ANNUAL REPORT 2020

Transforming landscapes.
TRANSFORMING LIVES.

His Majesty
Sultan Qaboos Bin Said (Late)

His Majesty
Sultan Haitham Bin Tarik

Contents

Board of Directors

Engr. Majid Salim Said Al Fannah Al Araimi

Engr. Majid Salim Said Al Fannah Al Araimi holds a BSc in Engineering Management from the University of Missouri, USA. He is one of the directors with an active role in developing the business of a group of private companies and several reputed educational institutions in the Sultanate of Oman. He is the Chairman of the Board of Directors of Galfar Engineering & Contracting SAOG from March 2017 till date.

Engr. Majid served as Operations Manager at Galfar Engineering & Contracting LLC from 1997 to 2006. He supervised the implementation of several projects awarded to the company, before he was elected as a Director in the Board of Galfar after transformation into a public joint stock company in 2007. He was a member in the Board of Directors of Oman International Development & Investment Co. SAOG (OMINVEST) between March 2001 and October 2015 and March 2017 to November 2018 and was a member in the Board of Directors of A'Saffa Foods SAOG from March 2017 to May 2020.

He is the Chairman of National Drilling and Services Co. LLC and Travel Point Group and holds office of Vice Chairman of a number of private companies.

Eng. Mohiuddin Mohamad Ali

Mr. Mohiuddin Mohamad Ali, is a Civil Engineering graduate from Carnegie Mellon University, Pittsburgh, USA.

He is the Vice Chairman of PMA International LLC and MFAR Group of Companies which has presence in Construction, Hospitality, Education, Manufacturing and Real Estate & Development in the Sultanate of Oman, UAE, Qatar, Kuwait, Maldives, Sri Lanka and India.

Mr. Mohiuddin is the Chairman & Managing Director of Alpha Fishco LLC, a fisheries sector investment at SEZAD. He is the member of Board of Directors and Board of Trustees of National University of Science & Technology and various other companies in Engineering & Construction, Drilling, Hospitality & manufacturing sectors. He has been part of various Government and Private sector delegations & committees.

Shaikh Hassan Mohammed Ahmed Al Nabhani

Mr. Hassan Al Nabhani graduated from the University of North Carolina with a Civil Engineering degree. He has a Post Graduate diploma in Groundwater Engineering and Master of science in Hydraulic Engineering from the University of Newcastle and has also done an Advanced Management course from Harvard Business School, Boston.

Mr. Hassan's has a wealth of experience in his professional career. He was the Director General of Planning and Investment in the Ministry of Agriculture and Fisheries from 1998 to 2006. He served as a Board member in Jury's Inn and from 2013 to 2015 was the Chairman of the Board of ONIC Holding. He also served as the Deputy Chairman in the Boards of Ominvest and Bank Sohar. He was the Deputy CEO of Oman Investment fund from 2007 to 2009 and its CEO from 2009 to 2017.

Mr. Bader Mohamed Rashid Al Araimi

Mr. Bader Mohamed Rashid holds a Masters in Global Finance Management from Regents Business School London, United Kingdom and Bachelors in Business Information Systems from Leeds Metropolitan University, United Kingdom. He is the Director of Al Siraj Investment Holding LLC

He started his career in the Internal Audit Department of Galfar Engineering & Contracting SAOG and then moved to HSBC. He is presently a board director in A'Sharqiya Investment Holding SAOG, Al Siraj Holdings LLC, Galfar Kuwait KSCC, Al Siraj Global Holdings LLC (DIFC), Travel Point LLC, Travel City LLC, Fortune Technology Services, Advanced Technology & Projects Co LLC, Delta International & Engineering LLC and Al Siraj Hospitality Management Services LLC.

Engr. Kalat Ghuloom Hassan Al Bulooshi

Eng. Kalat Al Bulooshi is the Chief Executive Officer of Oman Investment Corporation SAOC and Chairman of Khazaen Economic City.

Eng. Kalat is an Omani leader in the private equity investment field. He has created opportunities, raised funds, successfully delivered more than 16 deals and investments in Oman. Thereby bringing foreign investments to Oman, creating sustainable development, employment opportunities and creating wealth to the investors. He led the development of a number of projects in Oman, such as Sembcorp Salalah Power & Water Plant, Khazaen Economic City, GIPI pipe mill, Takaful Oman, Aman Health Care. Invested in and was a key player in realizing other investments such as Nafath Renewable, Gulf Energy, OPCP, Omania Educational Services and V2 trenching.

Prior to this he worked in project management roles in PDO, Sohar Industrial Port and Sohar Aluminum. His work experience includes working for 3 years in Italy and Canada.

Kalat also serves as an independent board member in Galfar and has previously served as Deputy Chairman of Mwasalat, where he led the restructuring and turnaround of the public transport in Muscat and Oman. He was also an independent member in board of Oman Gas Company. He served in a number of national committees such as the PPP, participated on the Oman 2040 vision development and currently leading the private sector development work stream as part of the 10th 5-year plan by the Government.

Eng. Kalat holds an Engineering Honors Degree from UK and has completed the Wharton Advanced Management Program, a Wharton Alumni.

Mr. Mohamed Taqi Ibrahim Al Jamalani

Mr. Mohammed Al Jamalani is an experienced and professional in regulatory, financial legal fields and capital markets industry with more than 29 years of practice. In addition, he has knowledge and experience in real estate development, construction and in trading businesses.

He was Vice President for insurance sector at Capital Market Authority beside various positions through heading and/or participating and managing different directorates, committees and official delegations. He holds Bachelors of Science in Economics and Finance from UK and has completed post graduate certificate in International Capital Markets Qualification from London Institute of Securities. In addition to participating in variety of courses, conferences, workshops and seminars including program in IMD.

Mr. Mohammed Al Jamalani's experience includes directorship of Oman Centre of Governance and Sustainability, membership of investment committee of Oman Chamber of Commerce and Industry and is the chairperson of a charitable Investment and Finance committee. He supervises the management of a family group of companies.

Engr. Said Salim Ali Al Hajri

Engr. Said Al Hajri is an entrepreneur who has founded a few companies. He is the founder of Vision Advanced Petroleum Solutions (VAPS), a consultancy company that is providing petroleum engineering solutions to oil companies. In addition, VAPS has built first ever regional laboratory for hydrocarbon analysis (PVT) in Oman. He is also a founder of Local Line LLC which is a chemical manufacturing and supplying company for oil and gas sectors.

Previously, Engr. Said held several positions in PDO as petroleum engineer, well services activities manager & new oil team leader.

Engr. Said graduated with honors from Imperial Collage with a dual degree in Mechanical Engineering and Master Degree in Petroleum Engineering. He is also a graduate of The National CEO program from IMD.

On another dimension, as a contribution to the society, Engr. Said has worked as a volunteer lecturer in Higher College of Technology teaching petroleum production engineering for the undergraduate program for four consecutive years. In addition, Engr. Said is MTC member of Oman Rail Company where he contributes in putting contracting strategies, ensuring the contracting process is fair & transparent. Also Engr. Said is an investment committee member of Oman National Investments Development Company.

Engr. Maqbool Hussein Salih Al Zadjali

Engr. Maqbool Hussein Salih Al Zadjali has over 35 years of experience in the Oil and Gas sectors, with particular expertise in major pipeline projects, construction management as well facilities projects.

He holds bachelor degree in Mechanical Engineering from university of Sunderland (UK).

Maqbool spent most of his career in PDO, his last position was Engineering Manager (North) before proceeding on early retirement, prior to which he also worked in Singapore as resident engineer for PDO projects and then was assigned to Malaysia (Sarawak) for 4.5 years managing offshore pipeline projects for Shell Malaysia.

Mr. Hamdan Ahmed Hamood Al Shaqsi

Hamdan Al Shaqsi started his career with Petroleum Development Oman in 1980 where he served for 20 years in various senior roles, part of which, he was cross posted to Brunei Shell Petroleum for 3+ yeas as the Asset Management Accountant for Corporate, New Business Development, Marine and Refinery.

In the year 2000 Hamdan joined Oman LNG where he served as the Chief Financial officer, Chairman of the Tender Board and Secretary to the Board of Directors.

In 2007 Hamdan left Oman LNG to be a co-founder, promoter, developer and CEO of, Gulf International Pipe Industry LLC (GIPI), a High Pressure ERW Pipe Mill in Sohar being the very first High-pressure Pipe Mill dedicated to serve the Oil and Gas sector in Oman. Since full divestment of their stake in GIPI during 2012 to TMK, Hamdan has led Golden Dunes International LLC as Shareholder & Chairman with diversified investments in Trading, Oil & Gas Services, Marine, Technology and Real Estate.

Hamdan holds an MBA majoring in Financial Management, ACCA finalist 1989 and is a Certified SAP ERP Consultant on CO module.

Mr. Fazlin Anam
Secretary of the Board

Mr. Fazlin Anam has over twenty-two years of experience in the Legal profession. He graduated from St. Stephens College and has a degree in law from Law Faculty, New Delhi. He worked for seventeen years as an attorney and legal advisor in the Supreme Court of India before joining Galfar in 2012. He was appointed by the Board in the post of Board Secretary in November 2017. The Secretary sends out the invitations for meetings of the board, prepares the topics to be listed in the Agenda, records the minutes of the meetings in detail and follows up the implementation of the resolutions adopted by the Board.

Director's Report

Dear Shareholders,

I am pleased to welcome you all on behalf of the Board of Directors to the Annual General Meeting of Galfar Engineering & Contracting SAOG and present to you the Annual Report for the year ended 31 December 2020.

Overview

The Group's performance during the year 2020 has resulted in net loss of RO 28.3 million in comparison to net loss of RO 6.2 million in the year 2019.

The Parent Company's performance during the year 2020 has resulted in net loss of RO 26.1 million in comparison to loss of RO 20.1 million in the year 2019. The performance was substantially impacted due to the COVID-19 pandemic, related idling of resources and additional costs, time and cost overruns in major projects. Management and Board is confident to collect the long outstanding receivables of RO 42 Million against which provision is created in the books of account, which will result in reversal of these provisions in the near future.

The year 2020 had been very challenging due to spread of COVID-19 infection. However, with concerted timely efforts taken by the organization through awareness videos, posters, campaigns, and vigilant monitoring of our day-to-day business activities, we were successful in containing the spread of COVID-19 within our workforce. Galfar adopted all the measures initiated by the Supreme Committee for Covid Management and aligned itself completely. In addition, Galfar was able to isolate heavily populated camps as and when required to prevent the spread of the virus and protect the health of the people as its first priority.

The objectives were clear to follow the rules being laid down and control the spread of the Virus. At all sites we managed to achieve controlled numbers of cases.

The liquidity issues of the Company continued on account of delay in receipt of certified payment from the Government and its related entities. The unpaid certified receivables were at RO 64 Million at closing of the year. This has impacted ability to do business and has impacted our profitability.

Some claims due to the changes in government legislation and Ministerial decisions, like increase in fuel prices and the minimum wages for National workforce are outstanding. The time taken by some clients and consultants to settle contractual matters and close out contracts has become significantly longer than it was a few years ago. This affects the recovery of retention money, which again affects the cash position. Though the delay in projects close out and the associated payments do not affect our contractual rights, but as per the interpretation of the applicable International Financial Reporting Standards ('IFRS') provisions have to be made for them.

Operations (Parent Company)

During the year 2020, the Parent Company was awarded new contracts worth RO 135 million which includes the Construction of 16" Export Pipeline with Associated Facility from Oman Oil Company for RO 11.5 Million, Rehabilitation project Fahud Runway with PDO for approximate value of RO 9.4 Million, and 'Dualization of Adam / Thumrait Road Project – Part 4' for RO.115 Million. The award of these projects has strengthened the order book of the Company which stands at approximately RO. 376 Million as of Dec 2020. Combined with the Company's restructuring efforts this strong order book presents positive forecast for the company to pass through current economic crisis and to pursue growth, diversification and capability building in the future.

The summary of the financial performance of the company including group companies is as follows:

in RO Millions

Particulars	2020	2019
Total Revenue	208.9	248.8
(Loss) / Profit from operations	(23.2)	(14.7)
(Loss) / Profit for the year after Tax	(28.3)	(6.3)

The Board and management continue to explore avenues to strengthen the company's financial position in a challenging external environment. Measures have been put in place to control the manpower expenses and overhead expenses which are expected to reduce cash outflow and improve the operating financial results going forward. The company has also implemented its turnaround Strategy and will follow it through in 2021.

With the Government in the process of boosting tax revenues with introduction of VAT, the Company is preparing itself to realign its business process.

Omanisation

Galfar prides itself to be the largest employer of national workforce in the private sector and leads in overall Omanization in the construction industry. The Company today employs more than 4000 Omani Nationals and continues to actively recruit, train and retain these employees in technical and managerial cadres.

Corporate Social Responsibility

The Company has contributed to local communities wherever we deliver our projects. In addition, we are active in supporting innovation and safety campaigns throughout the country. The Company procured goods in Oman for RO 37 million and Subcontracts for RO 51 million.

Outlook

Galfar approaches 2021 with an optimistic approach especially as the Company continues to maintain significant order book of jobs in hand at above RO 370 million (FY19: RO 401 million) out of which RO 43 million (FY19: 111 million) is related to oil and gas sector. Through implementation of various strategic objectives in the transformation strategy, the focus is to achieve positive return from this order book which will enhance the company financial position as well as further strengthening it by winning new contracts for each business unit.

Galfar is evaluating various options with regards to financial restructuring in order to improve the financial position and liquidity situation in the company in order to set the Company on a forward- looking path.

On Record

The Directors take this opportunity to thank the customers, shareholders, suppliers, bankers, business partners/associates, financial institutions and the Government of Sultanate of Oman for their consistent support and encouragement to the Company.

On behalf of the Directors, I convey my sincere appreciation to all employees of the Company and its subsidiaries and associates for their hard work and commitment.

Galfar pledges its full loyalty to His Majesty Sultan Haitham bin Tarik and his government in their endeavors to build even further on the outstanding legacy of the late His Majesty Sultan Qaboos bin Said bin Taimour, in the years to come.

Majid Salim Said Al Fannah Al Araimi

Chairman

Corporate Governance Report

Abu Timam
Grant Thornton
An instinct for growth™

25 year anniversary

أبـو تمـام
محاسبون قانونيون

Abu Timam
Chartered Certified Accountants

الطابق الاول الرميلة ١٠٦
ص.ب ٥٧
الرمز البريدي ١١٨
سلطنة عمان

1st Floor Rumaila 106
P.O. Box 57
Postal Code 118
Sultanate of Oman

ت. ٢٤٥٧١٣٢٠ / ٢٤٥٧١٣٢١ ٩٦٨+
ف. ٢٤٥٧١٣٢٤ ٩٦٨+
E: info@om.gt.com
www.grantthornton.om

T +968 24571320, 24571321
F +968 24571324
E-mail: info@om.gt.com
www.grantthornton.om

رقم البطاقة الضريبية : ٨١٢٣٨١٥

Tax Card No. : 8123815

REPORT OF FACTUAL FINDINGS

TO THE SHAREHOLDERS OF GALFAR ENGINEERING & CONTRACTING SAOG

We have performed the procedures agreed with you pursuant to the Capital Market Authority (the "CMA") circular no. E/4/2015 dated 22 July 2015, with respect to the Board of Directors' Corporate Governance Report of Galfar Engineering & Contracting SAOG (the "Company") as at and for the year ended 31 December 2020, and its application of the corporate governance practices in accordance with the CMA Code of Corporate Governance issued under circular No. 4/2015 dated 22 July 2015 and amendments to CMA Code of Corporate Governance issued under circular no. E/10/2016 dated 1 December 2016 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the Company's compliance with the Code as issued by the CMA and are summarized as follows:

1. We obtained the Corporate Governance Report (the "Report") issued by the Board of Directors and checked that the Report includes as a minimum, all items suggested by the CMA to be covered by the Report as detailed in the Annexure 3 of the Code by comparing the Report with such suggested content in Annexure 3; and

2. We obtained the details regarding areas of non-compliance with the Code identified by the Company's Board of Directors for the year ended 31 December 2020. The Company's Board of Directors has not identified any areas of non-compliance with the Code.

We have no exceptions to report in respect of the procedures performed except the following:

1. The Company had convened only one meeting of Nomination and Remuneration Committee during the year instead of two as required by the Code.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the Corporate Governance Report.

Had we performed additional procedures or had we performed an audit or review of the Report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the Board of Directors' Corporate Governance Report included in its annual report for the year ended 31 December 2020 and does not extend to any financial statements of the Company, taken as a whole.

Nasser Al Mugheiry
License No. L1024587
ABU TIMAM
(Chartered Certified Accountants)

أبو تمام محاسبون قانونيون
س.ت رقم: ١٠٩٨٩٧٧
Abu Timam
Grant Thornton
C.R. No. 1098977
Abu Timam - Chartered Certified Accountants

10 March 2021

Corporate Governance Report

Company's Philosophy

Galfar Engineering and Contracting SOAG is committed to good corporate governance and healthy corporate practices. The concept of good governance envisages care of the Company to enhance the value of all its stakeholders by adhering to proper methods of management, internal controls, accountability, corporate governance rules and high level of transparency to the extent of not affecting the competitive position of the Company.

The Company adopts high standards of Corporate Governance and has implemented the principles of the Code of Corporate Governance, promulgated by the Capital Market Authority. Transparency, Accountability, Fairness and Responsibility are the pillars of good Corporate Governance.

Board of Directors

The Board of Directors comprises of 9 members, all of whom are non-executives and five of them are independent. The Directors are well experienced in their diversified professional fields and have given great support to practice good governance, to supervise the performance of the Company's business with the view to ensuring its effectiveness and enhancement of shareholders value.

Mission of Galfar Board is to lead the Company and achieve its objectives, short and long terms strategic plans, besides monitoring the Company's businesses and its operations. In this context the Board gives support to Executive Management, without interfering in their day-to-day works, to perform their duties successfully and properly towards achieving the company's objectives.

No Director is a member of more than 4 joint stock public companies whose shares are listed on the Muscat Securities Market (MSM) and no Director is chairman of more than 2 public companies whose principal office is in the Sultanate of Oman. None of the Directors are members of a Board of a joint stock public or closed company which carries out similar business and whose principal office is in the Sultanate of Oman.

All our employees are guided by code of conduct including Board members and senior management. Code of conduct is featured in Company's web site www.galfar.com. New employees are given induction and trained on code of conduct.

The Board exercises its primary functions and duties in line with the powers stipulated in the Articles of Association of the company and the principles provided for in the Code of Corporate Governance and other relevant laws of Sultanate of Oman. For this purpose, the Board is assisted by various sub committees and the higher executive management of the Company.

Board of Directors

Sr. No	Name of Director / Juristic person he Represents (if any)	Designation	Category	Directorship in Other Joint Stock Companies
1.	Engr. Majid Salim Said Al Fannah Al Araimi	Chairman	Non-Independent Non - Executive	
2.	Engr. Mohiuddin Mohamad Ali	Deputy- Chairman	Non-Independent Non - Executive	Oman Medical College S.A.O.C, Caledonian College of Engineering S.A.O.C, National University of Science & Technology S.A.O.C
3.	Shk. Hassan Mohammed Ahmed Al Nabhani	Director	Independent Non-Executive	None
4.	Mr. Bader Mohamed Rashid Al Araimi	Director	Non-Independent Non - Executive	A'Sharqiya Investment Holdings S.A.O.G, Al Siraj Holdings S.A.O.C
5.	Mr. KalatGhuloom Hassan Al Bulooshi	Director	Independent Non - Executive	Sembcorp Salalah Power and Water Company S.A.O.G Oman Investment Corporation S.A.O.C Khazaen Developmentand Investment Co.S.A.O.C
6.	Mr. Hamdan Ahmed Hamood Al-Shaqsi	Director	Independent Non- Executive	Nama Holding S.A.O.C
7.	Mr. Mohamed Taqi Ibrahim Al Jamalani	Director	Independent Non - Executive	National Life & General Insurance Co.S.A.O.G
8.	Mr. Said Salim Ali Al Hajri	Director	Independent Non - Executive	Oman Shipping Company
9.	Mr. Maqbool Hussein Salih Al Zadjali	Director	Non-Independent Non - Executive	None

Board Meetings:

During the year 2020, the Board held (10) meetings and passed 34 resolutions by circulation. The dates of the meetings and the attendance details are given below:

Sr No	Name of Director	Meeting 01	Meeting 02	Meeting 03	Meeting 04	Meeting 05	Meeting 06	Meeting 07	Meeting 08	Meeting 09	Meeting 10
Sr No	Name of Director	21 Jan 20	27 Feb 20	4 Jun 20	25 Jun 20	28 Jun 20	28 Jul 20	26 Aug 20	23 Sep 20	11 Nov 20	31 Dec 20
1	Engr. Majid Salim Said Al Fannah Al Araimi	X	X	√	√	√	X	√	√	√	√
2	Engr. Mohiuddin Mohamad Ali	√	√	√	√	√	X	√	√	√	X
3	Engr. Salman Rashid Al Fannah Al Araimi	√	√	√	√	NM	NM	NM	NM	NM	NM
4	Mr. Badar Mohamed Rashid Al Araimi	√	√	√	√	√	X	√	X	√	√
5	Engr. Kalat Ghuloom Hassan Al Bulooshi	X	√	√	X	X	√	√	X	√	X
6	Mr. Mohamed Taqi Ibrahim Al Jamalani	√	√	√	√	√	√	√	√	√	√
7	Engr. Said Salim Ali Al Hajri	√	√	√	√	√	√	√	√	√	√
8	Engr. Maqbool Hussein Salih Al Zadjali	√	√	√	√	√	√	√	√	√	√
9	Mr. Hamdan Ahmed Hamood Al Shaqsi	X	√	√	√	√	√	√	√	√	√
10	Sheikh Hassan Al Nabhani	NM	NM	NM	NM	√	X	√	√	X	√

Sub-Committees of the Board:

The following Sub-committees assist and support the Board in carrying out its responsibilities.

Executive Committee (Ex-Com)

The Executive Committee comprises of 4 members. The primary role and responsibilities of the Committee are to Provide strategic direction to the Company by working closely with management to develop and accomplish the Company's objectives, strategies, and performance targets that by way of improving the financial position; Review the annual budget and business plan; Study of Investment Opportunities / Divestment; Setting and monitoring the required supervisory procedures for the performance of all the Company Units from all aspects, and Monitors the performance of all Company's units. The Executive Committee held 4 meetings in 2020. The dates of the meetings and attendance details are given below:

Sr. No.	Committee members	Designation	M1 / 18 Aug	M2 / 31 Aug	M3 / 19 Oct	M4 / 20 Dec
1.	Engr. Majid Salim Said Al Fannah Al Araimi	Chairman	X	√	√	√
2.	Engr. Mohiuddin Mohamad Ali	Member	√	√	√	√
3.	Engr. Kalat Ghuloom Hassan Al Bulooshi	Member	√	√	√	√
4.	Engr. Maqbool Hussein Salih Al Zadjali	Member	√	√	√	√

Audit Committee:

The Audit Committee comprises of 5non-executive members, from which 4 are Independent members. The primary responsibilities and functions of Audit Committee are to provide assistance to the Board of Directors in fulfilling its responsibilities of monitoring and overseeing the adequacy and effectiveness of the internal control systems, procedures, financial reporting process, the effectiveness of the internal audit function and recommends the appointment of the external auditor. In performing its duties, the committee maintains effective working relationships with the board of directors, management, and the external and internal auditors. The Audit Committee held 7 meetings in the year 2020. The dates of the meetings and the attendance details are given below:

Sr. No.	Members of the committee	Designation	M1 / 12-Feb	M2 / 12-Apr	M3 / 1-Jun	M4 / 22-Jun	M5 / 19-Aug	M6 / 16-Sep	M7 / 4-Nov
1.	Mr. Hamdan Ahmed Hamood Al Shaqsi	Chairman	√	√	√	√	√	√	√
2.	Engr. Salman Rashid Al Fannah Al Araimi	Member	√	X	√	X	NM	NM	NM
3.	Mr. Mohamed Taqi Ibrahim Al Jamalani	Member	√	√	√	√	√	√	√
4.	Engr. Said Salim Ali Al Hajri	Member	X	√	√	√	√	X	√
5.	Mr. Bader Mohamed Rashid Al Araimi	Member	√	√	√	√	√	√	√
6.	Sheikh Hassan Ahmed Mohamed Al Nabhani	Member	NM	NM	NM	NM	√	X	√

Human Resource Nomination and Remuneration Committee (HRN&RC):

The Human Resource Nomination and Remuneration Committee (HRN&RC) was formed by the Board in accordance with the requirements of the Code and comprises of 4 members. The Committee scrutinizes the candidates for election and recommends election of the Candidates who fulfill the required criteria and skills to the Board of Directors. It assists the board in selecting the suitable executives to the executive management and oversees the succession planning for such key executives. The HRN&RC Committee held 1meeting in the year 2020. The date of the meeting and the attendance details are given below:

Sr. No.	Members of the Committee	Designation	M1/ 24 June
1	Engr. Said Salim Ali Al Hajri	Chairman	√
2	Engr. Mohiuddin Mohamad Ali	Member	√
3	Shk. Hassan Mohammed Ahmed Al Nabhani	Member	NM
4	Mr. Bader Mohamed Rashid Al Araimi	Member	√

Sitting Fees & Remuneration to the Board of Directors:

The rate of siting fees approved by the shareholders for the year 2020 is OMR 700 per each Board meeting and OMR 400 per each of the sub- committees meeting. The total amount of the sitting fees for board and sub-committee meetings held in 2020 is OMR 72,400

Sr. No	Name of Director & Representative	Sitting Fees OMR	Remuneration	Total OMR
1	Engr. Majid Salim Said Al Fannah Al Araimi	6,100	-	6,100
2	Engr. Mohiuddin Mohamad Ali	8,300	-	8,300
3	Engr. Salman Rashid Al Fannah Al Araimi	3.600	-	3.600
4	Mr. Bader Mohamed Rashid Al Araimi	8.800	-	8.800
5	Engr. Kalat Ghuloom Hassan Al Bulooshi	5,100	-	5,100
6	Mr. Mohamed Taqi Ibrahim Al Jamalani	9,800	-	9,800
7	Engr. Said Salim Ali Al Hajri	9,400	-	9,400
8	Engr. Maqbool Hussein Salih Al Zadjali	8,600	-	8,600
9	Mr. Hamdan Ahmed Hamood Al-Shaqsi	9,100	-	9,100
10	Shk. Hassan Mohammed Ahmed Al Nabhani	3.600	-	3,600
Total				**72,400**

Note: The above sitting fees will be approved in upcoming AGM in 2021.Two Directors have declined to avail the sitting fees amounting to Ro.14,900. Sitting Fees paid in 2020 includes payment towards 2019: RO. 60,300 and for 2020: RO. 57,500.

Annual General Meeting:

The Annual General Meeting for the year 2019 was held on 28 June 2020. The attendance details are given below.

Sr. No.	Name of Director & Representative	Designation	Attendance
1.	Engr. Majid Salim Said Al Fannah Al Araimi	Chairman	√
2.	Engr. Mohiuddin Mohamad Ali	Vice Chairman	√
3.	Engr. Salman Rashid Al Fannah Al Araimi	Director	X
4.	Mr. Bader Mohamed Rashid Al Araimi	Director	√
5.	Engr. Kalat Ghuloom Hassan Al Bulooshi	Director	X
6.	Mr. Mohamed Taqi Ibrahim Al Jamalani	Director	√
7.	Engr. Said Salim Ali Al Hajri	Director	√
8.	Engr. Maqbool Hussein Salih Al Zadjali	Director	√
9.	Mr. Hamdan Ahmed Hamood Al-Shaqsi	Director	√

Corporate Social Responsibility (CSR):

In line with Principal 13 of the code of Corporate Governance, Galfar integrates its business values and operations for boosting up the national economic development of Oman. Galfar supports monetarily and technically, within its capabilities, the surrounding Communities at projects work sites and society at large, protecting the environment and safety of the citizens and striving to meet expectations of all stakeholders.

The Company responded positively to various local community requests for CSR support in areas where we deliver our projects. In addition, we are active in supporting innovation and safety campaigns throughout the country.

Procedure for Standing as a Candidate for the Board:

The Company's Board of Directors comes up for election once in three years. The present board was elected in the Ordinary General Meeting held in 2020. In case any vacancy arises due to resignation of any one of its Board members, it will be filled up temporarily, and will be subject to an election at the next Annual General Meeting.

The right to stand as a candidate for membership of the Board of Directors of the Company is open to shareholders and non-shareholders who satisfy the legal requirements provided for in the Commercial Company Law, the Articles of Associations of the Company and principles of the Code of Corporate Governance.

In case of a shareholder, whether in personal capacity or representing a juristic person, he must have a minimum equity of not less than 10000 shares. Any person who wishes to stand as a candidate for the Board and is eligible for the same as per the regulations as well as the Articles of association, is required to submit the candidacy form as prescribed by CMA. A candidate who stands for election to the Board is elected at the General Meeting by following the procedures laid down in the Commercial Companies Law, and rules and regulations issued by the CMA.

The Company's Legal Advisor reviews the candidates form to ensure that all the required information is recorded and the candidates satisfy all the terms and conditions of the election process.

Key Management Remuneration:

Total remuneration during the financial year 2020 to key Management (top 6) was RO 569,077.

Employment contract

Employment contracts to staff are for a period of one to two years, which is subject to renewal at the time of expiry based on terms and conditions agreed between the parties. Notice period is one month for all positions or salary in lieu thereof.

Non-Compliance:

The Company complies with the principles of Code of Corporate Governance and there were no penalties imposed on the Company in the year 2020.

Compliance with Rules and Regulations:

The Company has been following the applicable rules and regulations issued by MSM, CMA and those stipulated in the Commercial Companies Law and Articles of Association of the Company. The Compliance with Rules and Regulations are monitored and ensured jointly by the Legal & Compliance Department and the Internal Audit Unit in coordination with the other units.

The Company has in place internal regulations and control systems duly approved by the Board which includes Manual of Authority, policies for Whistle blowing, Code of conduct, Related Party Transactions, Revenue Recognition in addition to a Corporate Social Responsibility Policy. The Company follows the disclosure guidelines for Public Listed Companies issued by the Muscat Securities Market.

Communication with Shareholders and Investors:

The Company maintains good communication with shareholders and Investors and responds as much as possible to their queries and requests in line with the disclosures rules.

The Company publishes its un-audited financial results in the newspapers on a quarterly basis and the audited financial statements annually. Detailed financial statements are sent to shareholders on request. The Company posts its quarterly and annual results on MSM website, and also on the Company's website: www.galfar.com. All the Company's announcements are posted on MSM's website.

The Management discussions and analysis report forms an integral part of the Annual Report.

Statement on Market Price and distribution of Holdings:

Market High/Low price during each month of 2020:

Sr. No.	Month	High	Low	Closing
1	Jan-20	0.075	0.067	0.068
2	Feb-20	0.068	0.063	0.064
3	Mar-20	0.064	0.044	0.045
4	Apr-20	0.057	0.044	0.056
5	May-20	-	-	-
6	Jun-20	0.054	0.045	0.046
7	Jul-20	0.049	0.046	0.047
8	Aug-20	0.055	0.047	0.053
9	Sep-20	0.053	0.047	0.048
10	Oct-20	0.049	0.038	0.04
11	Nov-20	0.043	0.039	0.04
12	Dec-20	0.044	0.038	0.041

Distribution of Ownership of Shares shareholders at 2019 (Including Shares preferential voting rights)

Sr. No.	Category	No. of Shareholders	No. of Shares	% of Shareholding
1.	Less than 5%	4,341	141,063,045	33.97
2.	5% to 10%	2	51,442,431	12.39
3.	Above 10%	4	222,710,161	53.64
Total		**4,347**	**415,215,637**	**100.00**

There are no Securities / Convertible Financial Instruments as on the reporting date which will have an impact on the Shareholders' equity.

Profile of the Statutory Auditor

Grant Thornton is a network of independent assurance, tax and advisory firms, made up of over 50,000 people in more than 130 countries, helping dynamic organizations unlock their potential for growth. It is one of the top six international accounting and business advisory networks and all its member firms are required to uphold the highest professional and ethical standards. The compliance with these standards is monitored and assured through a very strict quality assurance process.

Abu Timam, the Oman member firm of Grant Thornton International, is headquartered in Muscat with a branch in Salalah. The Muscat office was established in 1995 and is one of the leading firms in Oman, evidenced by the portfolio of clients that includes well-established companies across a broad spectrum of industries. The professional staff bring a strong background of experience and expertise to their clients' accounting, tax, and management consulting needs. This rare combination of skilled resources and personal commitment explains why Abu Timam Grant Thornton has grown rapidly to a position of prominence among major accounting firms in the Sultanate of Oman. Abu Timam Grant Thornton is approved by the Capital Market Authority as one of the audit firms allowed to audit joint stock companies.

Audit fees of the Company and Subsidiaries:

Audit Fees of Company and Subsidiaries and fees for other services paid to the Auditors for 2020

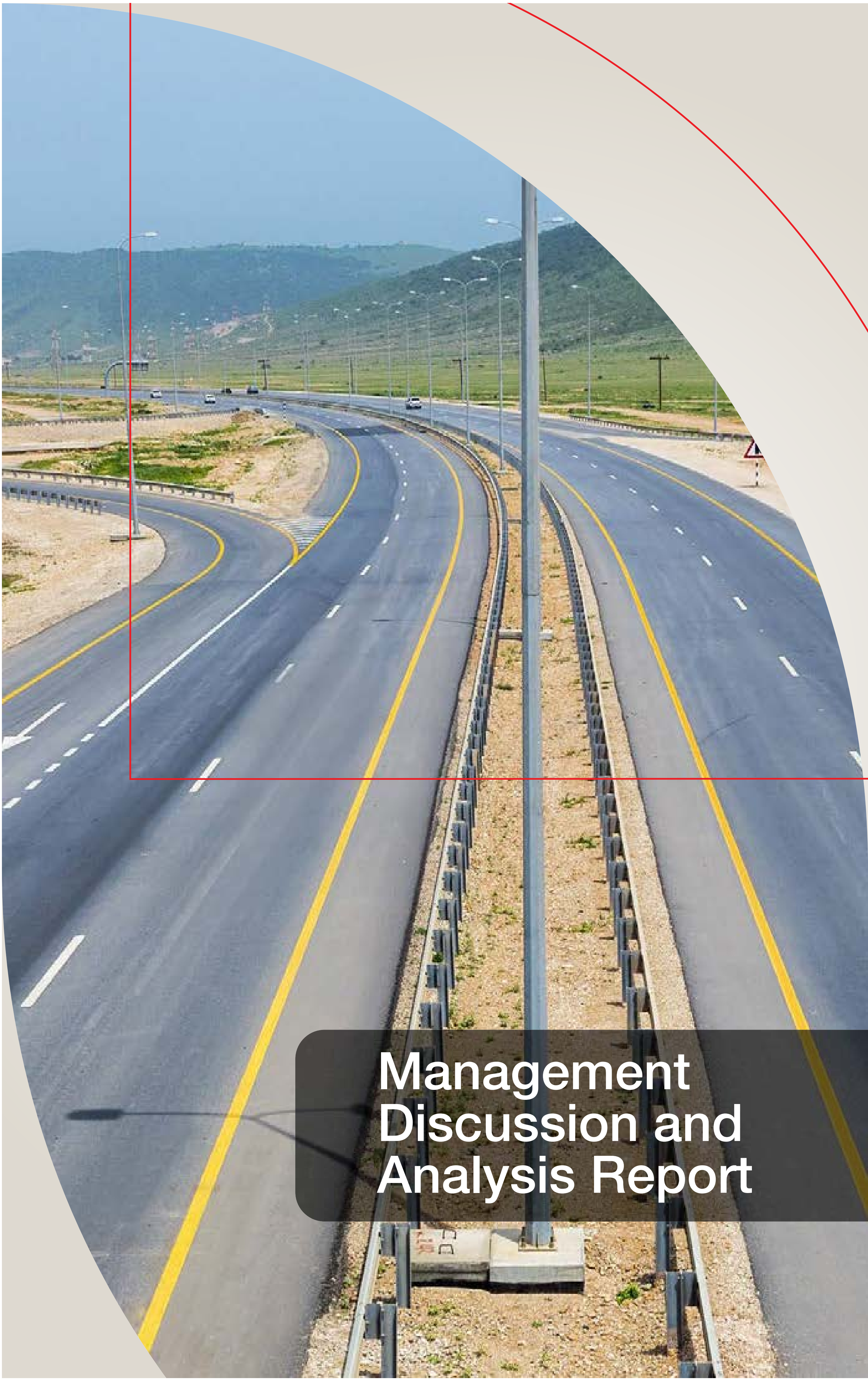
Amount (In RO)

Sr. No.	Particulars	Audit	Others
1.	Galfar Engineering and Contracting SOAG	64,500	13,750
2.	Al Khalij Heavy Equipment & Engineering LLC (Subsidiary)	950	300
3.	Aspire Projects & Services LLC (Subsidiary)	2,500	150
4.	Galfar Aspire Ready-mix LLC (Subsidiary)	2,500	150

The Board of Directors acknowledges the preparation of financial statements in accordance with the applicable standards and rules. The internal control systems of the Company are efficient and adequate and that it complies with internal rules and regulations and there is no material matter that affects the continuation of the Company and its ability to continue its operations during the next financial year.

Majid Salim Said Al Fannah Al Araimi

Chairman



Management Discussion and Analysis Report

Management Discussion and Analysis Report 2020

General Overview

The Sultanate economy, like other oil-exporting countries was largely affected by the global pandemic and the drop in oil prices. The construction industry in the region was facing major challenges prior to the pandemic due to projects decline and stiff competition within the regional market which is over crowded with players. Construction industry in the middle east is operating at one of the lowest construction margins in the world.

The declining credit rating resulted impacted the overall investment environment and resulted in the Country taking corrective measures to ease the economic consequences through a package of measures to maintain financial stability and support the affected sectors. Spending was cut down in development and connectional infrastructure projects.

The 2021 Oman budget prioritizes fiscal balance and economic diversification. It re-emphasizes the government's intention to engage the private sector in achieving sustainable economic and social development and to focus at enhancing non-oil revenues and rationalize public spending leading to fiscal sustainability.

Performance overview in 2020

Galfar initiated various measures to mitigate the impact of Covid-19 and low oil prices and initiated strategic transformations which included Organization restructuring & rationalization of resources, Re-alignment of its business units to market changes, Expanding the addressable market, and took steps for reducing fixed overhead costs. The company launched various project performance initiatives such as its Near-Term Sustainability Program to accelerate identification and implementation of quick win saving ideas, launched its Digitalization Drive towards digital transformation, and introduced Productivity Improvement Programs.

On the financial front Galfar made several adjustments to recognized revenue in few projects, resulting in a lowering of income and increasing its accumulated losses. The Company however managed to generate a positive cash flow during the year. The Company was successful in collecting certain long pending receivables from its clients. This has facilitated to reduce its bank borrowing to record lows. However, there are significant amounts of overdue receivables which yet to be collected especially from Government entities. Asset turnover ratio for the year is also very much improved in comparison to previous periods.

The Group Financial Statements for the year ended 31 December 2020 recorded a Turnover of RO 208.9 m (2019: RO 248.8m) with a loss after tax of RO 28.3m (2019: loss RO 6.3 m). The Parent Company's Turnover for the year ended 2020 was RO 196.9m (2019: RO 231.4m) with a loss after tax of RO 26.1m (2019: loss RO. 20.1m).

The performance of the subsidiaries as at the year ended 2020 are as follows:

Galfar Aspire Ready-mix LLC, which produces ready mix concrete, recorded a turnover of RO 13.8m (2019: RO 19.8 m) with a loss after tax RO1.2m (2019: RO 0.5 m).

Aspire Projects and Services LLC which is a specialized engineering and services company had a turnover of RO 3.9m (2019: RO 7.7 m) with a loss after tax RO 0.9 m (2019: profit RO 0.4 m).

Al Khalij Heavy Equipment & Engineering LLC which specializes in hiring out of equipment had a turnover of RO 1.3 m (2019: RO 1.7 m) and made a profit RO 0.001m (2019: profit RO 0.008 m).

During the year under review the Company has received new orders worth RO 135 Million and additional work within the available contracts worth RO 32m. This has contributed to increase the value of orders on hand as on 31 December 2020 above RO 376 million.

Business Scenario

In order to address the latest challenges and to position Galfar better to serve the market, a "Transformation Strategy" has been put into place to guide Galfar direction and focus in the future. The Operational Units have been reorganized to rationalize resources, to optimize cost, to align with changes in the market and to align with the diversification streams the Country has established as part of its 2040 vision.

Within its new business structure, the Company has four business units to build on Galfar strength and work on opportunities across the business spectrum:

- The Energy & Industrial Business Unit targets to strengthen the company presence in Oil & Gas and expand into opportunities in the wider energy and industrial sectors.
- The Infrastructure Business Unit will continue on Galfar's legacy as a prominent contractor in delivering various infrastructure projects in roads, ports and utilities.
- The Civil & Environmental Business Unit aims at further expansion into civil construction and environmental business opportunities.
- The Investment Unit will manage Galfar investments in subsidiaries and associates and will aim at creating a diversification value stream through carefully targeted investment prospects.

Galfar transformation strategy is launched with six main focus areas and strategic objectives under each of these focus areas. The focus areas include: restructuring & reorganization, efficiency & cost savings, financial & liquidity improvements, diversification & capability, technology & innovation and finally reputation & stakeholders.

Galfar has aligned itself to Oman's Vision 2040 and to ensure that we contribute in ways that would enhance sustainability and improve nationalization as well as provide technological advancement in our chosen fields. This will also enable Galfar to capitalize on its strengths of a vast asset base and infrastructure that the Company is holding.

Quality, Health, Safety and Environment

Galfar consistently maintains a competitive edge through its Management System certifications in compliance with International Standards ISO 9001: 2015 & ISO/TS 29001:2010 for Quality Management System, OHSAS 18001:2007 for Occupational Health & Safety Management System and ISO 14001:2015 for Environment Management System, which has given Galfar a distinctive recognition in the Industry.

Galfar's HSE performance for the year 2020 have been impressive with Lost Time Injury Frequency 0.17 against the set limit of 0.22 and Road Traffic Accident Frequent of 2.07 against the set limit of 2.20, despite the high exposure of 64.34 million-man hours worked and 57.91 million kilometers driven and other challenges we have faced in our work environment.

The year 2020 had been very challenging due to spread of COVID-19 infection. However, with concerted timely efforts taken by the organization through awareness videos, posters, campaigns, and vigilant monitoring of our day-to-day business activities, we were successful in containing the spread of COVID-19 within our workforce.

Challenging and realistic QHSE Performance Indicators are set for the year 2021 to enable continual improvement of our Business Processes. Migration and certification of our Occupational Health & Safety Management to the new International Standard ISO 45001:2018 during this year will imbibe new confidence in our Business Stakeholders.

Human Capital

As part of its reorganization the Human Resources unit was reorganized as Human Capital to emphasize on our human capital and the pivotal role it plays in Galfar Transformation. Galfar is committed to developing its resource and maintaining its Omanization targets. Galfar aims to accomplish employee development through transparent and harmonious human capital policies, maintain a motivating work environment and retain talent. Our goal is to be seen as one of the leading employers offering satisfying career opportunities and an environment that thrives with dedication, creativity and innovation.

Despite the business turndown Galfar continued its uncompromised commitment to employment of nationals. In 2020 Galfar recruited close to 100 Omanis that were engaged through training for employment contracts. These recruitments included 9 senior and middle management staff and other technical categories. With more than 4000 nationals Galfar prides itself to be the largest employer of national workforce in the private sector and leads in overall Omanization in the construction industry.

Galfar outlook for 2020

Galfar approaches 2021 with an optimistic approach especially as the Company continues to maintain significant order book of jobs in hand at above RO 370 million. Through implementation of various strategic objectives in the transformation strategy, the focus is to achieve positive return from this order book which will enhance the company financial position as well as further strengthening it by winning new contracts for each business unit.

Galfar is evaluating various options with regards to financial restructuring in order to improve the financial position and liquidity situation in the company in order to set the Company on a forward looking path.

Risks

As the risks have increased multifold, with the economic implication of the ongoing Covid-19 pandemic risk still looming large the construction sector faces the risk of higher cost of capital and increasingly difficult access to working capital in the future.

The delay in receipt of payment for major projects which has led to significant unpaid certified receivables which further increased since the beginning of 2020.

Galfar has a strong confirmed order book paired with a positive business development pipeline. However, an increasingly difficult macroeconomic context could cause clients to slow down or even stop ongoing projects and delay award of new projects.

The profitable delivery of projects relies on the right talent. Higher salaries in other countries in the Arabian Peninsula are driving away expatriate workforce and pose a risk to Galfar operations. At the same time, the construction sector is struggling in attracting experienced Omani nationals.

To mitigate risks, the Company is actively involved in risk management and impact of events on project progress is reviewed frequently.

Our gratitude and commitment

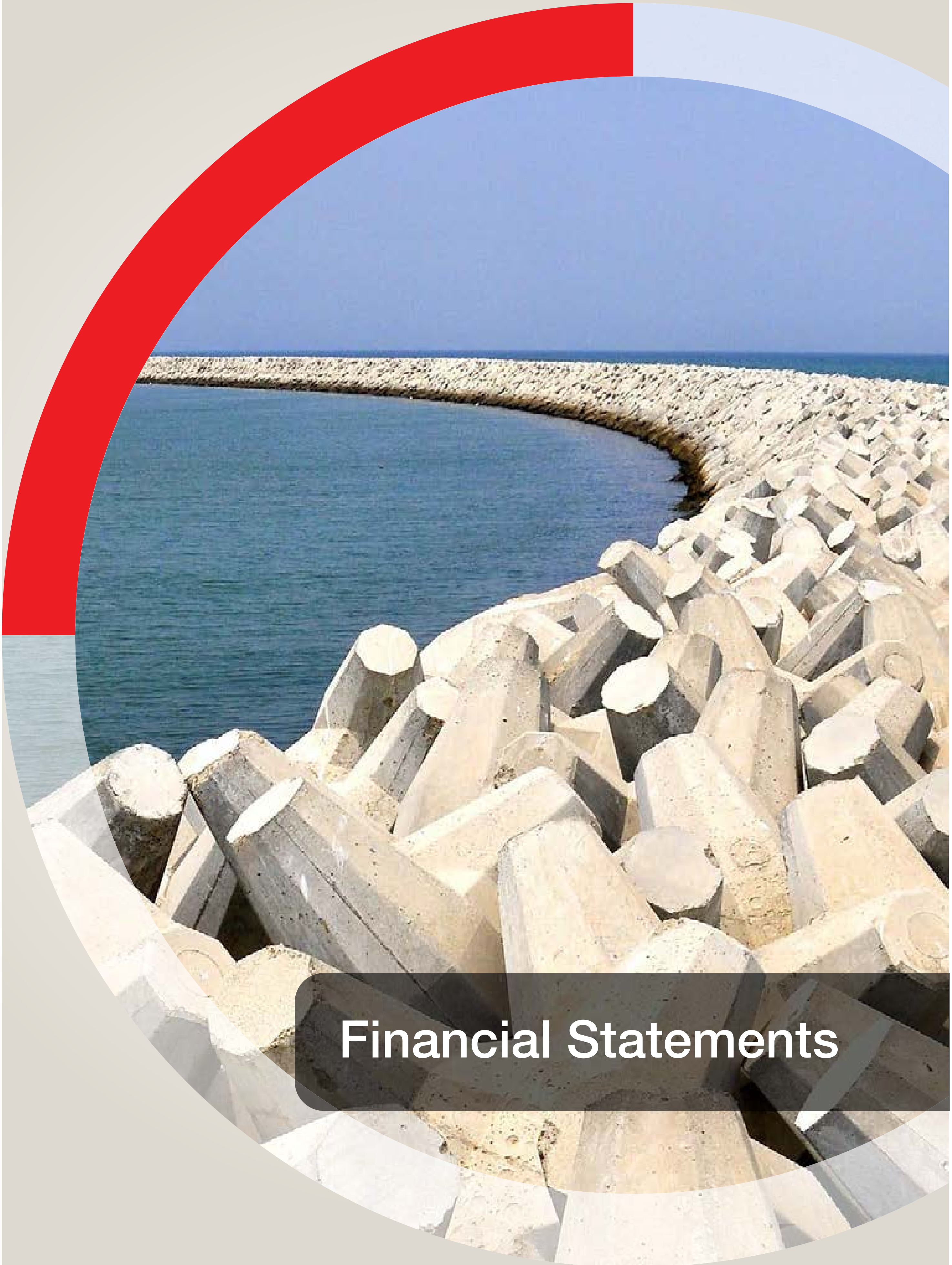
Galfar take this opportunity to thank all its stakeholders, customers, shareholders, suppliers, bankers, business partners/associates, financial institutions and the Government of Sultanate of Oman for their consistent support and encouragement to the Company.

On behalf of Galfar, the Management Team convey their sincere appreciation to all employees of the Company and its subsidiaries and associates for their hard work and commitment. Their dedication and competence have ensured that the Company continues to be a significant and leading player in the contracting industry.

Galfar pledges its full loyalty to His Majesty Sultan Haitham bin Tarik and his government in their endeavors to build even further on the outstanding legacy of the late His Majesty Sultan Qaboos bin Said bin Taimour, in the years to come.

Hamoud Rashid Al Tobi

Chief Executive Officer



Financial Statements

أبــو تمــام
محاسبون قانونيون
Abu Timam
Chartered Certified Accountants

الطابق الاول الرميلة ١٠٦
ص.ب ٥٧
الرمز البريدي ١١٨
سلطنة عمان
1st Floor Rumaila 106
P.O. Box 57
Postal Code 118
Sultanate of Oman

ت. ٢٤٥٧١٣٢٠ / ٢٤٥٧١٣٢١ ٩٦٨+
ف. ٢٤٥٧١٣٢٤ ٩٦٨+
E: info@om.gt.com
www.grantthornton.om
T +968 24571320, 24571321
F +968 24571324
E-mail: info@om.gt.com
www.grantthornton.om

رقم البطاقة الضريبية : ٨١٢٣٨١٥
Tax Card No. : 8123815

Independent Auditor's Report

To the Shareholders of
Galfar Engineering and Contracting SAOG
P.O. Box 533
Postal Code 113
Sultanate of Oman

Report on the Audit of the Separate and Consolidated Financial Statements

Qualified Opinion

We have audited the separate and consolidated financial statements (the "financial statements") of Galfar Engineering and Contracting SAOG (the "Parent Company") and its subsidiaries (together, the "Group"), which comprise the statement of financial position as at 31 December 2020, 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.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Parent Company and the Group as at 31 December 2020, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

The Parent Company's sundry creditors as of the previous year ended 31 December 2019 were carried in the statement of financial position at RO 45,219 thousand for which the predecessor auditor issued a disclaimer of opinion as they were unable to obtain sufficient appropriate audit evidence on the carrying value of sundry creditors as at that date. Since the opening balance of sundry creditors affects the determination of the contract costs, contract revenue and contract work in progress, we were unable to determine whether any adjustments might have been necessary to the results of operations and opening accumulated losses for the year ended 31 December 2020. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

Abu Timam
Grant Thornton

Independent Auditor's Report (continued)

Basis for Qualified Opinion (continued)

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.

Material Uncertainty Related to Going Concern

Note 2.4 of the financial statements, indicates that the Parent Company and the Group have incurred gross loss of RO 16,025 thousand and RO 16,536 thousand, respectively, and net loss of RO 26,111 thousand and RO 28,268 thousand, respectively, for the year ended 31 December 2020. Further, as of that date, the current liabilities of the Parent Company and the Group exceed their current assets by RO 4,415 thousand and RO 1,998 thousand, respectively, and the Parent Company and the Group have accumulated losses of RO 55,063 thousand and RO 53,965 thousand, respectively. It further describes the measures implemented by the Group's management to improve its financial position and the grounds on which the financial statements have been prepared on a going concern basis. However, these measures are highly dependent on timely execution of the ongoing projects, certification of billed receivables and settlement of contract and trade receivables from projects, the majority of which are from Government or Government related entities and settlement of payment terms with the banks as disclosed in Note 19 of the financial statements. These factors indicate that a material uncertainty exists that may cast significant doubt on the Parent Company's and the Group's ability to continue as a going concern should the measures implemented not achieve a successful outcome. Our opinion is not further modified in respect of this matter.

Emphasis of Matter

We draw attention to Note 37.3 of the financial statements, which states that during prior years, the Capital Market Authority (CMA) had carried out certain investigative audits relating to certain of the Group's transactions for the years from 2010 to 2014. Management has informed us that as of date, based on the draft investigation audit reports received from independent auditor appointed by the CMA, management has taken corrective actions and had filed responses to the clarifications sought by the CMA. Management has informed that no adjustment to the financial statements in respect of such years is anticipated and the Group has not yet received any further communication from the CMA in respect of this matter. 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 year. 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. In addition to the matters described in the *Basis for Qualified Opinion, Material Uncertainty Related to Going Concern* and *Emphasis of Matter* sections of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. For each matter below, our description of how our audit addressed the matter is provided in that context.

Independent Auditor's Report (continued)

Key Audit Matters (continued)

We have determined the matters described below to be the key audit matters to be communicated in our report:

Key audit matter	How our audit addressed the key audit matter
Revenue recognition on construction contracts involves significant judgement	
Refer to accounting policies for the financial statements and Note 27. Revenue from construction contracts for the year ended 31 December 2020 amounts to RO 194,933 thousand, and as at that date, contract and trade receivables amounts to RO 122,283 thousand and contract work in progress amounts to RO 35,195 thousand. For all the contracts, the Group recognises revenue over time and measures the progress based on the input method by considering proportion of contract costs incurred for the work performed to the balance sheet date, relative to the estimated total forecasted costs of the contracts upto the completion. The recognition of revenue and profit/loss therefore depends upon estimates in relation to the forecasts of total costs of each contract. Cost contingencies may also be included in these estimates to take account of specific provisions arising within each contract. These contingencies are reviewed by the Group on a regular basis throughout the contract life and amounts are re-estimated, until the outcome of the contract is known. The revenue on contracts may also include variations, which fall under either the variable consideration or contract modification requirements of IFRS 15 *'Revenue from Contracts with Customers'*. These are recognised on a contract-by-contract basis when evidence supports that the contract modification is enforceable or when variable consideration is highly probable that a significant reversal in the amount of revenue recognised will not occur. The effect of these matters is that, as part of our risk assessment, we determined that contract revenue and other related contract balances have a risk of estimation uncertainty.	Our procedures included, among others: • Obtaining an understanding of the project execution processes and relevant controls relating to the accounting for customer contracts; • For the revenue recognized throughout the year, we tested the key controls, including results reviews by management, for their operating effectiveness and performed procedures to gain sufficient appropriate audit evidence on the accuracy of the accounting for customer contracts and related financial statement captions; • These procedures included reading significant new contracts to understand the terms and conditions and their impact on revenue recognition. We performed enquiries with management to understand their project risk assessments and inspected meeting minutes from project reviews performed by management to identify relevant changes in their assessments and estimates. We challenged these estimates and judgments made for over the time projects including comparing estimated project financials between reporting periods and assessed the historical accuracy of these estimates; • Analysing the end of job forecasts on contracts selected and challenging the estimates within the forecasts by considering the amounts already procured, the amounts still to be procured, the site and time related cost forecasts against programme and run rates, and any contingency held; • On a sample basis, we reconciled revenue to the supporting documentation, validated estimates of costs to complete, tested the mathematical accuracy of calculations and the adequacy of project accounting. We also examined costs included within contract assets on a sample basis by verifying the amounts back to source documentation and tested their recoverability through comparing the net realizable values as per the agreements with estimated costs to complete; and • Considered appropriateness of the disclosures in the financial statements in accordance with the relevant requirements of IFRSs.

Abu Timam
Grant Thornton

Independent Auditor's Report (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Impairment of contract receivables and work in progress</td><td></td></tr>
<tr><td>Refer to accounting policies for the financial statements and Notes 9 and 10.

Contract work in progress and contract and trade receivables are significant to the Group as of 31 December 2020. 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, and 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 2.2 of the financial statements. Specific factors considered by management included:

• 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; and
• expectations of timing of collectability and any other available information concerning the creditworthiness of counterparties.

Management uses this information to determine whether a provision for impairment is required for a specific transaction for each customer's balance.</td><td>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:
• We obtained contract receivables balance confirmations;
• We analysed the aging of contract receivables and work in progress;
• We obtained a list of long outstanding receivables and assessed the recoverability of these through inquiry with management and by obtaining sufficient corroborative evidence to support the conclusions;
• Reviewed the appropriateness of the assumptions used (future and historical), the methodology and policies applied to assess the expected credit losses in respect of financial assets of the Group. Reviewed the working of Management for expected credit losses; and
• Considered appropriateness of the disclosures in the financial statements in accordance with the relevant requirements of IFRSs.</td></tr>
</table>

Abu Timam
Grant Thornton

Independent Auditor's Report (continued)

Other Matter

The financial statements of the Parent Company and the Group for the year ended 31 December 2019, were audited by another auditor who expressed a disclaimer of opinion on those statements on 7 June 2020.

Other Information

Management is responsible for other information. The other information comprises the Chairman's Report, Management Discussion and Analysis Report and Corporate Governance Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do 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 this auditor's report, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard, except for the possible effects of matter described in the *Basis for Qualified Opinion* section of our report.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, with the relevant disclosure requirements of the Capital Market Authority and with the applicable provisions of the Commercial Companies Law, 2019 of the Sultanate of Oman, and for such internal control as management 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, management is 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 management 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 (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 the purpose of 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 management'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.

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.

Abu Timam
Grant Thornton

Independent Auditor's Report (continued)

Report on Other Legal and Regulatory Requirements

In our opinion, the financial statements as of and for the year ended 31 December 2020 comply, in all material respects, with the relevant disclosure requirements of the Capital Market Authority and the Commercial Companies Law, 2019 of the Sultanate of Oman.

We further report that, the Parent Company has lost more than 50% of its share capital as at the reporting date. This has resulted in the application of Article 147 of the Commercial Companies Law, 2019 of the Sultanate of Oman, which requires the Board of Directors of the Parent Company to convene an extraordinary general meeting, within 30 days from the date when the aforementioned loss is ascertained by the Board of Directors, for adopting the necessary resolutions for remedying the causes which led to such losses and restore the Parent Company to the status of profitability.

Nasser Al Mugheiry
Licence No. L1024587
ABU TIMAM
(Chartered Certified Accountants)

أبو تمام محاسبون قانونيون
س.ت رقم: ١٠٩٨٩٧٧
Abu Timam
Grant Thornton
C.R. No. 1098977
Abu Timam - Chartered Certified Accountants

10 March 2021

Statement of Financial Position

As at 31 December 2020

Amount in RO'000s

	Notes	Parent Company 2020	Parent Company 2019	Consolidated 2020	Consolidated 2019
ASSETS					
Non-current assets					
Property, plant and equipment	3	**30,857**	41,313	**35,922**	47,032
Intangible assets	4	**340**	283	**372**	294
Right-of-use assets	5	**801**	1,439	**1,104**	1,862
Investment in subsidiaries	6	**3,923**	3,923	**-**	-
Investment in associates	7	**5,466**	5,466	**5,099**	4,943
Investments at fair value through other		**125**	125	**145**	145
comprehensive income	10	**11,060**	8,042	**11,060**	8,042
Retentions receivables		**52,572**	60,591	**53,702**	62,318
Current assets					
Inventories	8	**10,349**	9,034	**12,417**	10,712
Contract work in progress	9	**34,157**	56,486	**35,195**	57,466
Contract and trade receivables	10	**116,530**	133,880	**122,283**	141,105
Advances, prepayments and other receivables	11	**16,833**	25,222	**15,606**	26,255
Deposits with banks	12	**2,311**	2,307	**2,420**	2,329
Cash and bank balances	13	**2,537**	2,538	**4,370**	4,246
		182,717	229,467	**192,291**	242,113
Total assets		**235,289**	290,058	**245,993**	304,431
EQUITY AND LIABILITIES					
Equity					
Share capital	14	**41,522**	41,522	**41,522**	41,522
Share premium	15	**18,337**	18,337	**18,337**	18,337
Statutory reserve	16	**13,840**	13,840	**14,427**	14,426
Foreign currency translation reserve	17	**-**	-	**(338)**	(320)
Accumulated losses		**(55,063)**	(28,952)	**(53,965)**	(25,695)
Equity attributable to owners of the Parent Company		**18,636**	44,747	**19,983**	48,270
Non-controlling interest		**-**	-	**907**	906
Total equity		**18,636**	44,747	**20,890**	49,176
Non-current liabilities					
Term loans	19	**10,732**	11,321	**10,819**	11,713
Lease liabilities	20	**319**	850	**948**	1,288
Employees' end of service benefits	24	**12,940**	14,818	**13,154**	15,020
Advance from customers	25	**5,530**	7,411	**5,530**	7,411
Deferred tax liability	26	**-**	-	**363**	323
		29,521	34,400	**30,814**	35,755
Current liabilities					
Term loans - current portion	19	**8,746**	13,711	**9,050**	14,418
Lease liabilities - current portion	20	**527**	467	**886**	644
Short term loans	21	**27,896**	27,050	**27,896**	27,050
Bank borrowings	22	**10,069**	34,204	**10,069**	34,261
Trade payables	23	**70,798**	69,627	**79,412**	79,815
Other payables and provisions	25	**67,756**	64,450	**65,548**	61,804
Provision for taxation	26	**1,340**	1,402	**1,428**	1,508
		187,132	210,911	**194,289**	219,500
Total liabilities		**216,653**	245,311	**225,103**	255,255
Total equity and liabilities		**235,289**	290,058	**245,993**	304,431
Net assets per share (RO)	35	**0.045**	0.108	**0.048**	0.116

The accompanying notes 1 to 41 forms an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 10 March 2021 and were signed on its behalf by:

Vice Chairman **Chief Financial Officer**

The report of the Auditor is set forth on page 25.

Statement of comprehensive income

For the year ended 31 December 2020

Amount in RO '000s

	Notes	Parent Company 2020	Parent Company 2019	Consolidated 2020	Consolidated 2019
Contract revenue	27	**194,075**	227,361	**194,933**	229,095
Sales and services income	28	**2,865**	4,027	**13,989**	19,713
Total revenue		**196,940**	231,388	**208,922**	248,808
Cost of contracts and services	30	**(212,965)**	(224,172)	**(225,458)**	(239,842)
Gross (loss)/profit		**(16,025)**	7,216	**(16,536)**	8,966
Other income	29	**3,779**	2,510	**4,010**	2,581
General and administrative expenses	31	**(6,018)**	(6,517)	**(7,582)**	(8,136)
Provision for impairment of receivables and other current assets, net	9, 10,11 and 12	**(2,860)**	(17,756)	**(3,073)**	(18,146)
Impairment loss on investment in a subsidiary	5, 6	**-**	(149)	**-**	-
Finance costs, net	33	**(4,987)**	(6,670)	**(5,173)**	(6,846)
Share of profit from associates	7	**-**	-	**174**	167
Loss before tax		**(26,111)**	(21,366)	**(28,180)**	(21,414)
Income tax expense	26	**-**	(48)	**(88)**	(95)
Loss for the year from continuing operations		**(26,111)**	(21,414)	**(28,268)**	(21,509)
Discontinued operations					
Profit on sale of Investments, net of tax	6A	**-**	1,265	**-**	15,215
Loss for the year		**(26,111)**	(20,149)	**(28,268)**	(6,294)
Attributable to:					
Owners of the Parent Company		**(26,111)**	(20,149)	**(28,269)**	(6,298)
Non-controlling interest		**-**	-	**1**	4
		(26,111)	(20,149)	**(28,268)**	(6,294)
Other comprehensive (loss)/income					
Items that will be reclassified subsequently to profit or loss:					
Foreign currency translation reserve on remeasurement of foreign operations		**-**	-	**(18)**	-
Foreign currency translation reserve reclassified to profit or loss on disposal of foreign operations		**-**	-	**-**	2,578
Total comprehensive loss for the year		**(26,111)**	(20,149)	**(28,286)**	(3,716)
Loss per share for the year (RO)	34	**(0.063)**	(0.055)	**(0.068)**	(0.052)

The accompanying notes 1 to 41 forms an integral part of these financial statements.

The report of the Auditor is set forth on page 25.

Statement of changes in equity - Parent Company

For the year ended 31 December 2020

Amount in RO '000s

	Share capital	Share premium	Statutory reserve	Accumulated losses	Total
Balance as at 1 January 2019	41,522	18,337	13,840	(8,803)	64,896
Total comprehensive loss for the year	-	-	-	(20,149)	(20,149)
Balance as at 31 December 2019	**41,522**	**18,337**	**13,840**	**(28,952)**	**44,747**
Balance as at 1 January 2020	**41,522**	**18,337**	**13,840**	**(28,952)**	**44,747**
Total comprehensive loss for the period	**-**	**-**	**-**	**(26,111)**	**(26,111)**
Balance as at 31 December 2020	**41,522**	**18,337**	**13,840**	**(55,063)**	**18,636**

Statement of changes in equity - consolidated

For the year ended 31 December 2020

Amount in RO '000s

	Attributable to owners of the Parent Company								
	Share capital	**Share premium**	**Statutory reserve**	**Foreign currency translation reserve**	**Accumulated losses**	**Reserve of disposal group held for sale**	**Total**	**Non controlling interest**	**Grand total**
Balance as at 1 January 2019	41,522	18,337	14,425	(332)	(19,396)	(2,566)	51,990	902	52,892
Loss for the year	-	-	-	-	(6,298)	-	(6,298)	4	(6,294)
Other comprehensive income	-	-	-	12	-	2,566	2,578	-	2,578
Total comprehensive income for the period	-	-	-	12	(6,298)	2,566	(3,720)	4	(3,716)
Foreign currency translation reserve	-	-	1	-	(1)	-	-	-	-
Balance as at 31 December 2019	41,522	18,337	14,426	(320)	(25,695)	-	48,270	906	49,176
Balance as at 1 January 2020	41,522	18,337	14,426	(320)	(25,695)	-	48,270	906	49,176
Loss for the period	-	-	-	-	(28,269)	-	(28,269)	1	28,268)
Transfer to statutory reserve	-	-	1	-	(1)	-	-	-	-
Other comprehensive income	-	-	-	(18)	-	-	(18)	-	(18)
Total comprehensive income for the year	-	-	1	(18)	(28,270)	-	(28,287)	1	(28,286)
Balance as at 31 December 2020	**41,522**	**18,337**	**14,427**	**(338)**	**(53,965)**	**-**	**19,983**	**907**	**20,890**

The accompanying notes 1 to 41 forms an integral part of these financial statements.

The report of the Auditor is set forth on page 25.

Statement of cash flows

For the year ended 31 December 2020

	Notes	Parent Company 2020	Parent Company 2019	Consolidated 2020	Consolidated 2019
				Amount in RO '000s	
Operating activities					
Loss before tax from operations		**(26,111)**	(21,366)	**(28,180)**	(21,414)
Adjustments for:					
Depreciation on property, plant and equipment	3	**11,524**	13,039	**12,903**	14,487
Amortisation of intangible assets	4	**77**	78	**87**	86
Depreciation on right of use assets	5	**824**	579	**943**	684
Finance costs, net	33	**4,987**	6,670	**5,173**	6,846
Share of profit from associates	7	**-**	-	**(174)**	(167)
Gain on disposal of plant and equipment		**(465)**	(1,608)	**(526)**	(1,636)
Impairment loss for investment in subsidiaries & associates	6	**-**	149	**-**	-
Provision for employees' end of service benefits	24	**2,033**	1,890	**2,089**	1,971
Working capital movements:					
Inventories		**(1,315)**	63	**(1,705)**	(569)
Contract, trade and other receivables		**48,068**	60,465	**51,742**	62,834
Trade payables, other payables and provisions		**4,676**	(17,516)	**3,401**	(19,234)
Non-current operating assets/liabilities changes:					
Retention receivables		**(3,018)**	5,931	**(3,018)**	5,931
Advance payable		**(1,881)**	3,441	**(1,881)**	3,441
Employees' end of service benefits paid		**(3,911)**	(1,683)	**(3,960)**	(1,700)
Income tax paid		**(62)**	(898)	**(128)**	(1,066)
Net cash generated from operating activities		**35,426**	49,234	**36,766**	50,494
Investing activities					
Purchase of property, plant and equipment	3	**(1,090)**	(1,793)	**(1,844)**	(2,679)
Disposal of property, plant and equipment		**487**	1,738	**577**	1,964
Purchase of intangible assets	4	**(134)**	(181)	**(165)**	(189)
Investment (in)/disposal of associates and subsidiaries		**-**	1,720	**(18)**	1,732
Bank deposits		**(459)**	1,350	**(546)**	1,351
Interest income		**-**	278	**-**	278
Net cash (used in)/generated from investing activities		**(1,196)**	3,112	**(1,996)**	2,457
Financing activities					
Repayment of term loans		**(14,764)**	(30,924)	**(14,804)**	(31,927)
Proceeds from term loans		**9,210**	1,000	**9,210**	1,304
Repayment of short term loans		**(43,454)**	(56,700)	**(43,454)**	(56,700)
Proceeds from short term loans		**44,300**	54,500	**44,300**	54,500
Net movement in bank borrowings		**(21,959)**	(8,377)	**(21,959)**	(8,377)
Lease payaments		**(856)**	(693)	**(988)**	(823)
Interest paid		**(4,987)**	(6,948)	**(5,173)**	(7,124)
Net cash used in financing activities		**(32,510)**	(48,142)	**(32,868)**	(49,147)
Net increase in cash and cash equivalents		**1,720**	4,204	**1,902**	3,804
Cash and cash equivalents at the beginning of the year		**(5)**	(4,209)	**1,646**	(2,158)
Cash and cash equivalents at the end of the year	13	**1,715**	(5)	**3,548**	1,646

The accompanying notes 1 to 41 forms an integral part of these financial statements.

The report of the Auditor is set forth on page 25.

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, 2019 and listed on Muscat Securities Market.

The principal activities of Galfar Engineering & 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, HVAC, ready-mix concrete production and sale, plumbing and maintenance contracts.

2. Significant accounting policies

(2.1) Basis of preparation and presentation

The financial The financial statements have been presented separately for Parent Company on a standalone basis and consolidated which comprise the Parent Company and its subsidiaries (together the "Group"). These are collectively referred to as "the financial statements".

The financial statements have been prepared on the historic cost basis, except for investments at fair value through other comprehensive income that have been measured at fair value. These financial statements have been prepared in accordance with International Financial Reporting Standards "IFRSs" as issued by the International Accounting Standards Board (IASB) and the requirements of the Commercial Companies Law of the Sultanate of Oman, 2019 and the Capital Market Authority.

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

Coronavirus (COVID-19) impact

Background

COVID-19, as well as measures to slow the spread of the virus, have a significant impact on global market. The group has considered the impact of COVID-19 and other market volatility in preparing its separate and consolidated financial statements. The impact of COVID-19 resulted in the application of further judgement other than those disclosed in notes 2 and 41. Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods.

Impact of COVID-19 on the macro-economic outlook

Forward looking information, including the impact of downgrade of Oman's rating by international rating agencies, has been considered for the calculation of expected credit losses (ECL). Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of how COVID-19 and its social and economic consequences will flow, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

Processes applied

As a consequence of COVID-19 and in preparing these financial statements, management:

- re-evaluated whether there were any additional areas of judgement or estimation uncertainty beyond what has been disclosed above;
- updated its economic outlook;
- reviewed external market communications to identify other COVID-19 related impacts;

2. Significant accounting policies (continued)

(2.1) Basis of preparation and presentation (continued)

Coronavirus (COVID-19) impact (continued)

Processes applied (continued)

- assessed the carrying values of its assets and liabilities and determined the impact thereon as a result of market inputs and variables impacted by COVID-19; and
- considered the impact of COVID-19 on the financial statements disclosures.

Consideration of the financial statements and further disclosures

Key financial statements line items and related disclosures that have been impacted by COVID-19 were as follows:

Construction revenue

Given recent market volatility and disturbance in project construction, the Group reviewed the appropriateness of their cost to complete (CTC) assumptions, which included the time required to complete the project, material price volatilities and manpower availability and costs. The impact of change in CTC assumptions had significant impact on the recognition of construction revenue.

Expected credit loss (ECL) on financial assets (Contract billed receivable and contract work-in-progress)

In response to COVID-19 the Group undertook a review of its customers' credit portfolios and the related ECL. The review considered the macroeconomic outlook, client and customer credit quality, the type of collateral held, exposure at default and the impact of downgrade of Oman's rating by international agencies. While these model inputs including forward- looking information were revised, the ECL models, significant increase in credit risk thresholds, and definitions of default remain consistent with prior periods.

(2.2) Significant accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(2.3) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

a) Expected to be realised or intended to sold or consumed in the normal operating cycle;

b) Held primarily for the purpose of trading;

c) Expected to be realised within twelve months after the reporting period; or

d) Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

2. Significant accounting policies (continued)

(2.3) Current versus non-current classification (continued)

All other assets are classified as non-current.

A liability is current when:

a) It is expected to be settled in the normal operating cycle;
b) It is held primarily for the purpose of trading;
c) It is due to be settled within twelve months after the reporting period; or
d) There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(2.4) Going concern

These financial statements have been prepared on a going concern basis, which contemplates the continuity of normal activities and realisation of assets and settlement of liabilities in the normal course of business. The Parent Company and the Group has incurred a gross loss of RO 16,025 thousand and RO 16,536 thousand, respectively, and net loss of RO 26,111 thousand and RO 28,268 thousand respectively for the year ended 31 December 2020 and as of that date the Parent Company and the Group has accumulated losses position of RO 55,063 thousand and RO 53,965 thousand respectively. Also, as at that date, the current liabilities of the Parent Company and the Group exceed their current assets by RO 4,415 thousand and RO 1,998 thousand, respectively. Furthermore, there were delays in project completion/expected completion date due to disturbance of construction work because of Covid-19. These financial statements have been prepared on a going concern basis as a result of the following:

- The Parent Company has prepared a detailed cash flow demonstrating how it will manage the cash requirements in 2021. The inflows from the closed and ongoing projects are sufficient to take care of the cash requirements of those projects till completion. However, the projected cash flows are highly dependent of timely execution of ongoing projects, timely certification of billed receivables and timely settlement of receivables from the clients, the majority of which are from Government or Government related entities amounting to RO 97,925 thousand;
- During the year 2021, the Parent Company expects realisation of old receivables and estimates that there is sufficient cash flow to continue the business without 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. The Parent Company continues to have multiple avenues for raising both short term and long-term financing. Further, the Parent Company regularly pays its employees and creditors and has not defaulted in any tax payment;
- The Parent Company continues to build on its market position as one of the Oman's largest construction entity and having a strong order book at RO 376 million (2019: RO 340 million) and has worked to ensure that tendering activity adequately addresses potential risk associated with non-payment;

2. Significant accounting policies (continued)

(2.4) Going concern (continued)

- The Board of Directors have taken necessary measures to strengthen the financial position of the Group and also to improve the Group's profitability in coming years. In addition to the initiatives set out in above, the Directors/management 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 to improve cost control have been launched; and
- The Parent Company has created adequate provisions against certain long outstanding receivables and is confident that the majority of the receivables will get realised in the year 2021 resulting in improved bottom line and cash flow scenario.

The above coupled with the investor and market confidence restored by way of additional projects being awarded to the Parent Company as of 2020 has allowed the management to view the Parent Company / the Group as a going concern and is satisfied that the Parent Company / the Group has the resources to continue in business for the foreseeable future. Therefore, these financial statements are continued to be prepared on a going concern basis.

(2.5) Change in accounting policies and disclosures New and amended standards

Number of new and revised standards are effective for annual periods beginning on or after 1 January 2020. These standards are presented below.

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to Refences to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

The above standards do not have any material impact on the financial statements.

(2.6) Standards issued but not yet effective

At the date of authorization of these consolidated financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

(2.7) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at 31 December 2020. 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:

2. Significant accounting policies (continued)

(2.7) Basis of consolidation (continued)

- 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.

The Group reassesses 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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiary is attributed to the owners of the Group and to the non- controlling interests even if this results in the non-controlling interests having a deficit balance.

All intracompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

In the Parent Company's financial statements, the investment in subsidiaries is carried at cost less impairment, if any.

List of subsidiaries are included in note 6 to these financial statements.

(2.8) 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.

2. Significant accounting policies (continued)

(2.8) Transactions with non-controlling interests (continued)

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured 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.

(2.9) Investments in associates

The Group's investments in its associates are accounted for under the equity method of accounting. In the Parent Company's 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 recognize 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 theassociate.

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.

(2.10) 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.

2. Significant accounting policies (continued)

(2.10) Property, plant and equipment (continued)

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 & machinery	7 - 10 years
Motor vehicles & equipment	7 - 10 years
Furniture & equipment	6 years
Project equipment & 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.

(2.11) 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.

(2.12) Intangible assets - Computer software

Computer software costs (including under development) 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 relvant overheads. Computer software costs recognised as an asset are amortised using the straight-line method over the estimated useful life of five years.

The amortisation period and amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of comprehensive income when the asset is derecognized.

2. Significant accounting policies (continued)

(2.13) 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.

(2.14) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. 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. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. The loss arising on impairment of an asset is recognised immediately in the statement of comprehensive income. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

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. If such an indication exists, the Group makes an estimate of the recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such a reversal is recognised in the statement of income.

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.

Investments in subsidiaries are stated at cost less any impairment in the Parent Company's financial statements.

2. Significant accounting policies (continued)

(2.14) Impairment of non-financial assets (continued)

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.

(2.15) Financial instruments

(2.15) (a) Financial assets

Initial recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified into four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

2. Significant accounting policies (continued)

(2.15) Financial instruments (continued)

(2.15) (a) Financial assets (continued)

Financial assets at amortised cost (debt instruments)
This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. The Group's financial assets at amortised cost include contract and trade receivables, contract work in progress, bank balances, other receivables and deposits.

Financial assets at fair value through OCI (debt instruments)
The Group measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of comprehensive income and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss. The Group does not have any such instruments.

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Financial assets designated at fair value through OCI (equity instruments) (continued)
Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

2. Significant accounting policies (continued)

(2.15) Financial instruments (continued)

(2.15) (a) Financial assets (continued)

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss. The Group does not have any such instruments.

Derecognition
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized 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 (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group’s continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets
IFRS 9 requires the Group to record an allowance for ECLs for all debt financial assets not designated at FVTPL.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

2. Significant accounting policies (continued)

(2.15) Financial instruments (continued)

(2.15) (a) Financial assets (continued)

Impairment of financial assets (continued)
For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical default rates, adjusted for current and forward-looking factors specific to the debtors and the economic environment.

The credit risk on a financial instrument is considered low, if the financial instrument has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. An external rating of 'investment grade' is an example of a financial instrument that may be considered as having low credit risk. They should, however, be considered to have low credit risk from a market participant perspective taking into account all of the terms and conditions of the financial instrument.

Exposure due to deposits at Banks (whether rated or not) are also considered very low on default probability. However, the appropriate default probability adjustments are made to reflect industry standard practices along with pragmatism. The rating of the respective banks and the corresponding probability of default is considered for computation of expected credit losses.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit- impaired. A financial asset is 'credit- impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit- impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being past due for 365 days or more;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

In all cases, the maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value throughprofit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, due to related parties, loans and borrowings including bank overdrafts.

The measurement of financial liabilities depends on their classification, as described below:

2. Significant accounting policies (continued)

(2.15) Financial instruments (continued)

(2.15) (a) Financial assets (continued)

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortisedcost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss. This category generally applies to interest-bearing loans and borrowings.

Trade and other payables and due to related parties
Trade and other payables and due to related parties are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables and due to related parties 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.

Derecognition
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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

(2.16) Offsetting of financial instruments

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

(2.17) Term deposits

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

(2.18) Cash and cash equivalents

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the cash flows statement, the Group considers cash in hand, bank balances and bank overdraft with a maturity of less than three months from the date of placement as cash and cash equivalents. The Group included its bank overdrafts as part of cash and cash equivalents. This is because these bank overdrafts are repayable on demand and form an integral part of the Group's cash management.

(2.19) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

2. Significant accounting policies (continued)

(2.19) Leases (continued)

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

a. Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. [Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term], the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

b. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in- substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities are increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. a changes in future payments resulting from a change in index or rate used to determine such lease payments) or a change in the assessment to purchase the underlying asset.

c. Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

2. Significant accounting policies (continued)

(2.19) Leases (continued)

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(2.20) 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.

(2.21) Foreign currency translation

The financial statements are presented in Rial Omani, which is also the functional currency of the Parent Company.

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

As at the reporting date, the assets and liabilities of group entities are translated into the functional currency of the Group financial statements (the Rial Omani) at the rate of exchange ruling at the reporting date and its statements of comprehensive income is translated at the average exchange rates for the year. Exchange differences arising on equity accounting of foreign subsidiary are taken directly to the foreign currency translation reserve. Foreign currency translation reserve is recognised in equity under cumulative changes in fair value. On disposal of the foreign operations, such exchange differences are recognised in the statement of comprehensive income as part of the profit or loss on sale. A write down of the carrying amount of a foreign operation does not constitute a disposal.

2. Significant accounting policies (continued)

(2.22) Provision for employees' benefits

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

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. 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.

(2.23) 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.

(2.24) Taxation

Taxation is provided for based on relevant tax laws of the respective countries in which the Group operates. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

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

Income tax relating to items recognised directly in equity is recognised in equity and not in the statement of comprehensive income.

(2.25) Revenue

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of

2. Significant accounting policies (continued)

(2.25) Revenue

the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, customer returns and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

(a) Contract revenue and revenue from sale of goods

The Group recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15:

1. Identify the contracts with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.
2. Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.
3. Determine the transaction price: The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.
4. Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performanceobligation.
5. Recognise revenue when (or as) the entity satisfies a performance obligation at a point in time or over time.

The Group satisfies a performance obligation and recognises revenue over time, if any of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs; or
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- The Group's performance does not create an asset with an alternative use to the Group and the entity has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied. The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has concluded that for majority of its arrangements, it is either creating or enhancing an asset controlled by the customer or it is creating an asset with no alternative use and has an enforceable right to payment for work completed. Therefore, it meets the criteria to recognise revenue overtime and measure progress of its projects through the cost to complete method (input method) as it best depicts the transfer of control of products and services under each performanceobligation.

2. Significant accounting policies (continued)

(2.25) Revenue (continued)

(a) Contract revenue and revenue from sale of goods (continued)

When the Group satisfies a performance obligation by delivering the promised goods or services it creates a contract asset based on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Group assesses its revenue arrangements against specific criteria to determine if it is acting as principal or an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

Variations which are in the nature of extension of existing scope of work are accounted for using cumulative catch-up adjustments to the cost to complete method of revenue recognition. Variation orders which require addition of distinct goods and services to the scope at discounted prices are accounted for prospectively and variation orders which require addition of distinct goods and services to the scope at standalone selling prices are accounted for as new contracts with the customers.

Claims are accounted for as variable consideration. They are included in contract revenue using the expected value or most likely amount approach (whichever is more predictive of the amount the entity expects to be entitled to receive) and it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the claim is subsequently resolved.

A loss is recognised in the statement of comprehensive income when the expected contract costs exceed the total anticipated contract revenue.

The Group combines two or more contracts entered into at or near the same time with the same customer and accounts for the contracts as a single contract if one or more of the following criteria are:

- The two or more contracts entered into at or near the same time with the same customer are negotiated as a package, with a single commercial objective;
- The amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
- The goods or services promised in the contracts (or some goods or services promised in each of the contracts) are a single performance obligation.

If the above criteria are met, the arrangements are combined and accounted for as a single arrangement for revenue recognition.

Pre-contract cost of obtaining a contract with a customer is recognised as an asset if those costs are expected to be recovered.

Revenue is recognised in the statement of comprehensive income to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur and the revenue and costs, if applicable, can be measured reliably.

2. Significant accounting policies (continued)

(2.25) Revenue (continued)

(b) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate (EIR) applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(c) Dividend income

Dividend income from investments is recognised when the rights to receive payment has been established.

(2.26) 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 exceeds total contract revenue the expected loss is recognised as expense immediately.

(2.27) 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. For impairment on contract work in progress, refer note 2.15(a).

(2.28) Directors' remuneration

The Parent Company follows the Commercial Companies Law (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.

(2.29) 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.

2. Significant accounting policies (continued)

(2.29) Share capital (continued)

Where any Group company purchases its 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 Parent 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 Parent company's equity holders.

(2.30) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions. The segment information is set out in note 38.

(2.31) Earnings per share (EPS)

Basic EPS amounts are calculated by dividing the profit / (loss) for the year attributable to the equity shareholders of the Parent Company by the weighted average number of equity shares outstanding during the year.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

(2.32) Fair value measurement

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the 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:

2. Significant accounting policies (continued)

(2.32) Fair value measurement (continued)

- 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 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.

3. Property, plant and equipment - Parent Company

Amount in RO '000s

Description	Land	Building and camps	Plant & machinery	Motor vehicles & equipment	Furniture & equipment	Project equipment & tools	Capital work-in-progress	Total
Costs								
At 1 January 2019	1,278	36,222	106,084	55,052	9,860	14,886	-	223,382
Additions during the year		69	468	1,004	112	87	53	1,793
Disposals during the year	-	(112)	(8,086)	(5,445)	(147)	(2)	-	(13,792)
As at 1 January 2020	1,278	36,179	98,466	50,611	9,825	14,971	53	211,383
Additions during the year		427	123	116	247	116	61	1,090
Disposals during the year	-	-	(1,830)	(1,746)	(45)	-	-	(3,621)
As at 31 December 2020	**1,278**	**36,606**	**96,759**	**48,981**	**10,027**	**15,087**	**114**	**208,852**
Depreciation								
At 1 January 2019	-	25,634	83,815	42,619	8,392	10,233	-	170,693
Charge for the year	-	2,324	5,812	3,122	489	1,292	-	13,039
Relating to disposals	-	(111)	(8,013)	(5,391)	(145)	(2)	-	(13,662)
As at 1 January 2020	-	27,847	81,614	40,350	8,736	11,523	-	170,070
Charge for the year	-	2,159	5,058	2,633	437	1,237	-	11,524
Relating to disposals	-	-	(1,814)	(1,741)	(44)	-	-	(3,599)
As at 31 December 2020	**-**	**30,006**	**84,858**	**41,242**	**9,129**	**12,760**	**-**	**177,995**
Net book value								
As at 31 December 2020	**1,278**	**6,600**	**11,901**	**7,739**	**898**	**2,327**	**114**	**30,857**
As at 31 December 2019	1,278	8,332	16,852	10,261	1,089	3,448	53	41,313

3. Property, plant and equipment - Consolidated

Amount in RO '000s

Description	Land	Building and camps	Plant & machinery	Motor vehicles & equipment	Furniture & equipment	Project equipment & tools	Capital work-in-progress	Total
Costs								
At 1 January 2019	1,278	36,391	120,347	60,183	10,147	14,923	-	243,269
Additions during the year	-	70	1,122	1,202	121	87	77	2,679
Disposals during the year	-	(112)	(9,022)	(6,232)	(73)	(4)	-	(15,443)
As at 1 January 2020	1,278	36,349	112,447	55,153	10,195	15,006	77	230,505
Additions during the year	-	430	822	152	262	117	61	1,844
Disposals during the year	-	-	(1,964)	(1,897)	(47)	-	(24)	(3,932)
As at 31 December 2020	**1,278**	**36,779**	**111,305**	**53,408**	**10,410**	**15,123**	**114**	**228,417**
Depreciation								
At 1 January 2019	-	25,724	93,777	45,728	8,606	10,266	-	184,101
Charge for the year	-	2,339	6,815	3,513	526	1,294	-	14,487
Relating to disposals	-	(111)	(8,916)	(5,963)	(122)	(3)	-	(15,115)
As at 1 January 2020	-	27,952	91,676	43,278	9,010	11,557	-	183,473
Charge for the year	-	2,171	5,986	3,035	472	1,239	-	12,903
Relating to disposals	-	-	(1,947)	(1,888)	(45)	(1)	-	(3,881)
As at 31 December 2020	**-**	**30,123**	**95,715**	**44,425**	**9,437**	**12,795**	**-**	**192,495**
Net book value								
As at 31 December 2020	**1,278**	**6,656**	**15,590**	**8,983**	**973**	**2,328**	**114**	**35,922**
As at 31 December 2019	1,278	8,397	20,771	11,875	1,185	3,449	77	47,032

3. Property, plant and equipment (continued)

The Parent Company has availed Term Loan from a bank against mortgage of its Land and Buildings. Outstanding Term Loan amount is RO 6,083 (2019: RO 7,083) thousand. Vehicles and equipment with a net book value of RO 37,088 (2019: RO 37,871) thousand have been jointly registered with banks / finance companies to obtain term loans.

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

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Cost of contract and sales (note 30)	**10,634**	12,115	**11,947**	13,531
General and administrative expenses (note 31)	**890**	924	**956**	956
	11,524	13,039	**12,903**	14,487

4. Intangible assets

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Costs				
Balance at beginning of the	**3,080**	2,899	**3,162**	2,973
Additions during the year	**134**	181	**165**	189
Balance at end of the year	**3,214**	3,080	**3,327**	3,162
Amortisation				
Balance at beginning of the year	**2,797**	2,719	**2,868**	2,771
Charge for the year	**77**	78	**87**	86
Written off during the year	**-**	-	**-**	11
Balance at end of the year	**2,874**	2,797	**2,955**	2,868
Net book value	**340**	283	**372**	294

Intangible assets comprise of computer software RO 340 (2019: RO 283) thousand in Parent Company and computer software RO 372 (2019: RO 294) thousand in consolidation.

5. Right-of-use assets

The Group has lease contracts for various items of land, building, vehicles and other equipment used in its operations. Leases of land and building generally have lease terms between 2 and 25 years, while vehicles and other equipment generally have lease terms between 1 and 5 years.

The Group also has certain leases of vehicles and machinery with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the 'short-term lease' and 'low value lease' recognition exemptions for these leases.

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Costs				
Balance at beginning of the year	**2,018**	1,170	**2,546**	1,698
Additions during the year	**185**	848	**185**	848
Balance at end of the year	**2,203**	2,018	**2,731**	2,546
Depreciation				
Balance at beginning of the year	**579**	-	**684**	-
Charge for the year	**824**	579	**943**	684
Balance at end of the year	**1,402**	579	**1,627**	684
Right of use assets	**801**	1,439	**1,104**	1,862

Set out below are the carrying amounts of right-of-use assets based on the class of assets :

Land and building	**233**	234	**536**	657
Vehicle and equipment	**568**	1,205	**568**	1,205
	801	1,439	**1,104**	1,862

6. Investment in subsidiaries

Galfar Aspire Readymix LLC	**2,898**	2,898	**-**	-
Al Khalij Heavy Equipment & Engineering LLC	**600**	600	**-**	-
Aspire Projects & Services LLC	**250**	250	**-**	-
Galfar Mott MacDonald LLC	**163**	163	**-**	-
Galfar Training Institute LLC	**149**	149	**-**	-
Galfar Oman Engg. & Contg. S.P.C., Kuwait	**12**	12	**-**	-
	4,072	4,072	**-**	-
Provision for impaired investment	**(149)**	(149)	**-**	-
	3,923	3,923	**-**	-

6. Investment in subsidiaries (continued)

During the year 2020, the Parent Comapany has not created any provision on investment in subsidiaries (2019: RO 149 thousand provision created related to Galfar Training Institute LLC).

Information about activities and incorporation of subsidiary companies is summarised below:

Name of the subsidiaries	Principal activity	Place and year of incorporation	
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
Galfar Mott MacDonald LLC	EPC consultancy	Oman	2013
Galfar Oman General Contracting for Building Company	Construction	Kuwait	2018

Information on shareholding in subsidiary companies is summarised below:

Name of the subsidiaries	Shares acquired by Parent Company		Shares acquired by the Group	
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%
Galfar Mott MacDonald LLC	**65%**	65%	**65%**	65%
Galfar Oman General Contracting for Building Company	**100%**	-	**100%**	-

6. Investment in subsidiaries (continued)

6A. Profit on sale of Investments - Subsidiaries and Associates

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Galfar Engineering & Contracting India Pvt. Ltd.	**-**	11,897	**-**	-
Salasar Highways Pvt. Ltd.	**-**	1,276	**-**	-
Kashipur Sitarganj Highways Pvt. Ltd.	**-**	307	**-**	-
Mahakaleshwar Tollways Pvt. Ltd. (MTPL)	**-**	2,255	**-**	-
Shree Jagannath Expressway Pvt. Ltd. (SJEPL)	**-**	739	**-**	-
Ghaziabad Aligarh Expressway Pvt. Ltd. (GAEPL)	**-**	344	**-**	-
Total Invested value before provision for impairment	**-**	16,818	**-**	-
Less: Provision for impairment in Investment - MTPL	**-**	(2,255)	**-**	-
Net book value of the Investment as on 31 December 2018	**-**	14,563	**-**	-
Sale value	**-**	17,200	**-**	-
Netting of current account receivable from Galfar India and MTPL	**-**	(1,149)	**-**	-
Profit on sale of Investments	**-**	1,488	**-**	-
Profit on sale of Investments after tax	**-**	1,265	**-**	-

7. Investment in associates

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Galfar Engineering & Contracting Kuwait KSC (GEC)	**6,966**	6,966	**5,099**	4,943
International Water Treatment LLC (IWT)	**4,144**	4,144	**-**	-
	11,110	11,110	**5,099**	4,943
Provision for impaired investment	**(5,644)**	(5,644)	**-**	-
	5,466	5,466	**5,099**	4,943

Provision for impairment in associates comprises:

(i) RO 4,144 (2019: RO 4,144) thousand for investment in IWT, being Parent Company's share in cumulative loss of IWT till 2016, as IWT is unable to recover the loss from their future business.

(ii) RO 1,500 (2019: RO 1,500) thousand for investment in GEC, based on capitalization of earning method with discounted cash flow of next five years considering weighted average of capital cost @ 13% per annum.

7. Investment in associates (continued)

Information on shareholding of associates is summarised below:

	Shares acquired by Parent Company		Shares acquired by the Group	
Galfar Engineering & Contracting Kuwait KSC (i)	26%	26%	26%	26%
International Water Treatment LLC (IWT) (ii)	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 has 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. The project maintenance period has completed by end of 2020 and the liquidation procedures have already been initiated.

	2020	2019
Share of associates' comprehensive income:		
Revenue	**3,593**	4,939
Costs of revenue	**(3,419)**	(4,772)
Net profit for the year	**174**	167

Share of profit of the group for the period comprises of profit from GEC Kuwait RO 174 (2019: RO 167) thousand and IWT RO Nil (2019: Loss RO Nil) thousand.

7. Investment in associates (continued)

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
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%
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 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'. The project is currently under maintenance period which is expected to be completed by 2020. Post completion of the maintenance period, the company would be liquidated.

7. Investment in associates (continued)

The summarised financial information of major associate company is as stated below:

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
			GEC, Kuwait	
Statement of financial position:				
Current assets			**18,923**	17,927
Non-current assets			**13,056**	13,454
Current liabilities			**(8,312)**	(8,388)
Non-current liabilities			**(4,062)**	(3,981)
Net assets			**19,606**	19,012
Reconciliation of carrying amount:				
Net assets at the beginning of the year			**19,012**	**18,323**
Profit for the year			**669**	641
Reserves / currency translation impact			**(75)**	48
Net assets at the end of the year			**19,606**	19,012
Group's share in %			**26%**	26%
Carrying amount			**5,099**	4,943
Statement of comprehensive income:				
Revenue			**13,818**	18,996
Less: costs of revenue			**(13,143)**	(18,346)
Profit before tax			**675**	650
Less: tax			**6**	9
Profit after tax			**669**	641

8. Inventories

Materials and consumables	**10,770**	9,473	**12,913**	11,251
Allowance for non-moving inventories	**(421)**	(439)	**(496)**	(539)
	10,349	9,034	**12,417**	10,712

Movement in provision for inventories for the year is as follows:

At the beginning of the year	**439**	348	**539**	410
Charge for the year	**-**	91	**(25)**	129
Written back during the year	**(18)**	-	**(18)**	-
Written off during the year	**-**	-	**-**	-
At the end of the year	**421**	439	**496**	539

9. Contract work in progress

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Work-in-progress on long term contracts at cost plus attributable profit considered as receivables	**57,477**	78,560	**58,515**	79,540
Current liabilities	**(23,320)**	(22,074)	**(23,320)**	(22,074)
Non-current liabilities	**34,157**	56,486	**35,195**	57,466

Movement on the provision for expected credit losses against contract work in progress during the year is as follows

At the beginning of the year	**22,074**	15,884	**22,074**	15,884
Charge for the year	**4,574**	6,484	**4,574**	6,484
Written back during the year	**(3,328)**	(16)	**(3,328)**	(16)
Written off during the year	**-**	(278)	**-**	(278)
At the end of the year	**23,320**	22,074	**23,320**	22,074

Due from customers for construction contracts:

Revenue recognised at cost plus attributable profit	**826,042**	808,508	**826,042**	824,220
Less: Progress billings	**768,565**	729,948	**767,527**	744,680
	57,477	78,560	**58,515**	79,540

Due to customers for construction contracts:

Amounts due to customers under construction contracts recorded as billings in excess of work done (note 25)	**3,429**	2,341	**3,464**	2,341
Progress claims received and receivable	**517,032**	536,763	**517,067**	536,763
Less: Revenue recognised at cost plus attributable profit	**513,603**	534,422	**513,603**	534,422
	3,429	2,341	**3,464**	2,341

10. Contract and trade receivables

Contract billed receivables	**112,578**	125,707	**113,399**	126,358
Trade receivables	**2,476**	4,903	**7,253**	11,081
Retention receivables - current	**20,402**	22,820	**21,439**	23,860
	135,456	153,430	**142,091**	161,299
Provision for expected credit losses	**(18,926)**	(19,550)	**(19,808)**	(20,194)
	116,530	133,880	**122,283**	141,105
Retentions receivables				
Non-current portion (net of provisions)	**11,060**	8,042	**11,060**	8,042

10. Contract and trade receivables (continued)

Movement on the provision for expected credit losses against contract and trade receivables including current retentions is as follows:

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
At the beginning of the year	**19,550**	8,923	**20,194**	9,248
Charge for the year	**6,488**	13,959	**6,726**	14,281
Written back during the year	**(5,087)**	(3,327)	**(5,087)**	(3,330)
Written off during the year	**(2,025)**	(5)	**(2,025)**	(5)
At the end of the year	**18,926**	19,550	**19,808**	20,194

Movement on the provision for expected credit losses against non-current retentions is as follows:

At the beginning of the year	**119**	16	**119**	16
Charge for the year	**29**	103	**29**	103
At the end of the year	**148**	119	**148**	119

11. Advances, prepayment and other receivables

Advance on sub-contracts and supplies	**2,091**	2,699	**2,173**	2,774
Advances to employees	**165**	307	**169**	307
Prepaid expenses	**3,069**	5,343	**3,179**	5,370
Due from related parties - others (note 36)	**13,295**	18,346	**11,926**	19,354
Insurance claims receivable	**(1)**	15	**(1)**	15
Deposits	**254**	365	**254**	366
Other receivables	**-**	-	**4**	6
	18,873	27,075	**17,704**	28,192
Provision for expected credit losses against due from related parties	**(2,037)**	(1,851)	**(2,095)**	(1,935)
Provision for others	**(3)**	(2)	**(3)**	(2)
	16,833	25,222	**15,606**	26,255

Movement on the provision for expected credit losses against due from related party and others are as follows:

At the beginning of the year	**1,853**	1,303	**1,937**	1,316
Charge for the year	**189**	1,164	**189**	1,235
Written back during the year	**(2)**	(614)	**(28)**	(614)
At the end of the year	**2,040**	1,853	**2,098**	1,937

12. Deposits with banks

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Term deposits (net of allowance for ECL)	**2,311**	2,307	**2,311**	2,307
Margin deposits	**-**	-	**109**	22
	2,311	2,307	**2,420**	2,329

The term deposits carry interest rates of 0.9% to 3.0% (2019: 0.9% to 3.0%) per annum and are kept for a period more than three months from the date of placement.

Movement of ECL on deposits with banks are as follows:

At the beginning of the year	**3**	4	**3**	4
Written back during the year	**-**	(1)	**-**	(1)
At the end of the year	**3**	3	**3**	3

13. Cash and bank balances

At the beginning of the year	**31**	109	**39**	119
Written back during the year	**2,506**	2,429	**4,331**	4,127
At the end of the year	**2,537**	2,538	**4,370**	4,246

For the purpose of statement of cash flows, cash and cash equivalents are presented as follows:

Cash and bank balances	**2,537**	2,538	**4,370**	4,246
Deposit with banks (within 3 months maturity)	**491**	946	**491**	946
Bank overdrafts	**(1,313)**	(3,489)	**(1,313)**	(3,546)
	1,715	(5)	**3,548**	1,646

14. Share capital

Authorised:

500,000,000(2019:500,000,000) ordinarysharesofparvalueRO0.100 (2019: RO 0.100) each	**50,000**	50,000	**50,000**	50,000
Issued and fully paid:				
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 (2019: 415,215,637) shares having a par value of RO 0.100 (2019: RO 0.100) each. Pursuant to the terms of its IPO, the share capital of the Parent Company has been divided into two classes comprising of 289,980,637 (2019: 289,980,637) ordinary shares and 125,235,000 (2019: 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 receipt of dividend.

15. Share premium

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

16. Statutory reserve

As required by the Commercial Companies Law of the Sultanate of Oman, 2019, the statutory reserve is maintained at least one third of the issued share capital. No transfer was made during the year in the Parent Company's financial statements as the Parent Company has reached the statutory requirement.

17. Foreign currency translation reserve

Foreign currency translation reserve represents impact of translation of associate company's (Galfar Kuwait) financial statements figures in foreign currency to functional currency of the Parent Company as required under IAS 21.

18. Dividend

No dividend was proposed and paid in 2020. (2019: Nil)

19. Term loans

No dividend was proposed and paid in 2020. (2019: Nil)

Amount in RO '000s

	Parent Company		**Consolidated**	
	2020	2019	**2020**	2019
Term loans:				
- from banks	**16,254**	19,910	**16,402**	20,166
- finance companies	**3,224**	5,122	**3,467**	5,965
	19,478	25,032	**19,869**	26,131
Current portion				
- from banks	**6,981**	11,812	**7,042**	11,920
- finance companies	**1,765**	1,899	**2,008**	2,498
	8,746	13,711	**9,050**	14,418
Non-current portion				
- from banks	**9,273**	8,098	**9,360**	8,246
- finance companies	**1,459**	3,223	**1,459**	3,467
	10,732	11,321	**10,819**	11,713
The term loans are repayable as follows:				
Within one year	**8,746**	13,711	**9,050**	14,418
In the second year	**4,412**	4,930	**4,434**	5,507
From third year onwards	**6,320**	6,391	**6,385**	6,206
	19,478	25,032	**19,869**	26,131

19. 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 assignment of contract receivables 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 on term loans from banks and financial institutions having interest rates ranges between 5.75% to 8.5% (2019: 5.75% to 8.5%) per annum.

20. Lease liabilities

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
At the beginning of the year	**1,317**	1,123	**1,932**	1,844
Additions during the year	**191**	808	**191**	808
Finance cost	**95**	79	**125**	103
Adjustment to lease liability	**99**	-	**99**	-
Payments	**(856)**	(693)	**(988)**	(823)
Balance at the end of the year	**846**	1,317	**1,359**	1,932
Current portion	**527**	467	**886**	644
Non-Current portion	**319**	850	**948**	1,288
	846	1,317	**1,834**	1,932

21. Short term loans

- from banks	**27,896**	27,050	**27,896**	27,050

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 5.0% to 7.75% (2019: 5.0% to 7.75%) per annum.

22. Bank borrowings

Bank overdrafts	**1,313**	3,489	**1,313**	3,546
Loan against trust receipts	**5,721**	6,896	**5,721**	6,896
Bills discounted	**3,035**	23,819	**3,035**	23,819
	10,069	34,204	**10,069**	34,261

Bank borrowings are repayable on demand or within one year. The interest rates on bank borrowings vary between 4.50% to 7.0% (2019: 4.5% to 7.0%) per annum. Bank borrowings are secured against the assignment of contract receivables.

23. Trade payables

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Sundry creditors	**42,981**	45,219	**50,973**	55,363
Provision for purchases and sub-contracts	**27,817**	24,408	**28,439**	24,452
	70,798	69,627	**79,412**	79,815

24. Employees' end of service benefits

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Balance at beginning of the year	**14,818**	14,611	**15,025**	14,749
Charge for the year	**2,033**	1,890	**2,089**	1,971
Paid during the year	**(3,911)**	(1,683)	**(3,960)**	(1,700)
Balance at end of the year	**12,940**	14,818	**13,154**	15,020

25. Other payables and provisions

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Provision for employees' leave pay and passage	**6,187**	4,529	**6,271**	4,581
Advance from customers - current	**29,614**	30,718	**29,655**	31,114
Due to customers for construction contracts (note 9)	**3,429**	2,341	**3,464**	2,341
Provision for future loss on contracts	**3,943**	733	**3,943**	733
Retention on sub-contracts	**5,470**	4,793	**5,470**	4,793
Accrued expenses	**9,965**	10,251	**11,100**	11,442
Due to related parties (note 36)	**7,707**	9,709	**4,200**	5,348
Statutory dues payable	**480**	459	**480**	459
Other payables	**961**	917	**965**	993
	67,756	64,450	**65,548**	61,804
Advance from customers				
Non-current portion	**5,530**	7,411	**5,530**	7,411

Advances from customers are secured by bank guarantees.

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

26. 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% of result after adjusting 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.

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Tax charge for the year	**-**	48	**48**	180
Deferred tax charge for the year	**-**	-	**40**	(101)
	-	48	**88**	95

As per the Sale Purchase Agreement entered with M/s PMA International LLC any tax liability that may accrue shall be borne by the buyer.

26.1 Tax computation of the Parent Company and Consolidated includes deduction from taxable income amounting to RO Nil (2019: RO 797) thousand 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.

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

Accounting profit before tax from continuing operations	**(26,111)**	(21,366)	**(28,180)**	8,864
Loss before tax from discontinued operations	**-**	-	**-**	(6,484)
Accounting profit before income tax	**(26,111)**	(21,366)	**(28,180)**	2,380
Tax as per law of respective country	**-**	(3,205)	**7**	344
Tax effect on write-off of contract receivables and contract work in progress	**-**	42	**-**	315
Tax effect on non admissible expenditure and adjustments	**-**	3,211	**81**	1,011
	-	48	**88**	1,670
Income tax expense reported in the statement of comprehensive income	**-**	48	**88**	2,226
Income tax expense / (benefit) attributable to discontinued operation	**-**	223	**-**	(556)

Provision for tax

The Parent Company's income tax assessment up to the year 2016 has been completed by the taxation department. The income tax assessments of the subsidiaries are at various stages of completion. The management believes that the amount of additional taxes, if any, that may become payable on fainalisation of the unassessed tax years would not be material to the Group's financial position. The movement of tax provision is as follows:

26. Taxation (continued)

Provision for tax (continued)

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Balance at beginning of the year	**1,402**	2,029	**1,508**	2,275
Charge during the year	**-**	271	**48**	299
Tax adjustment/paid during the year	**(62)**	(898)	**(128)**	(1,066)
Balance at end of the year	**1,340**	1,402	**1,428**	1,508

Deferred tax liability

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

Balance at beginning of the year	**-**	-	**323**	398
Charge during the year	**-**	-	**40**	(75)
Balance at end of the year			**363**	323

27. Contract revenue

(a) Disaggregation of revenue from contracts with customers

Parent Company - 2020

Particulars	**Construction**	Total
Revenue recognised over time	**194,075**	194,075

Parent Company - 2019

Particulars	Construction	Total
Revenue recognised over time	227,361	227,361

Consolidated - 2020

Particulars	**Construction**	**Other**	**Total**
Revenue recognised over time	194,075	**858**	194,933

Consolidated - 2019

Particulars	Construction	Other	Total
Revenue recognised over time	227,361	1,734	229,095

27. Contract revenue (continued)

b) Assets and liabilities related to contracts with customers

The Parent Company and the Group have recognized the following assets and liabilities related to contracts with customers:

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Contract Receivables	**112,578**	125,707	**113,399**	126,358
Current contract asset	**57,477**	78,560	**58,515**	79,540
Loss allowance	**(42,246)**	(41,624)	**(43,128)**	(42,268)
Total contract assets	**127,809**	162,643	**128,786**	163,630
Contract liabilities relating to project revenue (unearned, advance)	**35,144**	38,129	**35,185**	38,525
Total current contract liabilities	**35,144**	38,129	**35,185**	38,525

The contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date on construction projects.

The contract liabilities primarily relate to the advance consideration received from customers for the construction projects.

28. Sales and services income

Sales and services - recognised at a point in time	**2,574**	2,837	**12,406**	16,801
Hiring services - recognised at a point in time	**291**	1,190	**1,578**	2,778
Training services - recognised at a point in time	**-**	-	**5**	134
	2,865	4,027	**13,989**	19,713

29. Other income

Gain on disposal of assets	**465**	1,608	**526**	1,636
Miscellaneous income	**3,314**	902	**3,484**	945
	3,779	2,510	**4,010**	2,581

30. Cost of contract and services

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Materials	**31,558**	38,105	**39,354**	49,696
Manpower costs (note 32)	**96,117**	96,765	**96,091**	95,293
Sub-contracting costs	**37,893**	35,240	**37,900**	34,245
Plant and equipment repair and maintenance	**6,940**	8,719	**7,873**	9,312
Plant and equipment hiring costs	**6,931**	7,216	**7,465**	8,529
Fuel expenses	**12,025**	13,511	**12,856**	15,157
Training expenses	**139**	225	**151**	225
Depreciation on right of use assets (note 5)	**824**	579	**944**	684
Depreciation (note 3)	**10,634**	12,115	**11,947**	13,531
General and administrative expenses (note 31)	**9,904**	11,697	**10,876**	13,170
	212,965	224,172	**225,458**	239,842

31. General and administrative expenses

	Parent Company 2020	Parent Company 2019	Consolidated 2020	Consolidated 2019
Manpower costs (note 32)	**4,679**	4,834	**6,640**	7,141
Sub-contract expenses	**(342)**	-	**(342)**	-
Rent	**491**	522	**631**	665
Electricity and water charges	**3,627**	3,430	**3,745**	3,520
Professional and legal charges	**1,635**	2,988	**1,670**	3,098
Insurance charges	**2,283**	1,450	**2,356**	1,526
Bank guarantee and other charges	**1,227**	1,288	**1,235**	1,299
Communication expenses	**395**	634	**423**	678
Repairs and maintenance - others	**376**	725	**393**	755
Traveling expenses	**113**	362	**133**	431
Printing and stationery	**160**	255	**167**	266
Business promotion expenses	**11**	30	**17**	38
Tender fees	**129**	136	**131**	140
Directors' expenses	**118**	59	**118**	59
Corporate social responsibility expenses	**-**	1	**-**	1
Miscellaneous expenses	**53**	498	**98**	647
Depreciation and amortisation (notes 3 and 4)	**967**	1,002	**1,043**	1,042
	15,922	18,214	**18,458**	21,306
Less: Pertaining to cost of contract and services (note 30)	**9,904**	11,697	**10,876**	13,170
	6,018	6,517	**7,582**	8,136

32. Manpower costs

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Salary and wages	**82,896**	81,133	**84,226**	81,220
Employees' service benefits	**2,033**	1,890	**2,071**	1,951
Camp and catering expenses	**11,912**	11,409	**11,912**	11,636
Hired salary and wages	**3,040**	6,335	**3,040**	6,615
Other expenses	**915**	832	**1,482**	1,012
	100,796	101,599	**102,731**	102,434
Less: Pertaining to cost of contract and sales (note 30)	**96,117**	96,765	**96,091**	95,293
Pertaining to general and administration expenses (note 31)	**4,679**	4,834	**6,640**	7,141

33. Finance costs, net

Interest expense	**4,892**	6,869	**5,008**	7,021
Interest income	**-**	(278)	**-**	(278)
Interest on lease liability	**95**	79	**165**	103
	4,987	6,670	**5,173**	6,846

34. Loss per share

The loss per share is calculated by dividing the loss for the year attributable to the owners of the parent company by the weighted average number of shares outstanding during the year. Group does not issue any bonus share or right share, therefore, weighted average number of shares equal to that of the previous year. The Group does not have any dilutive potential ordinary shares in issue at the year end, thus, the diluted loss per share is identical to

Loss attributable to equity shareholders of the Parent Company:	**(26,111)**	(22,679)	**(28,269)**	(21,509)
Discontinued operations	**-**	1,265	**-**	15,215
Loss attributable to equity shareholders of the Parent Company	**(26,111)**	(21,414)	**(28,268)**	(6,294)
Number of shares in '000 (Note 14)	**415,220**	415,220	**415,220**	415,220
Basic and diluted loss per share for the year	**(0.063)**	(0.052)	**(0.068)**	(0.015)
Basic loss per share from continued operations	**(0.063)**	(0.055)	**(0.068)**	(0.052)
Basic profit per share from discontinued operations	**0.000**	0.003	**0.000**	0.037

35. Net assets per share

Net assets per share is calculated by dividing the equity attributable to shareholders of the Parent Company at the reporting date by the number of shares outstanding as follows:

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Net assets	**18,636**	44,747	**19,983**	48,270
Net assets per share (RO)	**415,220**	415,220	**415,220**	415,220
Number of shares in '000 (Note 14)	**0.045**	0.108	**0.048**	0.116

36. Related parties

Related parties comprise of subsidiaries, associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties.

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 are approved by the management.

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

Contract income				
- with subsidiaries	**-**	-	**-**	6,006
- with other related parties	**4,021**	132	**4,021**	132
Sales and services				-
- with subsidiaries	**274**	38	**-**	6,049
- with other related parties	**14**	620	**1,096**	2,164
Purchase of property, plant and equipment				
- with other related parties	**-**	67	**-**	94
Purchase of goods and services				
- with subsidiaries	**6,778**	12,949	**-**	13,319
- with other related parties	**2,713**	6,257	**3,267**	8,560
- with shareholders	**129**	158	**129**	158
Sale of Investment	**-**	17,200	**-**	17,200
Director's sitting fees	**118**	64	**118**	64

36. Related parties (continued)

Balances of related parties recognised and disclosed in notes 10, 11 and 25 respectively are as follows:

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Due from shareholders	**-**	4	**-**	4
Due from subsidiary and associate companies	**2,634**	1,712	**1,265**	2,720
Due from key management personnel	**-**	486	**-**	486
Due from other related parties	**10,661**	16,144	**10,661**	16,144
Provision for expected credit losses against due from related parties	**(2,037)**	(1,851)	**(2,095)**	(1,935)
	11,258	16,495	**9,831**	17,419
Due to shareholders	**102**	57	**102**	57
Due to subsidiary and associate companies	**4,552**	6,851	**4,501**	5,291
Due to other related parties	**3,053**	2,801	**(403)**	-
	7,707	9,709	**4,200**	5,348

The amounts outstanding are unsecured and will be settled. During the year, RO Nil (2019: RO 191) thousand 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	**551**	600	**808**	887
End of service benefits	**18**	26	**35**	107
Directors' sitting fees	**118**	-	**118**	-
	687	626	**961**	994

37. Commitments and contingencies

Bonds and guarantees	**73,734**	102,223	**73,933**	102,439
Letter of credit	**16,223**	18,443	**16,344**	18,443
Corporate guarantees	**4,138**	4,961	**4,138**	4,961
Capital commitments	**223**	506	**223**	506
Legal cases	**152**	208	**152**	208
	94,470	126,341	**94,790**	126,557

The Parent Company has provided corporate guarantees for subsidiaries and associates and does not anticipate any material liability to arise from these guarantees.

37. Commitments and contingencies (continued)

The Parent Company has provided support sponsor's undertakings for any shortfall in project funding and toll collection of all concessionaire companies (MTPL, SJEPL, GAEPL, KSHPL and SHPL) for DBFOT road projects in India, on joint and several basis. The contingent liability for the same is not determinable. The investments in Indian subsidiaries and associates have been sold accordingly all contingent liabilities will also be assumed by the buyer as per the SPA.

37.1 Legal cases

The Parent Company and its subsidiaries, in common with the significant majority of contractors, are subject to litigation in the normal course of business. The Parent Company and its subsidiaries, based on independent legal advice, do not believe that the outcome of these court cases will have a material impact on the Group's income or financial position.

37.2 Penalties

Penalties amounting to RO 3,737 (2019: RO 5,253) thousand have been levied on the Parent Company. Though the penalties are countered by the extension of time claims from the Parent Company, cases are under various stages of negotiations/arbitration and expected to be settled in due course, moreover the same has been recorded in the books of account.

Further imposable penalties on account of expected completion delays amounting to RO 20,315 (2019: RO 12,268) thousand on certain projects are not considered in the books of the Parent Company as the management believes that the delay in these projects are 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.

37.3 CMA Investigation

During the prior years, the Capital Market Authority (CMA) had carried out investigative audits relating to Parent Company certain transactions for the years from 2010 to 2014. Based on the draft investigation audit reports received from Independent auditors appointed by the CMA, the management has taken corrective actions and had filed responses to the clarifications sought by the CMA. No adjustment to the financial statments in respect of such years is anticipated in the Parent Company has not yet received any further communication from the CMA in respect of this matter.

38. Operating segments

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

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

38. Operating segments (continued)

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

Amount in RO '000s

	Construction		Manufacturing		Hiring		Training		Inter segments		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019
Segment revenue and expenses												
Segment revenue	**200,796**	239,128	**13,767**	19,782	**1,348**	1,687	**22**	438	**(7,011)**	(12,227)	**208,922**	248,808
Segment expenses	**227,949**	260,372	**14,937**	20,312	**1,342**	1,678	**147**	498	**(7,185)**	(12,543)	**237,190**	270,317
Segment results	**(27,153)**	(21,244)	**(1,170)**	(530)	**6**	9	**(125)**	(60)	**174**	316	**(28,268)**	(21,509)
Segment assets and liabilities												
Segment assets	**239,271**	293,994	**8,710**	12,732	**3,255**	2,936	**(949)**	(781)	**(4,294)**	(4,450)	**245,993**	304,431
Segment liabilities	**218,808**	246,379	**5,226**	8,077	**1,077**	765	**4**	47	**(12)**	(13)	**225,103**	255,255

Inter-segment revenues are eliminated upon consolidation and reflected in the 'Inter segments' column.

39. Financial instruments and related risk management

The Group's principal financial liabilities comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to raise finances for the Group's operations.The Group's financial assets include trade and other receivables, and cash and short- term deposits that arrive directly from its operations.

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 or 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 and other price risk. Financial instruments affected by market risk include loans and borrowings, deposits, investments at fair value through comprehensive income.

Interest rate risk

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

39. Financial instruments and related risk management (continued)

Interest rate risk (continued)
As at 31 December 2020, the Group does not hold any financial asssets or financial liabilities subject to variable interest rate. Therefore, the Group is not exposed to any 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 management has set up a policy to require the Group to manage its foreign exchange risk against their functional currency. 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. As the exchange rate of the Rial Omani is pegged against most of the currencies, the Company is not subject to any significant currency risk.

Equity price risk
The Group does not hold any quoted investment.

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

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:

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Contract work in progress, contract and trade receivables	**172,531**	209,170	**179,167**	216,979
Retention receivables	**31,462**	30,862	**32,499**	31,902
Other receivables	**13,548**	18,726	**12,183**	19,741
Deposits with banks	**2,311**	2,307	**2,420**	2,329
Cash and bank balances	**2,537**	2,538	**4,370**	4,246
	222,389	263,603	**230,639**	275,197

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

Other receivables	**107,278**	143,574	**107,278**	143,574
Deposits with banks	**34,480**	44,491	**34,480**	44,491
Cash and bank balances	**30,773**	21,105	**37,409**	28,914
	172,531	209,170	**179,167**	216,979

39. Financial instruments and related risk management (continued)

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 41 for key sources of estimation of uncertainty for the impairment of contract work in progress, contract and trade receivables.

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

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Not past due	**31,112**	54,320	**31,820**	54,453
Past due 1- 180 days	**70,874**	32,035	**73,520**	37,506
Past due 181 - 365 days	**17,979**	33,522	**19,523**	34,209
More than 365 days	**52,566**	89,293	**54,159**	90,811
	172,531	209,170	**179,022**	216,979
Provision for expected credit loss	**(42,246)**	(41,624)	**(43,128)**	(42,268)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the underlying business through the Group maintains adequate bank balances and credit facilities to fund its operations.

Management monitors the forecast of the Group's liquidity position on the basis of expected cash flows. The Group is currently financed from shareholder's equity and bank borrowings. The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows:

The following are the financial liabilities:				
Term loans	**19,478**	25,032	**19,869**	26,131
Short term loans	**27,896**	27,050	**27,896**	27,050
Bank borrowings	**10,069**	34,204	**10,069**	34,261
Trade and other payables	**157,024**	156,306	**163,644**	164,050
	214,467	242,592	**221,478**	251,492

39. Financial instruments and related risk management (continued)

Liquidity risk (continued)

The contractual maturities of above financial liabilities were:

Term loans: (principle+future interest)

Amount in RO '000s

	Parent Company		Consolidated	
	2020	2019	**2020**	2019
Up to 90 days	**2,225**	9,861	**2,361**	10,075
91 - 180 days	**3,987**	1,884	**4,079**	2,071
181 - 365 days	**5,303**	3,200	**5,421**	3,548
More than 365 days	**12,194**	11,796	**12,321**	12,228
	21,376	26,741	**24,182**	27,922
Short term loans: (principle+future interest)				
Up to 90 days	**19,078**	22,523	**19,078**	22,523
91 - 180 days	**5,684**	4,859	**5,684**	4,859
181 - 365 days	**3,605**	-	**3,605**	-
	28,367	27,382	**28,367**	27,382
Bank borrowings: (principle+future interest)				
Up to 90 days	**5,710**	26,752	**5,710**	26,809
91 - 180 days	**4,772**	7,839	**4,772**	7,839
181 - 365 days	**364**	114	**364**	114
	10,846	34,705	**10,846**	34,762
Trade and other payables:				
Up to 90 days	**64,099**	60,777	**67,738**	65,342
91 - 180 days	**39,422**	38,279	**41,254**	41,550
181 - 365 days	**35,033**	35,021	**35,968**	34,727
More than 365 days	**18,470**	22,229	**18,684**	22,431
	157,024	156,306	**163,644**	164,050

39. Financial instruments and related risk management (continued)

Changes in liabilities arising from financing activities

Amount in RO '000s

Parent Company	**1 January 2020**	**Cash flows**	**Others**	**31 December 2020**
Current interest-bearing loans and borrowings	74,965	(21,113)	(7,141)	46,711
Non-current interest-bearing loans and borrowings	11,321	(5,554)	4,965	10,732
Total liabilities from financing activities	86,286	(26,667)	(2,176)	57,443

Parent Company	**1 January 2019**	**Cash flows**	**Others**	**31 December 2019**
Current interest-bearing loans and borrowings	91,047	(12,847)	(3,235)	74,965
Non-current interest-bearing loans and borrowings	38,010	(29,924)	3,235	11,321
Total liabilities from financing activities	129,057	(42,771)	-	86,286

Changes in liabilities arising from financing activities

Group	**1 January 2020**	**Cash flows**	**Others**	**31 December 2020**
Current interest-bearing loans and borrowings	75,729	(21,113)	(7,601)	47,015
Non-current interest-bearing loans and borrowings	11,713	(5,594)	4,700	10,819
Total liabilities from financing activities	87,442	(26,707)	(2,901)	57,834

Group	**1 January 2019**	**Cash flows**	**Others**	**31 December 2019**
Current interest-bearing loans and borrowings	56,351	(12,790)	32,168	75,729
Non-current interest-bearing loans and borrowings	39,197	(30,623)	3,139	11,713
Total liabilities from financing activities	95,548	(43,413)	35,307	87,442

The 'Others' column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including lease liabilities to current due to the passage of time.

At 31 December 2020 the exposure to letter of credit facilities stood at RO 16,223 (2019: RO 18,443) thousand for the purchase of goods.

40. Fair value of financial instruments

Fair values

Financial instruments comprise financial assets and financial liabilities.

Financial assets consist of bank balances, contract work in progress, contract receivables, trade and other receivables and investments at fair value through other comprehensive income. Financial liabilities consist of term loans, bank borrowings, lease liabilities, trade and other payables.

The fair value of financial assets and financial liabilities approximate to their carrying values.

41. 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 revenue recognition of the Group is line with IFRS 15 requirements. It uses the cost-to-cost (input method) in accounting for its construction contracts. At each reporting date, the Group is required to estimate the stage of completion and costs to complete on its construction contracts. This requires the Group to make estimates of future costs to be incurred, based on work to be performed beyond the reporting date. These estimates also include the cost of potential claims by subcontractors and the cost of meeting other contractual obligations to the customers.

Effects of any revision to these estimates are reflected in the period in which the estimates are revised. When the expected contract costs exceeds the total anticipated contract revenue, the total expected loss is recognised immediately, as soon as foreseen, whether or not work has commenced on these contracts. The Group uses its commercial team to estimate the costs to complete of construction contracts. Factors such as delays in expected completion date, changes in the scope of work, changes in material prices, labour costs and other costs are included in the construction cost estimates based on best estimates updated on a regular basis.

The Group includes variable consideration (including claims, re-measurable contract values and) in the transaction price to which it expects to be entitled from the inception of the contract. The amount of variable consideration will have to be restricted to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(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 recognized in these financial statements based on management's assessment of the amount of claims that will be recoverable from customers.

41. Key sources of estimation uncertainty (continued)

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

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 recognized in the financial statements. Management is of the view that the amount of claims to be recovered from customers will not be less than the amount recognized in these 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 113,399 (2019: RO 126,358) thousand, most of these receivables were from Government and quasi Government entities. This balance includes value of RO 63,951 (2019: RO 65,680) thousand certification in process, which is in the normal course of business activity in the construction industry. At 31 Dec 2020, the provision for expected credit losses against contract receivables and work in progress was RO 43,128 (2019: RO 42,268) thousand. Management believes the balance amounts are fully recoverable. In addition to this, the Groups' trade receivables were RO 7,253 (2019: RO 11,081) thousand.

(iii)The Parent Company had four arbitration proceedings against Haya Water, relating to the Seeb Sewage Network Project. These were all awarded in favour of the Parent Company, and status of each award is as follows:

The First Arbitration: This was awarded on 19th August 2016, and was towards - Road Reinstatement measurement and other variations - amounting to RO 3.58 million.

On 18th October 2018 the First Appeal Court issued judgment by accepting Haya's request for an annulment of the case as the award was not issued under the name of HM Sultan Qaboos. Galfar submitted a petition before the Supreme Court against this judgment and the Supreme Court accepted Galfar's appeal on 9th July 2019.

The awarded amount of RO 3.58 million was received in full on the 5th November 2019. Second Appeal Court rejected Haya's nullification and Haya submitted the petition before Supreme Court. Final judgement awaited from Supreme court.

The Second Arbitration: This was awarded on 15th February 2018, and was towards - Extension of Time Cost - amounting to RO 18.28 million with an applicable interest of 7% on the award amount.

41. Key sources of estimation uncertainty (continued)

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

Haya Water filed a case to the Appeal Court for an annulment of this arbitration award, and this appeal was rejected on 25th November 2018. Haya then appealed before the Supreme Court and this was accepted on 24th December 2019. The Supreme Court referred the case back to the Appeal Court for further proceedings. The Parent Company received RO 4.63 million as part of the award amount.

The second Appeal Court accepted Haya's nullification on 9th April 2020. Galfar submitted a petition before Supreme Court on 18th May 2020 as a last attempt. Galfar's second petition was rejected by Supreme Court on 16th February 2021

Galfar will considering all available options to recover the abovementioned amounts including settlement talks with Haya Water.

The Third Arbitration: This was awarded on 31st October 2019, and was towards - Change in Legislation Claim – amounting of RO 1.02 million. Haya filed a nullification case at Muscat Appeal Court and on 2nd March 2020 the Court rejected Haya nullification case and Haya submitted the petition before Supreme Court. Galfar has submitted a request for execution on 31st May 2020. The full amount of RO 1.02 million was received on 10th September 2020 and Supreme Court rejected Haya's first petition on 7th February 2021, and the case is closed.

The Fourth Arbitration: This was awarded on 1st March 2018, and was towards - Variation and Claims - amounting to RO 1.33 million. Haya Water filed a nullification case at the Appeal Court and on 22nd October 2018 the Court rejected Haya's appeal. Haya subsequently filed an appeal before the Supreme Court against this judgment and Court rejected this on 31st December 2019. Galfar has received the full awarded amount of RO 1.33 million on 15th January 2019 and the case is closed.

(iv) The Parent Company had lodged arbitration cases against Haya towards recovery of penalty deducted by Haya towards Al Ansab STP project. Arbitration was awarded in favour of Galfar on 28 June 2018 for RO 2.63 million plus legal cost of RO 0.14 million. Haya had filed an appeal to nullify the arbitration award. On 21 January 2019 Court had rejected Haya's nullity case. Haya submitted appeal before the Supreme Court against this judgment and Court accepted Haya challenge on 31 December 2019 and referred the case back to the Appeal Court for further proceedings. On 31 May 2020 Galfar started the enforcement procedure. Hearing date awaited from Appeal court. Awaiting from Supreme Court, Galfar's 2nd Petition final judgement.

(v) The Parent Company had lodged an arbitration case against Swissboring & Company LLC ("Swissboring") towards reimbursement of cost for repair of defects at Duqm Dry Dock Complex project. Arbitration was awarded in favour of the Parent Company on 26 February 2017 for RO 3.87 million plus 6.5% interest from the date of award till full payment. Settlement Agreement signed between Swissboring & Galfar for an amount of RO 4,69 million (including interest) on 13 October 2019. Payment shall be made in instalments including interest to complete by 31 December 2020. Copy of the Settlement Agreement submitted to court. Full amount received by Gaflfar as at 31 Dec 2020. Case closed.

41. Key sources of estimation uncertainty (continued)

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

(vi) Modern Chanel Services had filed an arbitration case against Galfar for an compensation of RO 0.5 million towards a consortium agreement related to Duqm fishery harbor project. A three arbitrator's panel was appointed to foresee the case, and the case has been held for judgment after exchange of memos.

Award issued on 8 Jun 2020 in favour of Modern Channels Services for total amount of RO 548,250/ plus 6.5% interest.

Galfar was entitled to file a nullification case before Muscat Appeal Court on or before 8 Sep 2020 and Modern Channels Services was entitled to start enforcement procedures after 9 Sep 2020. Enforecement procedure against Galfar started in 9th Feb 2021. Awaiting from Supreme Court, Galfar's 1st Petition Judgement.

(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 473 (2019: RO 539) thousand for the Group is adequate (refer note 8).

(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 (refer note 3).

(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).

41. Key sources of estimation uncertainty (continued)

(f) 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 (refer notes 6 and 7).

(g) 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 26)

(h) Leases

Significant judgement in determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew or to terminate (e.g., a change in business strategy, construction of significant leasehold improvements or significant customization to the leased asset).

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the fund necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit ratings).