

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GALFAR ENGINEERING & CONTRACTING SAOG

Report on the audit of the consolidated and separate financial statements

Qualified opinion

We have audited the consolidated and separate financial statements (the "financial statements") of Galfar Engineering & Contracting SAOG (the "Parent Company" or "Company") and its subsidiaries (together "the Group"), which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Separate financial statements

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion for the separate financial statements section of our report, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Parent Company as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Consolidated financial statements

In our opinion, except for the possible effects of the matters described in the Basis for qualified opinion for the consolidated financial statements section of our report, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for qualified opinion for the separate financial statements

The Parent Company's accruals for purchases and sub-contracts as of 31 December 2018 are carried in the statement of financial position at RO 27,508 thousand. The Parent Company implemented a new ERP system from 1 January 2019 and as of the date of our report, the implementation is not complete. As a result, the Parent Company has not recorded all the invoices subsequent to 1 January 2019 in its accounting records. In the absence of the related accounting information, we were unable to obtain sufficient appropriate audit evidence about the value of accrual for purchases and sub-contracts as at 31 December 2018. Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of accrual for purchases and sub-contract costs as of 31 December 2018 and the related impact on the contract cost, contract revenue and contract work in progress for the year ended 31 December 2018.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Parent Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the separate financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
GALFAR ENGINEERING & CONTRACTING SAOG (CONTINUED)**

Report on the audit of the consolidated and separate financial statements (continued)

Basis for qualified opinion for the consolidated financial statements

- (i) We were unable to obtain sufficient appropriate audit evidence in relation to:
- The Parent Company's accruals for purchases and sub-contracts amounting to RO 27,508 thousand and related impact on the contract cost and contract revenue as explained in our *Basis for qualified opinion for the separate financial statements*.
 - In view of the irregularities noted in the procurement process, a subsidiary company has carried out a third party independent verification. The initial report of the third party indicated instances of management override of internal controls in the procurement process of the subsidiary which could result in misstatement of the subsidiary's cost of sales amounting to RO 16,378 thousand for the year ended 31 December 2018 and trade payables amounting to RO 3,035 thousand as of 31 December 2018.

Consequently, we were unable to determine whether any adjustments might have been found necessary in respect of Group's accruals for purchases and sub-contract costs and trade payables as of 31 December 2018 and the related impact on the contract cost, contract revenue and contract work in progress for the year ended 31 December 2018.

- (ii) As disclosed in note 6A to the financial statements, the Group has subsequent to the year end entered into a non-binding sale agreement with a related party, which is to be ratified at the extra ordinary general meeting of the Parent Company; with respect to its Indian operations. Accordingly, investments in respect of three of its Indian associates are accounted as held for sale and accounted for at its carrying value, which is lower than fair value. The investment in respect of three Indian associates classified as assets held for sale are recorded in the financial statements based on their unaudited management accounts as at 31 December 2018 and amounted to RO 266 thousand. We were unable to obtain sufficient appropriate audit evidence in respect of the carrying values of these associates included in these financial statements as at and for the year ended 31 December 2018. Consequently, we are unable to determine whether any adjustments might have been necessary in respect of the carrying value of the investment in respect to three Indian associates included in these financial statements.

- (iii) We were unable to obtain sufficient audit evidence relating to the Group's subsidiary in India classified as disposal group held for sale due to the following reasons as explained in note 6A:

- Incomplete fixed asset register as of 31 December 2018
- Non-compliance with the Goods and Service Tax Act, 2017
- Non-availability of balance confirmation from the suppliers and the related reconciliation statements.

Consequently we were unable to determine whether any adjustments might have been found necessary in respect of the account balances as set out below:

- Assets held for sale amounting to RO 8,493 thousand as of 31 December 2018
- Liabilities held for sale amounting to RO 6,870 thousand as of 31 December 2018
- Results from discontinued operations amounting to a loss of RO 2,149 thousand for the year ended 31 December 2018.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Sultanate of Oman, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
GALFAR ENGINEERING & CONTRACTING SAOG (CONTINUED)**

Report on the audit of the consolidated and separate financial statements (continued)

Emphasis of matters:

We draw attention to the following:

- i) note 24.1 to the financial statements, which describes the position taken by the Parent Company relating to allowability of write off of provision for impairment amounting to RO 1,981 thousand and RO 10,597 thousand, while computing the income tax payable for the year ended 31 December 2018 and 31 December 2017, respectively. The tax assessment for the year ended 31 December 2017 and 31 December 2018 has not commenced.
- ii) Notes 40(b)(iii), (iv), (v), (vi) and (vii) of the financial statements which sets out the status of certain ongoing negotiations, arbitration and litigation proceedings relating to certain claims raised by the Parent Company and their recoverability. Notes 40(b)(iii), (iv), (v), (vi) and (vii) also describe the Parent Company's position on the following matters:
 - The details regarding a final settlement reached on the Muscat Expressway contract and the Central Corridor project.
 - The status of arbitration proceedings and ongoing negotiations initiated by the Parent Company towards recovery of certain claims filed against other clients. A portion of these claims amounting to RO 28,293 thousand is included in contract and trade receivables by the Parent Company.
- iii) The Capital Market Authority (CMA) is currently carrying out certain investigative audits relating to the Group's certain transactions for the years from 2010 to 2014. Management have informed us that as of date, based on the draft investigation audit reports received from independent auditors appointed by the CMA, the management has taken corrective actions. Management has informed that no adjustment to the financial statements in respect of such years is anticipated.

Our opinion is not further modified in respect of these matters.

Material uncertainty related to going concern

We draw attention to note 2.4 of the financial statements, which indicates that the Group has an accumulated loss position of RO 16,602 thousand as of 31 December 2018 (2017: RO 18,417 thousand). It further describes the measures implemented by the Parent Company's Board of Directors to improve its financial position and the grounds on which the financial statements have been prepared on going concern basis.

These events or conditions indicate that a material uncertainty exists that may cast a significant doubt on the Group's ability to continue as a going concern. Our opinion is not further modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. In addition to the matters described in the *Basis for qualified opinion* section and *Material uncertainty related to going concern* section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
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Report on the audit of the consolidated and separate financial statements (continued)

Key audit matters (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<p>1. Contract revenue and profit recognition from construction contracts in the consolidated and separate financial statements</p> <p>The Group enters into contracts, many of which are complex and long-term in nature and can span a number of reporting periods. Contract revenue is recognised over time as performance obligations are fulfilled in accordance with IFRS 15 - Revenue from Contracts with Customers (IFRS 15).</p> <p>Due to the nature of the construction business, contract revenue and profit recognition involves a significant degree of judgement, with estimates required to:</p> <ul style="list-style-type: none"> - Assess whether the outcome of the construction contract can be measured reliably; - Assess the total contract costs including costs to completion; - Assess the stage of completion of the contract; - Forecast the profit margin after taking consideration of additional revenue and costs relating to variations in contract work, claims and incentive payments; and - Identify and adequately provide for loss making contracts. <p>The accounting policies relating to contract revenue and profit recognition, critical accounting estimates and judgements are set out in notes 2 and 40 (a) to the financial statements. The related significant disclosures pertaining to contract work in progress, contract and trade receivables, provision for future loss on contracts are set out in notes 8, 9 and 23 to the financial statements.</p>	<p>Our audit procedures, among others, included the following:</p> <ul style="list-style-type: none"> - Reviewed the major contracts to identify the performance obligations of the Group under these contracts and assessed whether these performance obligations are satisfied over time or at a point in time based on the criteria specified under IFRS 15. Also determined whether the Group has an enforceable right to payment for performance completed to date in order to confirm the revenue recognition under these contracts; - Assessed the effectiveness of entity level controls with regard to detailed review of contracts performed by management that included estimating total costs, stage of completion of contracts, profit margin and evaluating contract profitability; - Obtained an understanding of the performance and status of the major contracts through discussion with contract project teams as well as reading meeting minutes of the Board of Directors and audit committee; - On a sample basis, tested the calculation of stage of completion including testing the costs incurred and recorded against the contract for occurrence and accuracy, assessed the basis for determining the total contract cost and reperformed the percentage of completion calculation and assessed the recoverability of contract work in progress; - Assessed the estimates of costs to complete for significant contracts and also assessed the historical accuracy of the estimates of total contract costs; - Agreed the total contract revenue to the original signed customers' contract agreement, approved variation orders and revenue recognised towards unapproved claims and variations. We discussed with the contract project teams and evaluated the reasonableness of estimated revenue for considering portion of customer claims, including correspondence with the customer, latest payment certificates, independent third party consultants reports, internal assessments and legal advice received as appropriate; - Assessed the adequacy of contract loss provisions recorded; - Assessed the appropriateness of the Group's revenue recognition accounting policies including compliance with the relevant IFRSs.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
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Report on the audit of the consolidated and separate financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>2. Impairment of contract receivables and work in progress in the consolidated and separate financial statements</p> <p>Contract receivables and work in progress balances are significant to the Group as of 31 December 2018. The certification of the contract work in progress and collectability of contract receivables is a key element of Group's working capital management. These balances include certain claims raised by the Group against certain customers mainly relating to variations from the originally agreed scope, changes in costs incurred due to extension of the project completion time. Given the judgment involved in the certification of variation orders and collectability assessment of contract receivables, and considering delayed payments due to the present market conditions, impairment of contract receivables and contract work in progress was a key audit matter. The application of judgment and the use of assumptions are described in critical accounting estimates and judgments in note 40 (b) of the financial statements. Specific factors considered by the management included:</p> <ul style="list-style-type: none"> - the age of the outstanding amounts; - independent reports on the recoverability of claims; - results of consultations with external lawyers; - existence of disputes; - recent historical payment patterns; - expectations of timing of collectability and any other available information concerning the creditworthiness of counterparties. <p>Management uses this information to determine whether a provision for impairment is required for a specific transaction for the customer's balance. The related details are set out in notes 8,9,36 and 40(b) respectively, to the financial statements.</p>	<p>We evaluated management's assumptions and methods applied in the calculating the provision for impairment of contract receivables and work in progress by carrying out the following procedures, among others:</p> <ul style="list-style-type: none"> - On a sample basis, tested aged balances to check for indicators of impairment. This included verifying receipts subsequent to the yearend, reviewing historical payment patterns, subsequent certifications and any correspondence with customers on expected settlement dates. - On a sample basis, assessed the recoverable amounts of claims by discussing with the respective project managers and with legal consultants for any amounts in dispute, reading correspondences with the customers and reports produced by independent consultants and evaluating the responses received from external lawyers for claims involving arbitration and litigations. - Obtained the management's calculation of the provision made in accordance with the impairment policy and checked these in line with the assumptions made by the management. We have also considered the appropriateness of the policy in accordance with IFRS 9. - Considered appropriateness of the disclosures in the financial statements in accordance with the relevant requirements of IFRSs.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
GALFAR ENGINEERING & CONTRACTING SAOG (CONTINUED)**

Report on the audit of the consolidated and separate financial statements (continued)

Other information included in the Group's 2018 Annual Report

Those charged with governance and management are responsible for the other information. Other information consists of the information included in the Group's 2018 Annual Report other than the financial statements and our auditor's report thereon. We obtained the following information prior to the date of our auditor's report, and we expect to obtain the published 2018 Annual Report after the date of our auditor's report:

- Chairman's report
- Corporate governance report
- Management discussion and analysis

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for qualified opinion for the financial statements section above, we were unable to obtain sufficient appropriate audit evidence about the carrying values of the following:

- Group's accruals for purchases, sub-contract costs and trade payables and the related impact on the contract cost, contract revenue and contract work in progress;
- Group's Indian subsidiary and three Indian associates classified as disposal group held for sale.

Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to the above matters.

Responsibilities of management and those charged with governance for the financial statements

Those charged with governance are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and the relevant requirements of the Commercial Companies Law of 1974, as amended, and the CMA of the Sultanate of Oman, and for such internal control as those charged with governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, those charged with governance are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless those charged with governance either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
GALFAR ENGINEERING & CONTRACTING SAOG (CONTINUED)**

Report on the audit of the consolidated and separate financial statements (continued)

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of those charged with governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF
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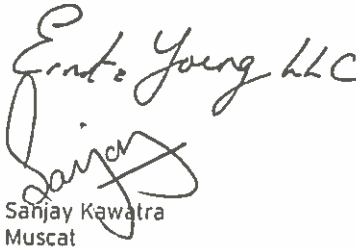
Report on the audit of the consolidated and separate financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In our opinion, the financial statements comply, in all material respects, with the relevant requirements of the Commercial Companies Law of 1974, as amended, and CMA of the Sultanate of Oman.


Sanjay Kawatra
Muscat
21 March 2019

