18,677	20,451	20,854
General and administrative expenses (note 28)	11,353	12,970	11,199	13,168
	261,126	307,003	274,498	320,598

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016
<b>28. General and administrative expenses</b>				
Manpower costs (note 29)	5,067	5,178	6,412	6,268
Rent	3,852	3,724	4,242	4,123
Electricity and water charges	3,122	2,994	3,264	3,089
Professional and legal charges	2,030	4,203	2,365	4,557
Insurance charges	2,166	2,601	2,343	2,754
Bank guarantee and other charges	1,507	1,239	1,575	1,285
Communication expenses	690	770	790	862
Repairs and maintenance - others	748	835	789	862
Traveling expenses	317	407	423	506
Printing and stationery	275	258	309	291
Business promotion expenses	72	65	97	77
Tender fees	93	79	102	82
Directors' expenses	50	50	50	50
Corporate social responsibility expenses	42	10	42	16
Miscellaneous expenses	223	219	239	225
Depreciation and amortisation (note 3 and 4)	1,296	1,303	1,225	1,395
	<u>21,550</u>	<u>23,935</u>	<u>24,267</u>	<u>26,442</u>
Pertaining to cost of contract and sales	11,353	12,970	11,199	13,168
	<u>10,197</u>	<u>10,965</u>	<u>13,068</u>	<u>13,274</u>
<b>29. Manpower costs</b>				
Salary and wages	68,741	71,922	72,755	75,683
Employees' service benefits	11,288	10,535	12,141	11,407
Camp and catering expenses	8,146	9,777	9,036	10,412
Hired salary and wages	2,082	1,212	2,398	1,464
Other expenses	3,940	3,782	4,249	4,049
	<u>94,197</u>	<u>97,228</u>	<u>100,579</u>	<u>103,015</u>
Pertaining to cost of contract and sales	89,130	92,050	94,167	96,747
Pertaining to general and administration expenses	<u>5,067</u>	<u>5,178</u>	<u>6,412</u>	<u>6,268</u>
<b>30. Financing costs, net</b>				
Interest expense	8,268	7,947	11,816	9,069
Interest income	(86)	(118)	(86)	(118)
	<u>8,182</u>	<u>7,829</u>	<u>11,730</u>	<u>8,951</u>
<b>31. Loss per share</b>				
The Loss per share is calculated by dividing the loss for the period attributable to the shareholders of the parent company by the weighted average number of shares outstanding during the year as follows:				
Loss for the year	(3,699)	(11,665)	(5,843)	(10,813)
Number of shares in '000 (note 13)	415,220	415,220	415,220	415,220
Loss per share for the year (RO)	<u>(0.009)</u>	<u>(0.028)</u>	<u>(0.014)</u>	<u>(0.026)</u>
<b>32. Net assets per share</b>				
Net assets per share is calculated by dividing the equity attributable to shareholders of the parent company at the reporting date by the number of shares outstanding as follows:				
Net assets	59,340	63,039	55,920	60,912
Number of shares in '000 (note 13)	415,220	415,220	415,220	415,220
Net assets per share (RO)	<u>0.143</u>	<u>0.152</u>	<u>0.135</u>	<u>0.147</u>

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016

### 33. Related party transactions

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

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

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

Contract income	28	294	19,527	23,015
Sales and services	1,623	1,852	1,623	1,852
Purchase of property, plant and equipment	97	204	97	204
Purchase of goods and services	18,789	15,531	18,789	15,531
Director's sitting fees	50	50	50	50

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

Due from shareholders	9	35	9	35
Due from subsidiary and associate companies	1,593	4,635	7,636	6,070
Due from other related parties	2,204	3,446	2,204	3,446
	<u>3,806</u>	<u>8,116</u>	<u>9,849</u>	<u>9,551</u>
Due to shareholders	57	54	57	54
Due to subsidiary and associate companies	1,312	60	1,973	603
Due to other related parties	2,532	830	2,534	837
	<u>3,901</u>	<u>944</u>	<u>4,564</u>	<u>1,494</u>

The amounts outstanding are unsecured and will be settled. During the year RO 609 (2016: 695) thousands has been recognised towards doubtful debts pertaining to related parties.

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

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

Salaries	597	459	1,339	1,008
End of service benefit	26	28	26	28
	<u>623</u>	<u>487</u>	<u>1,365</u>	<u>1,036</u>

Included in due from related parties RO 486 (2016: RO 486) thousands is due from key management personnel of the parent company.

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

	Parent Company		Consolidated	
	2017	2016	2017	2016
<b>34. Commitments and contingencies</b>				
Bonds and guarantees	161,992	178,328	161,992	178,328
Letter of credit	19,474	21,613	19,474	21,613
Corporate guarantees	15,188	10,372	57,717	55,102
Capital commitments	1,364	1,307	1,364	1,307
Legal cases	1,110	970	1,110	970
	<b>199,128</b>	<b>212,590</b>	<b>241,657</b>	<b>257,320</b>

The parent company has provided corporate guarantees for subsidiaries and associates amounting to RO 10,837 (2016: RO 7,090) thousands and RO 4,351 (2016: RO 3,282) thousands respectively. The parent company does not anticipate any material liability to arise from these guarantees.

The group company has provided support sponsor's undertakings for any shortfall in project funding and toll collection of all concessionaire companies (MTPL, SJEPL, GAEPL, KSHPL and SHPL) for DBFOT road projects in India, on joint and several basis. The contingent liability for the same is not determinable.

### 34.1 Legal cases

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

### 34.2 Penalties

Penalties amounting to RO 7,038 (2016: RO 6,653) thousands have been levied on the parent company. Though the penalties are countered by the extension of time claims from the Parent Company and cases are under various stages of negotiations/arbitration and expected to be settled in due course, the provision of RO 5,355 (2016: RO 6,653), is made which is included in 'Provision for impaired receivables' shown under note 9.

Further imposable penalties on account of expected completion delays amounting to RO 16.7 million on certain projects is not considered in the books of the Parent company as the management believes that the delay in these projects is majorly due to the delay from the customer's side and based on their recent discussions with these customers these penalties are not expected to be levied on the Company.

## Notes to Financial Statements

As at 31 December 2017

### 35. Business segments

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

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

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

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

													Amount in RO '000s	
	Construction		Manufacturing		Hiring		Toll Collection		Training		Inter segments		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Segment revenue and expenses														
Segment revenue	302,344	350,584	19,506	20,666	1,693	1,723	2,696	-	335	150	(27,737)	(32,246)	296,141	340,877
Segment expenses	305,946	361,088	18,920	19,950	1,828	1,739	4,131	-	356	562	(26,501)	(31,639)	304,680	351,700
Segment results	(3,602)	(10,504)	586	716	(135)	(16)	(1,435)	-	(21)	(412)	(1,236)	(607)	(5,843)	(10,823)
Segment assets and liabilities														
Segment assets	401,870	464,199	13,890	11,097	2,930	3,072	50,181	43,606	(413)	(531)	(40,391)	(36,644)	428,067	484,799
Segment liabilities	324,841	386,080	6,365	4,158	1,216	1,223	38,522	31,298	302	163	-	-	371,246	422,922

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

### 36. Financial instruments and related risk management

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

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

#### Market risk

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

#### Interest rate risk

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

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

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

As at the reporting date, had the interest rate were to move up or down by 1%, the impact on the parent and consolidated income statement would have been RO 1,417 (2016: RO 1,151) thousands and RO 2,026 (2016: RO 1,770) thousands respectively.

Term loans amounting to RO 45,927 (2016 RO 74,395) thousands are recognised at fixed interest rates and expose the parent company to fair value interest rate risk. The remaining term loans of RO 753 (2016 RO 1,138) thousands are recognised at floating rates thus exposing the Parent Company to cash flow interest rate risk.

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

#### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group operates in international markets and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euros, Pound sterling and all GCC currencies.

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

However, the management has set up a policy to require the Company to manage its foreign exchange risk against their functional currency. The Group is required to hedge its foreign exchange risk exposure as needed. To manage its foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the Company uses forward contracts. These contracts are not however designated as hedges under IAS 39 and are consequently initially recognised at cost and subsequently re-measured to their fair value at each reporting date. Material changes in the fair value of foreign currency forward contracts are recorded in the statement of comprehensive income account as they arise.

#### Commodity price risk

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

#### Equity price risk

The Group do not hold any quoted investment.

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

### 36. 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.

There has been no change in the group's objectives, policies or process during the year ended 31 December 2017 and 31 December 2016

#### Exposure to credit risk

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

	Parent Company		Consolidated	
	2017	2016	2017	2016
Contract work in progress, contract and trade receivables	229,756	272,856	238,656	280,803
Retention receivables	47,762	52,150	47,950	52,322
Advances, prepayments and other receivables	13,988	17,429	22,774	26,094
Deposits with banks	3,953	8,892	3,957	8,896
Cash and bank balances	1,773	3,687	4,062	6,636
	<u>297,232</u>	<u>355,014</u>	<u>317,399</u>	<u>374,751</u>

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

	2017	2016	2017	2016
Government customers	182,503	218,300	182,744	218,609
Petroleum Development Oman	33,130	35,354	33,130	35,354
Other private customers	14,123	19,202	22,782	26,840
	<u>229,756</u>	<u>272,856</u>	<u>238,656</u>	<u>280,803</u>

The Group has established credit policies and procedures that are considered appropriate for the parent company and its subsidiaries. The Group's business is conducted mainly by participating in tenders / bids. On acceptance of a tender / bid it enters into a detailed contract with the customer. This contract specifies the payment and performance terms as well as the credit terms. Also refer to note 38 key sources of estimation of uncertainty for the impairment of the trade receivables.

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

	2017	2016	2017	2016
Not past due	87,358	106,603	91,696	111,128
Past due 0- 180 days	30,903	43,656	33,368	45,630
Past due 181 - 365 days	20,840	17,209	21,864	18,124
More than 365 days	90,655	105,388	91,728	105,921
	<u>229,756</u>	<u>272,856</u>	<u>238,656</u>	<u>280,803</u>
Impairment on Contract work in progress, contract and trade receivables	<u>(30,431)</u>	<u>(37,109)</u>	<u>(30,548)</u>	<u>(37,306)</u>



## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

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

#### Liquidity risk

The following are the financial liabilities:

Term loans	45,927	75,533	86,323	106,757
Short term loans	30,900	55,600	36,777	59,318
Bank borrowings	51,368	47,759	52,308	48,369
Trade and other payables	175,958	181,806	194,651	204,014
	<u>304,153</u>	<u>360,698</u>	<u>370,059</u>	<u>418,458</u>

The contractual maturities of above financial liabilities were:

Term loans:

Up to 90 days	5,637	8,283	5,637	8,283
91 - 180 days	6,024	8,623	6,024	8,623
181 - 365 days	9,761	13,365	11,916	14,018
More than 365 days	24,505	45,262	62,746	75,833
	<u>45,927</u>	<u>75,533</u>	<u>86,323</u>	<u>106,757</u>

Short term loans:

Up to 90 days	30,900	53,100	30,900	53,100
91 - 180 days	-	2,500	-	2,500
181 - 365 days	-	-	5,877	3,718
	<u>30,900</u>	<u>55,600</u>	<u>36,777</u>	<u>59,318</u>

Bank borrowings:

Up to 90 days	47,401	33,303	48,341	33,913
91 - 180 days	3,967	14,456	3,967	14,456
181 - 365 days	-	-	-	-
	<u>51,368</u>	<u>47,759</u>	<u>52,308</u>	<u>48,369</u>

Trade and other payables:

Up to 90 days	91,101	99,412	101,592	112,733
91 - 180 days	25,541	26,554	29,637	30,882
181 - 365 days	26,472	20,114	30,337	24,427
More than 365 days	32,844	35,726	33,085	35,972
	<u>175,958</u>	<u>181,806</u>	<u>194,651</u>	<u>204,014</u>

### 37. Fair values of financial instruments

#### Fair values

Financial instruments comprise financial asset, financial liabilities and derivatives.

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

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

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

**38. Key sources of estimation uncertainty****Estimates and assumptions**

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

**(a) Revenue recognition**

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

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

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

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

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

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

At the reporting date, the Group's contract billed receivables were RO 169,655 (2016: RO 213,897) thousands, most of these receivables were from Government and quasi Government entities. This balance includes value of RO 104,098 (2016: RO 139,265) thousand certification in process, which is in the normal course of business activity in the construction industry. At 31 December 2017, the provision for impaired contract receivables and work in progress was RO 30,431 (2016: RO 37,109) thousand. Management believes the balance amounts are fully recoverable. In addition to this, the groups' trade receivables and provision for impaired debts were RO 11,213 (2015: RO 8,921) thousand and RO 1,729 (2016: RO 1,120) thousands respectively. (refer note 9).

(iii) The final account of Muscat Expressway was agreed with Muscat Municipality for an amount of RO 39 million. Out of this RO 14 million was received during the year and the balance is expected to be collected in 2018. A portion of provision made in earlier year amounting to RO 2.1 million was reversed as the settled amount is more than the project's receivable amount net of provisions. Management expects that the final account of Central Corridor project will be concluded during 2018, on completion of snag works identified by the client Muscat Municipality. The receivable amount will be net of provisions made in the year 2015 based on an offer made by the Client, continues at RO 3 million.

(iv) Three out of four arbitrations relating to Seeb Sewage Network project against Haya Water were awarded in favour of the Parent Company. During February 2018, second arbitration towards extension of time claims and third arbitration towards interest claims on certified payments were awarded for a value of RO 23.1 million and RO 1.3 million respectively (which includes interest awarded of 7% on the claim amount). In the year 2016, the arbitration towards re-measurement claims was awarded in favour of the Parent Company with an award value of RO 3.8 million. The fourth arbitration is towards legislation claims of RO 2.1 million for the increased salary cost is yet to be decided. The awarded amount along with interest component in all three decided cases sufficiently covers the revenue recognised by the Parent Company against respective claims. However, the Parent Company has not received the amount due under the first arbitration till date and has filed for enforcement with the Supreme Court. M/s. Haya Water has right to appeal for the second and third arbitration decision within 120 days from the date of the judgement.

## Notes to Financial Statements

As at 31 December 2017

Amount in RO '000s

**38. Key sources of estimation uncertainty (continued)****(c) Impairment of inventories**

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value through physical verification of inventories carried out annually. As majority of the inventories are at ongoing project sites these are considered as usable in nature by management as these are closely monitored by the respective project teams. Dedicated project teams also monitors surplus inventories on closed/completed jobs for assessing their usability to consider necessary provisions. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence. Management believes that provision of RO 1,601 (2016: RO 3,232) thousands for the group is adequate (refer note 7).

**(d) Useful lives of property, plant and equipment**

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

**(e) Impairment of intangible assets**

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

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

**(g) Impairment of investments in subsidiaries and associates**

The Group reviews its investments in associates and subsidiaries periodically and evaluates for objective evidence of impairment. Objective evidence includes the performance of associates and subsidiaries, significant decline in carrying value below its costs, the future business model, local economic conditions and other relevant factors. Based on objective evidences the Group determines the need for impairment loss on investment in associates and subsidiaries. The group performs impairment assessment and assessed impairment loss on two of its associates for the year ended 31 December 2017, as set out in note 6 to the financial statements.

**(h) Taxes**

Uncertainties exist with respect to the interpretation of tax regulations and the amount and timing of future taxable income. Given the wide range of business relationships and nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of finalisation of tax assessments of respective Group companies. The amount of such provisions is based on various factors, such as experience of previous tax assessments and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. (refer note 24)

**39. Comparative amounts**

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