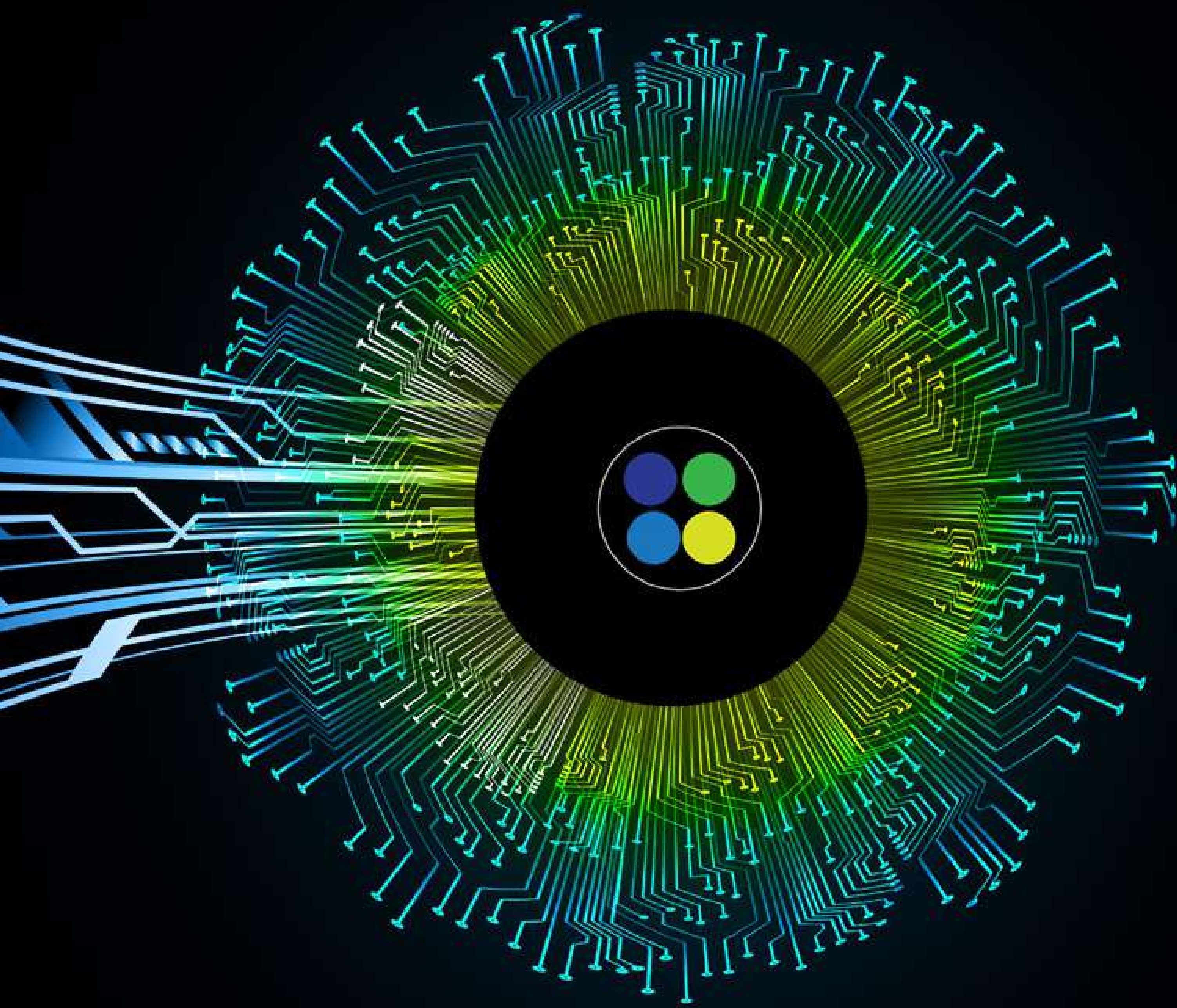
النهضة
Renaissance

# ANNUAL REPORT 2018



# Future Focused

**His Majesty Sultan Qaboos bin Said**

**Renaissance Services SAOG**
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# Board of Directors

**Colin Rutherford**
Director

**Saleh bin Nasser Al Habsi**
Director

**Sunder George**
Director

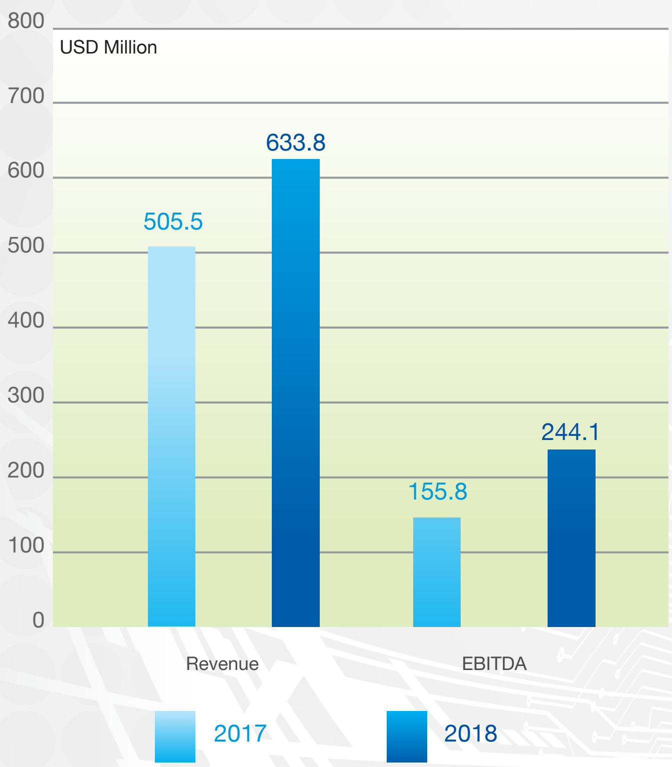
**Samir J Fancy**
Chairman

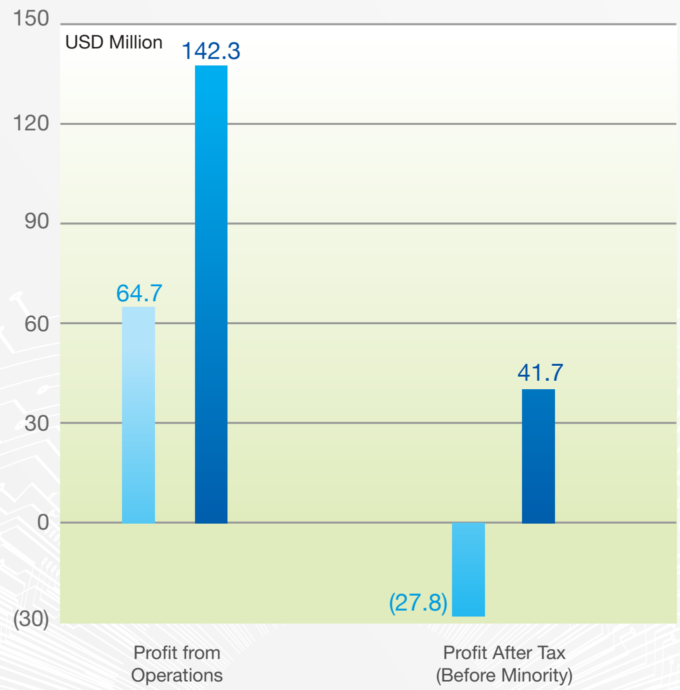
HH Sayyid Tarik bin Shabib bin Taimur
Director

Manish Doshi
Director

Ali bin Hassan Sulaiman
Deputy Chairman

# Financial Highlights

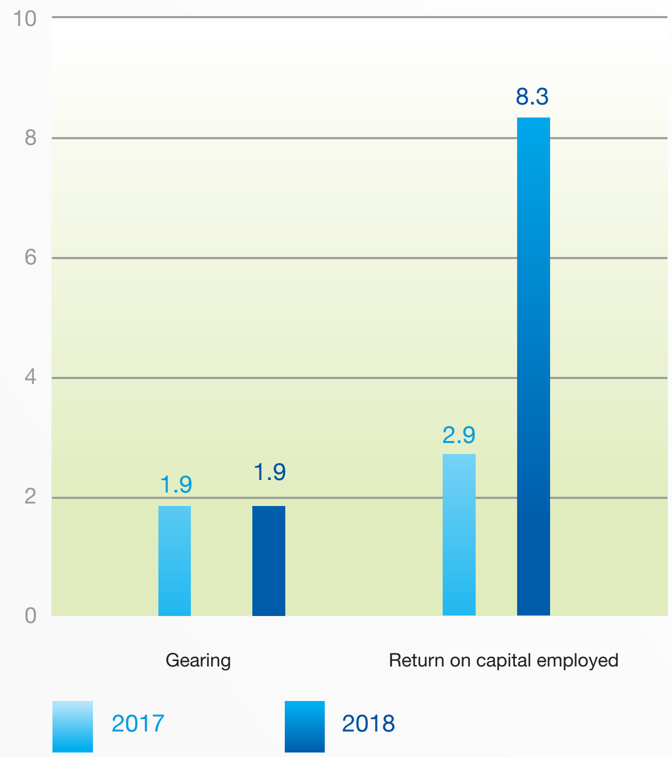



## SUMMARY FINANCIAL INFORMATION

| 2017 | 2018 | | 2017 | 2018 |
|---|---|---|---|---|
| Rial Million | | | USD Million | |
| 194.6 | **244.0** | REVENUE | 505.5 | **633.8** |
| 60.0 | **93.9** | EBITDA | 155.8 | **244.1** |
| 24.9 | **54.7** | PROFIT FROM OPERATIONS | 64.7 | **142.3** |
| (10.7) | **16.0** | PROFIT/(LOSS) AFTER TAX (BEFORE MINORITY)* | (27.8) | **41.7** |
| (36.0) | **(5.0)** | ONE-OFF CHARGES | (93.5) | **(13.2)** |
| (46.7) | **11.0** | PROFIT/(LOSS) AFTER TAX (BEFORE MINORITY) | (121.3) | **28.5** |
| 612.0 | **636.5** | NET FIXED ASSETS | 1,589.7 | **1,653.3** |
| 136.0 | **137.3** | TOTAL EQUITY (EXCLUDING PERPETUAL NOTES) | 353.4 | **356.7** |
| 46.8 | **46.8** | PERPETUAL NOTES | 121.6 | **121.6** |
| 379.9 | **382.3** | TERM LOANS | 986.6 | **993.0** |
| (0.162) | **0.009** | BASIC EARNINGS/(LOSS) PER SHARE | (0.422) | **0.023** |

* Before one-offs




## SIGNIFICANT RATIOS

| | 2017 | 2018 |
|---|---|---|
| GEARING | 1.9 | **1.9** |
| RETURN ON CAPITAL EMPLOYED (%)* | 2.9 | **8.3** |
| RETURN ON AVERAGE EQUITY(%)* | (17.5) | **11.1** |

*Before one-offs

# Chairman's Report 2018

> We continue to drive continuous improvement in safety, standards and service offerings.

## OVERVIEW

On behalf of the Board of Directors, I present the audited accounts for Renaissance Services SAOG, for the financial period ending 31 December 2018.

In 2018 the company returned to profit. For 2019, our two businesses – TOPAZ and RENAISSANCE – have each secured revenue growth. Political and economic volatility, both global and regional, continues to present challenges. We are sensitive to risk and alert to opportunity. We continue to consider options for increasing capital and improving liquidity in TOPAZ. We have committed further capital to extend the RENAISSANCE Village Duqm concept, increasing occupancy capacity from 16,960 to 18,655. We continue to drive continuous improvement in safety, standards and service offerings in both companies. We continue to innovate to ensure both businesses are increasingly agile, efficient, and customer-centric.

## RENAISSANCE GROUP - FINANCIAL PERFORMANCE

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Continuing Operations (before one-off charges)** | | | | |
| Revenue | **244.0** | 194.6 | **633.8** | 505.5 |
| EBITDA | **93.9** | 60.0 | **243.9** | 155.8 |
| Operating profit | **54.7** | 24.9 | **142.1** | 64.7 |
| **Net profit/(loss) after tax from continuing operations (before impairments and other one-off charges)** | **16.0** | (10.7) | **41.6** | (27.8) |
| Impairments and other charges (Note 1) | **(5.0)** | (36.0) | **(13.0)** | (93.5) |
| **Net profit/(loss) after tax from continuing operations** | **11.0** | (46.7) | **28.6** | (121.3) |
| **Discontinued operations** | | | | |
| Loss from discontinued operations* | **-** | (0.1) | **-** | (0.3) |
| **Net profit/(loss) after tax for the year** | **11.0** | (46.8) | **28.6** | (121.6) |
| **Net profit/(loss) for the year after minority interest** | **6.8** | (44.5) | **17.7** | (115.6) |

** Loss from discontinued operation in 2017 relates to Marine Engineering Division*

## NOTE 1 – THE UNDERNOTED TABLE REFLECTS THE DETAILS OF RENAISSANCE GROUP IMPAIRMENTS AND OTHER ONE-OFF CHARGES

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| **Topaz** | | | | |
| Impairment of vessels (net of tax adjustment) | **(1.6)** | (24.2) | **(4.2)** | (62.8) |
| Loss on sale of vessels | **(3.4)** | - | **(8.8)** | - |
| Fair value change in derivative liability | **-** | (0.6) | **-** | (1.5) |
| Refinancing costs of Senior Notes | **-** | (7.3) | **-** | (19.0) |
| Impairment of goodwill | **-** | (3.0) | **-** | (7.8) |
| **Total - Topaz** | **(5.0)** | (35.1) | **(13.0)** | (91.1) |
| | | | | |
| **Renaissance** | | | | |
| Impairment of goodwill | **-** | (0.9) | **-** | (2.4) |
| **Total - Renaissance** | **-** | (0.9) | **-** | (2.4) |
| | | | | |
| **Total - Renaissance Group** | **(5.0)** | (36.0) | **(13.0)** | (93.5) |

**TOPAZ achieved a market-leading 86% utilisation of its core fleet in 2018.**


The impairment in the value of vessels across the global Offshore Support Vessel (OSV) fleet, triggered by the oil price crash of 2014/15, has had a major impact on results over the past four years. The impact in 2018 was less marked, with improved utilization across most markets. TOPAZ achieved a market–leading 86% utilisation of its core fleet in 2018.

Visibility of earnings generation and vessel utilisation is positive for 2019, due to the safety, modernity and relevance of the TOPAZ fleet; and the stability of strategic partnerships and long-term contracts with blue-chip International Oil Companies (IOC) and National Oil Companies (NOC) clients. Positive cash flow performance ensures the company continues to meet all its financial obligations.

TOPAZ ENERGY AND MARINE

| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Revenue | **135.6** | 94.2 | **352.2** | 244.8 |
| EBITDA | **73.2** | 45.4 | **190.1** | 117.9 |
| Operating profit | **45.2** | 18.4 | **117.4** | 47.8 |
| Net profit/(loss) after tax | **10.6** | (10.2) | **27.6** | (26.5) |
| Net profit/(loss) after minority interest | **4.4** | (14.3) | **11.4** | (37.2) |

*Note: The above profit numbers are before impairments and other one-off charges*

TOPAZ is a global powerhouse in marine logistics, with the vision of being the champion provider of marine and logistics solutions to the global offshore industry.

Whilst market conditions are improving, continued volatility and uncertainty about the oil price may temper the speed of recovery. Nevertheless, IOCs and NOCs are announcing planned increases in capex and E&P activity. This is good news for TOPAZ.

The unprecedented turmoil in the industry over the past four years have proven that TOPAZ is both agile and experienced in navigating volatility. Our portfolio of vessels, despite the global OSV fundamental valuation reset, our geographic footprint, disruptive innovation and leadership position in home markets, together with the flexibility of our operating model, have enabled and will enable us to adapt well to future challenges.

In 2018 TOPAZ returned to profit. Of particular note is the company's strong Q4 result, which sets a new benchmark for sustainable and profitable growth going forward.

Throughout the downturn TOPAZ has continued to invest with confidence in its future: Growing and developing best-in-industry teams throughout the organisation, in crews, support staff and our executive complement. We have continued to invest in our fleet, in further digitalisation of our fleet, our systems, processes and innovation, to raise standards and drive down costs for both the company and our clients.

The outstanding progress we have made in 2018 shall underpin further positive impact in 2019 and the years ahead:

We have extended our flagship contract with BP in Azerbaijan until 2025. Two new Subsea vessels – Topaz Tiamat and

Topaz Tangora – are ready for delivery in Q1 to serve secured contracts in the oil & gas and renewables sectors respectively. We have a combination of new vessel and bareboat options to meet growing demand from our Saudi Arabian and West African clients. The fleet of 20 vessels to serve the TengizChevroil (TCO) marine logistics contract through the Russian Inland Waterways into Kazakhstan was built and fully mobilised by the end of 2018. TOPAZ contract backlog has increased to a record USD1.7 billion - the highest by far of any of its peers globally.

As stated our Board is committed to developing an optimal long-term capital structure for TOPAZ. This will de-leverage the balance sheet, strengthen liquidity and provide funds for growth opportunities. Throughout 2018 we have reported that the company is taking professional advice to consider a variety of capital raising, equity offering or M&A initiatives; with a number of processes under consideration. We continue that work into 2019. We shall make the right decision once we believe we have achieved the right option in the right market conditions.

In summary, TOPAZ enters 2019 delivering strong growth, with the TCO Project at full capacity, growing demand in Caspian, West African and MENA markets, long-term secure contract positions in Azerbaijan, and new subsea vessel capacity in the fleet.

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| | Rial Million | | USD Million | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Revenue | **108.4** | 100.4 | **281.6** | 260.7 |
| EBITDA | **20.7** | 14.6 | **53.8** | 37.9 |
| Operating profit | **9.5** | 6.5 | **24.7** | 16.9 |
| Net profit after tax* | **6.7** | 2.8 | **17.3** | 7.4 |
| Net profit after minority interest | **8.1** | 4.6 | **21.0** | 12.0 |

*Note: * Net profit after tax for 2018 is after Rial 2.6 million loss in Renaissance Village Duqm (2017: Rial 3.5 million). Net profit for 2017 is before goodwill impairment of Rial 0.9 million.*

RENAISSANCE is a market leading Services Solutions business in Oman, which is delivering growth by combining the cost advantage of our scale with a strategy to diversify our services, sectors and geography. The outsourcing culture is improving, and the addressable market is growing.

Our portfolio of services is increasing, with expanded solution offerings in four areas: Integrated Facilities Management (IFM); Soft FM; Hard FM; and Accommodation Solutions through our Renaissance Village brand – a design, build, own, operate solution for raising standards of lifestyle and welfare for workforces, at competitive cost, through economies of scale.

In 2018 we achieved a 100% record in major contract retention and extension, along with new contract gains. We won contracts to support the joint military exercise for Saif Saree'a at Duqm, MAM and Shaffa. We maintained high occupancy levels at all Renaissance Villages in PDO's oil and gas fields. We extended our contract tenure in major IFM contracts with BP Khazzan and Al Mouj. We increased our market share in competitive tender for contract services to the Ministry of Health hospitals.

We have completed two years of initial occupancy build-up at Renaissance Village Duqm and we enter our first year of full-scale operations in 2019. With secured occupancy in hand, we shall pass break-even in Q1 and reach maximum current capacity (>16,000 beds) by Q3. We are exploring expansion options to meet high excess demand in late 2019 and beyond.

We divested 100% ownership of our Norwegian subsidiary, Norske Offshore Catering (NOC), realising a capital gain of Rials 650,000 having achieved equity IRR of 35%. We can be proud of our 12-year stewardship of NOC, and we wish the new owners and all our NOC colleagues every success in the future.

> **We have expanded the executive team and management bandwidth to drive innovation and further growth.**

Our progress in growing our presence in the UAE market is slower than we would wish. We have restructured the organisation there and believe we can create a larger customer base and establish profitability in 2019.

We have expanded the executive team and management bandwidth to drive innovation and further growth.

In our services diversification programme, we have won a breakthrough contract with be'ah for waste collection services in Al Wusta and SEZAD, through our JV partnership with Sager of Italy. The contract mobilises in late 2019.

We have strengthened our Hard FM capabilities and established the ProTek brand to develop our traditional B2B service offerings into quality B2C homecare services. This is creating a high standard of maintenance and repair services for businesses and homes, at affordable cost, while creating good technical jobs for a predominantly Omani team.

RENAISSANCE performance will grow in 2019 just based upon rising occupancy at Renaissance Village Duqm. We remain focused on capturing further growth opportunities through demand for our Accommodation Solutions; our ongoing diversification strategy; and our digital strategy to drive efficiency and innovation for our company and our customers.

## ENVIRONMENT, SOCIAL RESPONSIBILITY, AND GOVERNANCE (ESG)

Sustainability is embedded in our corporate culture and underpins everything we do, from our dedication to best practice in Quality, Health, Safety and Environment (QHSE), to creating value for all our stakeholders. We remain committed to making a positive contribution to the communities in which we operate and supporting Oman's national development objectives.

Commitment to sustainability at the Renaissance Group starts with our Board and permeates the entire organisation, backed by my personal vigilance and support. We seek to be transparent and disclose our achievements and challenges, through our annual sustainability reports aligned to the Global Reporting Initiative (GRI).

In 2018, at RENAISSANCE, we improved our safety performance, working throughout 2018 without Lost Time Incident (LTI), extending our record to 30 million man-hours; we increased our procurement spend with local suppliers to 64%; we welcomed more Omani nationals to our senior management team and we continued to support the government's efforts on Omanisation and national skill development.

At TOPAZ, we had zero LTIs for the third consecutive year, extending our record to 14.7 million man-hours; we expanded our flagship Self-Verification Programme (SVP) and recruited 350 new employees from local communities.

There is always room for continuous improvement. In 2018, RENAISSANCE adopted a 5-year roadmap to guide us on our sustainability journey into the future. Through these initiatives, we seek to enhance our sustainability-driven culture within the organisation and embed internal processes to manage more effectively our Environmental, Social and Governance (ESG) impacts.

As an Omani company, we aim to contribute to sustainable development in the country. We want to set an example in progressive growth through focus on our values and maintaining strong stakeholder relationships. We carry that same philosophy into each country where we establish a home market presence.

## OUTLOOK

Our expectations for 2019 are very positive, with growth and margin improvement building every quarter. The pipeline of new opportunity is encouraging and our focus on growth, whist managing efficiencies and cash gives us confidence. Dealing with the long-term capital structure for TOPAZ is a priority.

While the visible prospects for our operating companies offers encouragement, we remain mindful of the risk of headwinds arising from global and regional economic and political uncertainty.

The markets in which we serve are affected directly or indirectly by turmoil wherever it arises: from trade wars to Brexit; from conflicts in the region to the oil price rollercoaster. Whatever prevails, in all our key markets, there is a compelling need for greater economic diversification and an expanded role for the private sector.

In a chaotic world, we stand ready to offer our bedrock of trusted experience, upon which we continue to build a portfolio of innovative solutions.

## TRIBUTE

On behalf of the Board of Directors, I express our sincere gratitude to His Majesty Sultan Qaboos bin Said for his leadership and support to create a business environment that enables our company to thrive and prosper in our home market and compete with the very best in markets abroad.

**Samir J Fancy**
Chairman

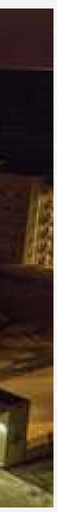
**In 2018, RENAISSANCE adopted a 5-year roadmap to guide us on our sustainability journey into the future.**

قـريـة النـهـضـة الدقم
Renaissance Village Duqm









# CEO Report 2018

2018 is the year the RENAISSANCE GROUP has returned to profitable performance and established secured income streams that should deliver further growth from 2019.

Since the oil price crisis erupted in late 2014 TOPAZ has outperformed peer groups in an embattled Offshore Support Vessel (OSV) industry. Despite this industry-leading comparative performance, the company suffered losses in each of the last three years. The cause was primarily impairment of vessels, as fleet values were impacted globally, with a severe drop in utilisation and rates. TOPAZ has now weathered that storm, returned to profit in 2018, mobilised 20 new vessels for the TCO contract, extended long-term strategic contracts and invested in new sub-sea vessels. All this has set the stage for profitable growth and positive performance in 2019 and beyond.

During the same period of oil price crisis, while the RENAISSANCE services business remained profitable, its overall performance has been flat-lining. The company has been operating in moribund market conditions and absorbing increased costs of doing business that could not be passed through to pricing in a downturn environment. Throughout this period the company invested in the new flagship project, Renaissance Village Duqm, which is set to have its first year of full-scale profitable operations and be an underlying driver of growth from 2019. Meanwhile the company is implementing other innovation and diversification initiatives to supplement the existing visibility of growth over the coming years.

For the RENAISSANCE GROUP as a whole, we have put a tough period behind us and we have created a platform for sustained performance growth and value creation.

Consolidated Group Financial Statements

| In Rial Million | **2018 Audited** | 2017 Audited |
|---|---|---|
| Revenue | **244.0** | 194.6 |
| EBITDA | **93.9** | 60.0 |
| Operating profit | **54.7** | 24.9 |
| PAT | **11.0** | (46.8) |
| PATMI | **6.8** | (44.5) |

TOPAZ
ENERGY AND MARINE

| In Rial Million | 2018 Audited | 2017 Audited |
|---|---|---|
| Revenue | **135.6** | 94.2 |
| EBITDA | **73.2** | 45.4 |
| Operating Profit | **45.2** | 18.4 |
| PAT | **10.6** | (10.2) |
| PATMI | **4.4** | (14.3) |

Note: The above profit numbers are before impairments and other charges

There is summary commentary on TOPAZ in the Chairman's Report within this document. More detailed commentary on TOPAZ is provided separately by the TOPAZ CEO in the TOPAZ Annual Report. This may be accessed by link through the RENAISSANCE GROUP website, www.renaissanceservices.com

The company has structured the TOPAZ organisation as a wholly independent governance structure within the group. RENAISSANCE GROUP Directors and Officers exercise our oversight and fiduciary responsibilities through our respective roles on the TOPAZ Board and Committees. The TOPAZ Board is a subsidiary board to the RENAISSANCE GROUP Board. The TOPAZ CEO leads the TOPAZ Executive Team and reports to the TOPAZ Board.

One major priority for 2019, as stressed by the Chairman in his report, is to decide and execute the optimum initiative that secures the long-term capital structure of TOPAZ and strengthen its liquidity position.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| In Rial Million | 2018 Audited | 2017 Audited |
|---|---|---|
| Revenue | **108.4** | 100.4 |
| EBITDA | **20.7** | 14.6 |
| Operating Profit | **9.5** | 6.5 |
| PAT | **6.7** | 2.8 |
| PATMI | **8.1** | 4.6 |

Note: Net profit after tax for 2018 is after Rial 2.6 million loss in Renaissance Village Duqm (2017: Rial 3.5 million). Net profit for 2017 is before goodwill impairment of Rial 0.9 million.

At RENAISSANCE we are building on our programme of transformation: Moving from a paradigm of business-as-usual, to a future-focused organisation committed to realising breakthrough ambition.

Breakthroughs are the significant things that need to happen to take our company beyond predictable results. The company is pursuing opportunities that can deliver a significant change in our base of sustainable profitability.

Our team is focused on what resources require strengthening to maximise the potential of these opportunities: whether Financial, Human, Knowledge, Bandwidth or Process – and acting to fill perceived gaps.

## Vision

### TO BE THE BEST SERVICES SOLUTIONS COMPANY

By leading in provision of IFM, Soft FM, Hard FM and Accommodation Solutions.

## Mission

### TO IMPROVE THE ECONOMIC WELL-BEING AND QUALITY OF LIFE OF ALL OUR STAKEHOLDERS:

Customers, employees, shareholders, suppliers, service providers and local communities

> **We believe we are in the right business and are focused on the right growth strategies.**

As we do so, RENAISSANCE is moving beyond Facilities Management to becoming a provider of Services Solutions.

- Driving an HR Strategy that ensures the safest, most competent, motivated, empowered and customer-focused team in the field, wherever we work and serve.
- Driving a Digital Strategy of innovation and automation that drives efficiency within the company; but also offers lower costs and higher standards to our customers. Services Solutions that make our turnkey Integrated Facilities Management portfolio Safer, Simpler, Greener, Faster, Cheaper, Better.
- Driving a Financial Strategy that secures our liquidity, the strength of our balance sheet, our ability to invest in growth, and restores our record of creating and returning value to shareholders.

At the same time, we remain committed to our sustainability agenda – Operating SAFELY, Growing EFFICIENTLY, Planning GREEN, and delivering LOCALLY – that drives underlying improvement in performance.

The roll-out of our ERP and Hyperion has continued during the year. By the end of 2018, we had completed the implementation of nine modules in finance, human resources and points of sale. Since the start of the project, we have delivered around 4,120 hours of training to the users, with 1,756 hours delivered in 2018 alone. The upcoming phases of project synergy includes capital asset management (CAM) in the Renaissance Villages and business transformation with Cloud ERP.


## Safety

### In 2018 the company worked the full year without Lost Time Incident (LTI)

The company has now achieved 30 Million Man-Hours without LTI

## CONTRACT SERVICES OMAN

In 2018 a solid winning streak of competitive tendering included increasing our share of the Ministry of Health (MoH) market from 85% to 99%; secured extension of key IFM contracts with BP and Al Mouj; and retained or regained all major contract bids.

However, growing cost inflation and increasing competition mean CONTRACT SERVICES is a business that needs sales growth just to flat-line. This phenomenon is not limited to Oman. Analysts reviewing performance of the global contract services majors point to the same pressures limiting organic profit growth potential internationally.

Profit growth must come from market growth and diversification. In 2018 we secured a profit boost by winning, and successfully executing, temporary camp establishment contracts for the UK Military for its joint exercise with the Sultan's Armed Forces (SAF) for exercise Saif Saree'ah 3.

We also see our stronghold position in the Healthcare sector as a key area of opportunity. There is a natural in-built growth factor of 5%-7% per annum (Source: Government of Oman); and we are developing new service offerings through IFM, Innovation and Branding.

## VALUES

| | |
|---|---|
| SAFETY | HSE; No harm to people; No harm to the environment |
| SERVICE | Customers really do come first; Standards; Quality; Unique solutions |
| INTEGRITY | Governance; Honesty; Ethics |
| EFFICIENCY | Best-in-class competitiveness with world-class competition; Performance |
| CARING | Nurturing our people; Family culture; Helping communities |

## SERVICES SOLUTIONS

## RENAISSANCE VILLAGES PDO

In 2018 we achieved our highest occupancy ever of 92%. Occupancy visibility for 2018 is slightly lower but remains stable and high at c. 87%. We continue to invest in the upkeep and standards of the Renaissance Village brand; and to seek out opportunities for further expansion as PDO and others seek to extend the availability of higher standard permanent facilities in the oil & gas fields.

## RENAISSANCE VILLAGE DUQM

RENAISSANCE VILLAGE DUQM (RSVD) showcases our commitment to medium to long-term investment programmes that yield no short-term reward but are essential for future growth and competitiveness.

Our Board and our Shareholders have had to endure longer than expected build-up of occupancy over 2017-18 since our opening in February 2017. We shall finally reward that patience with profitable build-up of occupancy from January 2019; reaching current capacity in mid-2019; and presenting plans to capture additional upside occupancy. Full demand reaches as high as 37,000 beds in mid-2020.

During 2018, all three EPC Consortia for Duqm Refinery have signed up their commitment to stay at RSVD. Their sub-contractors are also making commitments to stay. We are investing in conversion and expansion to meet the needs of the growing contractor community in Duqm.

Duqm was used as the logistics base for the joint military exercise Saif Saree'ah 3. All those staying at RSVD agreed the facility has great potential as an ideal option for long and short term military accommodation and services requirements.

## RENAISSANCE UAE (ETCS; RFMS)

We did not succeed in our aim to break-even the UAE operations in 2018. However, we have made organisational changes during the year that we believe improves the business development capability going into 2019. This is demonstrated by some positive contract gains and an improving sales pipeline toward the end of 2018.

We recognise the regional economy is still flat-lining, but we shall remain alert to any suitable M&A initiative, if the timing is right and the integration synergies are compelling.

## GOALS

Our definition of BEST is achievement of industry leading scores measured by:

- Safety Performance
- NPS (Net Promoter Score)
- Financial Discipline (Capital Structure, Liquidity, Risk Management)
- Shareholder Value (EPS, Dividends, Superior Returns)
- Employee Engagement
- ICV (In-Country Value)
- ESG (Environment, Social Responsibility, Governance)

## PEOPLE

The HR Strategy is rolling out to plan. We have expanded the Executive Leadership team, focused on growth. This includes key new Omani colleagues joining the Executive team and other senior management positions throughout the organisation. Female employees have also increased again this year. Staff engagement initiatives are also a priority, including success in the impact of an Employee Facebook page called 'Renaissance Life'. We continue to score well and draw lessons from independent staff welfare surveys commissioned by our clients.

Omanisation has also progressed well this year. We employ over 2,400 Omanis, above the services quota levels and have now reached 40% Omanisation at Senior Management and 17% Omanisation at other managerial levels.

Our Learning & Development team provides in-house training as well as out-sources supplementary training professionals in support of our Omanisation programme as well as training for all staff.

**Female Employment**

**Increased by 147 (12%) to**

**1,288 in Oman**

## DIVERSIFICATION

Our strategy to diversify services, sectors and geography recognises the fact we have to broaden our market platform beyond our traditional base in order to grow the business.

Success in 2018 means Military is once again a core focus for diversification and sustainable opportunity. Not just services, but also Facility Establishment to International Force Standards, and food supply.

The long-awaited breakthrough into Waste Management with the be'ah contract for Al Wusta and SEZAD, provides another platform of opportunity.

We have had modest new wins in the Utilities Sector this year, with the addition of connection and disconnection services. We have established key international alliances to assist us in developing innovative solutions for larger growth opportunities.

The establishment of ProTek as our B2C Homecare Services Brand offers us the opportunity to grow our Hard FM footprint and capability in serving businesses, institutions and individual households.

**Sustainability Ethos**

**> Operating safely**

**> Growing efficiently**

**> Planning green**

**> Delivering locally**


Other initiatives include developing potential in IOT, automation, branding and leveraging our supply chain to improve efficiencies internally and create innovative service offerings for existing and new customers.

**ICV Spend**
**57.9% in Oman,**
**highest on record to date**

We continue to leverage the scale and potential of our supply chain not only to drive down cost in the company but also provide external sales to the market. Our Central Stores facility in Mabela comprises state-of-the-art storage facilities. Our fleet of supply vehicles travel to our operations the length and breadth of the country.

We have established a repacking facility for grains, pulses & spices. We have launched our Al Kamil rice brand. 64.3% of total procurement was local (Rial 27M of Rial 42M). 2018 SME spend was Rial 466K.

Our Sustainability Agenda, and specifically the impact of our annual Sustainability Report, has been cited by key clients as a major factor in setting us apart from other Oman-based international and local competition.

Our Corporate Social Responsibility (CSR) programmes remain focused on three core themes: Economic wellbeing and personal development; Protecting the environment and Improving and assisting communities. Our CSR Projects continue to include our work with Oman Sail, Outward Bound, BizPro Awards, and the Environment Society of Oman (ESO) Renaissance Whale and Dolphin Project.

Beyond this, we have supported various charities through event sponsorship. Our colleagues throughout the company also arrange local community events, including beach cleaning efforts.

This year we were also pleased and proud to support our clients and communities in Salalah and the Southern Oilfields for Cyclone Mukunu. We remain grateful to all our people involved in these efforts for their valiant service to the community. Renaissance Village Duqm also welcomed company and community evacuees from the threatened region.

We plan continuous improvement on all these fronts in 2019.


## DIVIDEND

The impact of recent years' performance during the oil price crisis has had a negative impact on the company's dividend record; and for 2018 we are again unable to recommend a dividend.

Our Dividend Policy is based on the proposition that cash is returned to Shareholders in the form of higher dividend pay-outs when there are no credible value creating opportunities to invest in the business.

| | 2013 | | 2014 | | 2015 | | 2016 | | 2017 | | 2018 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | % | Rial'000 | % | Rial'000 | % | Rial'000 | % | Rial'000 | % | Rial'000 | % | Rial'000 |
| Cash dividend | 10 | 2,821 | 10 | 2,821 | - | - | - | - | - | - | - | - |
| Stock dividend | | | - | - | - | - | - | - | - | - | - | - |
| Total dividend | 10 | 2,821 | 10 | 2,821 | - | - | - | - | - | - | - | - |

**Our best growth potential remains in our home market of Oman and the wider Arabian Peninsula. We have specific opportunities in Duqm and the oil & gas fields.**

## OUTLOOK

Our best growth potential remains in our home market of Oman and the wider Arabian Peninsula. We have specific opportunities in Duqm and the oil & gas fields. Diversifying away from our reliance on Oman may require M&A activity in UAE and beyond.

Globally, facilities management is becoming increasingly more outsourced, and therefore mature (particularly in business and industry). So, our strategy has to be supplemented by more investment in sales, marketing, product innovation, technology, automation, and diversification.

Yet this is against a background of volatile oil price; regional and global political turbulence; and increasingly gloomy forecasts of slower growth and potential economic turbulence. Locally, in Oman, there is real concern about timely payment.

Whilst being alert to the potential risks and uncertainties of these issues, we believe we are in the right businesses and are focused on the right growth strategies to achieve our breakthrough ambition.

Duqm is key to the Oman government's own drive to diversify the economy and create a modern smart city within a global logistics, industry and tourist hub. Duqm is attracting FDI: Industrial, Commercial and Military.

## Oman Segment
Renaissance

| Segment | Meals | Scale | Services |
|---|---|---|---|
| 1 HEALTHCARE | 15M+ meals annually | 70 Healthcare Units | Catering, Cleaning, Laundry, Pest Control and allied services |
| 2 OIL & GAS | 12M+ meals annually | 10 locations | Accommodation, IFM, Camp Management, Catering, Maintenance & allied services |
| 3 DEFENCE | 05M+ meals annually | 20 sites | Accommodation, Catering, Cleaning, Laundry, Pest Control and allied services |
| 4 EDUCATION | 02M+ meals annually | 11 locations | Catering, Cleaning, Laundry, Pest Control and allied services |
| 5 OTHERS | 08M+ meals annually | 03M+ sq mts BUA Facilities Managed | IFM, Accommodation, Waste Management, Hard FM, Specialised Services |

PDO's sustainable development of its oil and gas concessions; and its drive to become a broader Energy company, are creating as much resilience as may be possible in volatile oil and gas markets. The BP Khazzan project is a bright success factor in Oman's current economic progress.

The Healthcare sector is growing naturally every year. The Waste Management and Utilities sectors are at the forefront of out-sourcing FM services and new technologies required to drive efficiency.

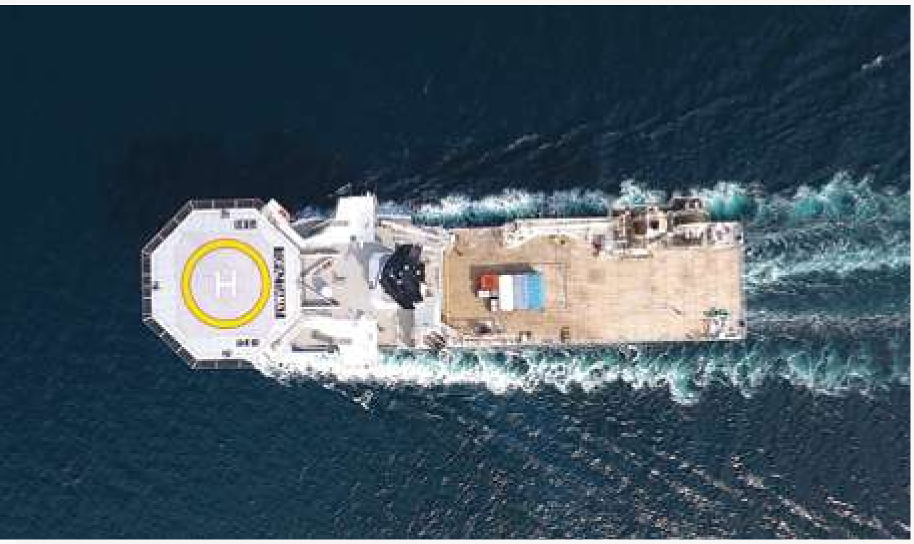
The global issue of living and safety standards for skilled and semi-skilled blue-collar workforces is coming into sharp relief and fast becoming an imperative requirement in out-sourcing decisions for global businesses and nations. We have the answer to this need with our Renaissance Villages delivering safety, security, dignity, respect, and lifestyle to workforces of all ranks; at affordable cost for businesses and projects.

In all cases of new opportunity, we take a prudent view to minimise importing unnecessary risk to the company. We strike a fine balance between the fear of loss and the desire to gain. We succeed in this by balancing the coverage and protection of our fiscal oversight, systems and processes – with the spirit of enterprise and freedom to succeed afforded to our talented teams throughout the company.

The leadership team's positive and proactive approach to the challenges and opportunities of 2019, demonstrates that creative solutions and breakthroughs are possible, and that the vision is becoming a reality.

**Stephen R. Thomas**
CEO

TOPAZ
ENERGY AND MARINE


TOPAZ KAMA
TOPAZ
MARINE
BLUE WATER

# Our Customers

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**TO THE SHAREHOLDERS OF**
**RENAISSANCE SERVICES SAOG**

We have performed the procedures agreed with you pursuant to the Capital Market Authority (CMA) Circular No. E/4/2015 dated 22 July 2015 with respect to the accompanying corporate governance report of **Renaissance Services SAOG** as at and for the year ended 31 December 2018 and its application of corporate governance practices in accordance with 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 (collectively the "Code"). Our engagement was undertaken in accordance with the International Standards on Related Services to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the Company's compliance with the Code as issued by the CMA and are summarized as follows:

1. We obtained the corporate governance report issued by the Board of Directors and checked that the report of the Company 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 with the Code, for the year ended 31 December 2018. 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.

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 corporate governance 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 accompanying corporate governance report of **Renaissance Services SAOG** to be included in its annual report for the year ended 31 December 2018 and does not extend to any financial statements of **Renaissance Services SAOG,** taken as a whole.

Deloitte · Touche

**Deloitte & Touche (M.E.) & Co. LLC**
**Muscat, Sultanate of Oman**
**24 February 2019**

ديلويت آند توش (الشرق الأوسط) وشركاه ش.م.م
C.R. No. 1736256
Deloitte.
0901-02
Deloitte & Touche (M.E.)& Co. LLC.

Deloitte & Touche (M.E.)

# Report on Corporate Governance

Corporate governance is an internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. Sound corporate governance is not only about structure and clarity in management and areas of responsibility, but it also encourages good transparency so that shareholders can understand and monitor the development of the company.

The Board and the Management of Renaissance Services SAOG (the "Company") are committed to adopt the best practices of corporate governance that promote ethical standards and individual integrity. The Company will continue to focus on its resources, strengths and strategies for creating, safeguarding and enhancing shareholders' value while at the same time protecting the interests of its stakeholders.

This report illustrates how the Principles of Corporate Governance and the provisions of the Code of Corporate Governance, set out in the Capital Market Authority's (CMA) Code of Corporate Governance for companies listed on the Muscat Securities Market (MSM), and the Provisions for Disclosure stipulated in the Executive Regulations of the Capital Market Law, are adhered to by the Company.

The Company believes that the Code prescribes a minimum framework for governance of a business. The Company's philosophy is to develop this minimum framework and institutionalise its principles as an ingredient of its corporate culture. This will lay the foundation for further development of a model of governance with superior governance practices, which are vital for growing a successful business. The Company recognises that transparency, disclosure, financial controls and accountability are the pillars of any good system of corporate governance.

In accordance with the provision for disclosure stipulated in the Executive Regulation of the Capital Market Law, Deloitte & Touche (M.E.) has issued a separate Factual Findings Report on the Company's Corporate Governance Report for the year ended 31 December 2018.

## 1. CODE OF CORPORATE GOVERNANCE

The Capital Market Authority circulated a new Code of Corporate Governance (the 'Code') for public joint stock companies, which came into force and effect as of July 2016. The new code replaced the 2003 Code of Corporate Governance for Public Listed Companies (the 'Old Code').

The Company is fully compliant with the provisions of the Code of Corporate Governance.

However, the Company always strives to go beyond the requirements of the Code while practicing Corporate Governance. Some examples of how the Company emphasises the importance of corporate governance are described below:

| S. No. | Description | Status |
|---|---|---|
| 1. | Corporate Governance Training for Board | The Board of Directors have undertaken two training sessions on Corporate Governance since the Code came into force. |
| 2. | Induction Training for new Board Member(s) | The Board carries out formal induction training for new Board member(s), including provision of relevant Company data, interviews with Executive Management and ongoing support to the new Director(s). |
| 3. | Performance Review of the Board and its Sub–Committees through an Independent consultant | The Shareholders of the Company have appointed EY to conduct the Board Evaluation. EY have successfully completed the Board Evaluation for 2017 and 2018. EY discussed their findings with the Board and have presented their report in the Board Meeting. |
| 4. | Annual Plans for Corporate Social Responsibility, Risk Management, Audit and Internal Controls Committee and the Nomination and Remuneration Committee | The Board reviewes and discusses the annual plans in the Board Meeting, which are then approved by the Board for implementation. |
| 5. | Review of Company Policies | The Company policies have been reviewed by our Auditors, and Legal Advisors and are reviewed internally by the Company on an annual basis. The policies are available in a secure section of the Company's website. |

| | | |
|---|---|---|
| 6. | Identifying and Pre-approving Related Party Transactions | The AICC and Board pre-approved Related Party Transactions to be entered into with Related Parties in the ordinary course of business for 2018-2020 in their respective meetings held on 9 and 10 May 2018. |
| 7. | Engagement with Investors | The Company proactively engages with its stakeholders on a regular basis. The Company holds quarterly investor and analyst calls where the Management of the Company discusses and answers questions on the Company's performance. The Company also organises an annual investor and analyst meeting where investors, analysts and banks are invited to discuss the Company's plans and performance with the Management. |
| 8. | Sustainability Report | The Company has successfully generated its eighth Sustainability Report in 2018. The Report has been developed in compliance with the core Global Reporting Initiatives (GRI) framework requirements. External Consultants, EY, review this report. The Chairman also comments on sustainability initiatives in the Chairman's Report. |
| 9. | 'Green' values adopted through use of paperless Board Meetings | In keeping with the Company's core values, the Company implements environmentally friendly initiatives wherever possible. In 2018, the Board adopted a paperless policy for all Board Meetings. |

## 2. COMPANY'S PHILOSOPHY

The Company upholds a governance philosophy that aims at enhancing long term shareholder value while at the same time adheres to the law and observes the ethical standards of the business environment within which it operates.

According to the Company's governance paradigm the Management assumes accountability to the Board, and the Board assumes accountability to the Shareholders. The Board's role is to be an active participant and a decision-maker in fostering the overall success of the Company by enhancing shareholder value, selecting and evaluating the top management team, approving and overseeing the corporate strategy and Management's business plan, and acting as a resource for Management in matters of planning and policy.

The Board monitors corporate performance against the strategic and business plans, and evaluates on a regular basis whether those plans pay off in terms of operating results.

In order that it can effectively discharge its governance responsibilities, the Board ensures that all Board members are non-executive.

Furthermore, the Board accesses independent legal and expert advice of professionals who also assist the Management. The Board also encourages active participation and decision-making on the part of Shareholders in General Meeting proceedings.

The Board maintains a positive and ethical work environment that is conducive to attracting, retaining and motivating a diverse group of top quality employees at all levels. The Board, through the Nomination and Remuneration Committee, reviews and decides the parameters for assessment and compensation of key personnel.

The Board is also responsible for the overall strategic management of risks that the Company is exposed to and appoints Executive Management to lead the implementation of the risk management strategy. The Company's Risk Management Plan and Risk Management Policy were presented and approved by the Board for 2018.

The Board abides by ethical behaviour principles at all times. It ensures that the Company complies with all laws and regulations and has developed a Code of Ethics that promotes these values among its employees. The Company also has a comprehensive number of policies to ensure compliance with the requirements of the new Code of Corporate Governance, as well as updated its policies in existence prior to the introduction of the new Code. These policies include, but are not limited to, Audit and Internal Controls Committee Policy, Rules for Related Party Transactions, Disclosure Guidelines, Corporate Social Responsibility Policy, Conflict of Interest Policy, Board Secretarial Duties, Auditor Consultancy Policy, and a number of other policies.

## 3. BOARD OF DIRECTORS

During 2018, the Board consisted of seven Directors. Five Directors on the Board are Shareholders / representatives of Shareholders and two Directors are non-shareholder Directors.

### 3.1 THE COMPOSITION AND CATEGORY OF DIRECTORS AND BOARD MEETING ATTENDANCE

| S. No. | Name of Director | Position | Category | No. of Board meetings held during the year | No. of Board meetings attended | Whether attended last AGM |
|---|---|---|---|---|---|---|
| 1 | Samir J Fancy | Chairman | Non-Independent Non-Executive Shareholder | 5 | 5 | Yes |
| 2 | Ali bin Hassan Sulaiman | Deputy Chairman | Non-Independent Non-Executive Shareholder | 5 | 5 | Yes |
| 3 | Sayyid Tarik bin Shabib bin Taimur | Director | Non-Independent Non-Executive Shareholder | 5 | 5 | Yes |
| 4 | Sunder George | Director | Independent Non-Executive Non-Shareholder | 5 | 4 | Yes |
| 5 | Manish Doshi | Director | Non-Independent Non-Executive, Representative of a Shareholder | 5 | 5 | Yes |
| 6 | Colin Rutherford | Director | Independent Non-Executive Shareholder | 5 | 5 | No |
| 7 | Saleh bin Nasser Al Habsi | Director | Non-Independent Non-Executive, Non-Shareholder | 5 | 4 | Yes |

### 3.2 STATEMENT OF THE NAMES & PROFILES OF DIRECTORS AND TOP MANAGEMENT

The Renaissance Board brings together a core competency of Directors with vision, strategic insight, and industry knowledge, who provide direction to the Executive Management.

### SAMIR J FANCY - CHAIRMAN

Mr. Samir J Fancy has been the Chairman of the Board of Directors since 1996. He holds the following additional roles:

- Founder and Vice Chairman of Tawoos Group from 1983-2005
- Chairman of Tawoos Group since 2005
- Chairman of Topaz Energy & Marine SAOG from foundation until it was merged with Renaissance in May 2005
- Chairman of Topaz Energy & Marine Ltd since May 2005
- Chairman of Amani Financial Services SAOC since 1997
- Director of Renaissance Duqm Holding SAOC
- Director of Renaissance Duqm Accommodation Company SAOC
- Chairman of the Executive Committee and Director of Samena Capital

Former positions include: Directorships at the National Bank of Oman, Muscat Finance Company, Vision Insurance, and United Power Company.

### ALI BIN HASSAN SULAIMAN - DEPUTY CHAIRMAN

Mr. Ali bin Hassan Sulaiman is a member of the Board of Directors of the Company since 1996 and is Deputy Chairman since March 2010. He is a founder of Ali and Abdul Karim Group and director in the following companies:

- Topaz Energy & Marine SAOG for several years up to its acquisition by the Company in May 2005
- Majan Glass Co SAOG
- Topaz Energy & Marine Ltd

- Renaissance Duqm Holding SAOC
- Renaissance Duqm Accommodation Company SAOC

## HH SAYYID TARIK BIN SHABIB BIN TAIMUR - DIRECTOR

HH Sayyid Tarik bin Shabib bin Taimur is a member of the Board of Directors of the Company since 1996. Other positions held by him include the following:

- Founder and Director of Tawoos Group
- Chairman of Renaissance Duqm Holding SAOC
- Chairman of Renaissance Duqm Accommodation Company SAOC
- Chairman of National Hospitality Institute SAOG (now SAOC) since 1995
- Director of Amani Financial Services SAOC

## SUNDER GEORGE - DIRECTOR

Mr. Sunder George is a member of the Board of Directors of the Company since 2001. He has extensive experience in Banking & Finance and has held several senior executive positions in Oman & abroad until he retired from Bank Muscat on 31 December 2012 as its Deputy Chief Executive. He was Chief Adviser to the Bank for a year until the end of 2013. Sunder George also sits on the Board of Bank Muscat and is a member of the Risk Committee.

## COLIN RUTHERFORD – DIRECTOR

Mr. Colin Rutherford has been a member of the Board since 2005 and was formerly Chairman of BUE Marine Holdings Limited prior to its acquisition by Renaissance Group SAOG. He has diverse experience of public and private companies having served on many International Boards. He is a Chartered Accountant and former Corporate Financier, and currently enjoys the following positions within his portfolio:

- Chairman of Brookgate Limited
- Non-Executive Director and Audit Committee Chairman of Evofem Biosciences INC
- Non-Executive Director and Audit Committee Chairman of Mitchells & Butlers PLC
- Non-Executive Director, Audit Committee and Remuneration Committee member of New River REIT PLC

## SALEH BIN NASSER AL HABSI - DIRECTOR

Mr. Saleh Al Habsi has been a member of the Board of Directors since 2013. He holds an MBA and M.Sc in Finance from the University of Maryland (USA) and BSBA and BA from Boston University (USA). He also attended a senior executive programme at London Business School and High Performance Boards Programme at IMD, Switzerland. Mr. Saleh Al Habsi is Head of Investment Banking and Asset Management at Bank Muscat SAOG since March 2018.

Other positions held by him include the following:

- Chairman of Salalah Commercial Complexes SAOG
- Deputy Chairman of OUDC SAOC
- Board Member of Kitara Capital Limited
- Board Member of BM Property Fund
- Board Member of Oman National Investments Development Company SAOC (TANMIA)

Previously, he served as Chairman of Muscat Fund, Deputy Chairman of Gulf Custody Company Oman SAOC. He was a board member of Bank Dhofar SAOG, board member of National Bank of Oman, board member of GrowthGate Capital, board member of Al Jazeera Steel SAOG, board member of Al Suwadi Power Company SAOG, board member of Al Omaniya Financial Services SAOG, and General Manager of Pension Fund of the Ministry of Defense until December 2017.

## MANISH DOSHI - DIRECTOR

Mr. Manish Doshi joined the Board of Directors of Renaissance Services SAOG in March 2017.

He is a Fellow of the Institute of Chartered Accounts of India with over two decades of experience in Strategy Planning, Financial Management and Contracts Management.

He joined TruckOman Group in 2001, and is currently serving as Deputy CEO.

He is also a member of various management level committees of the parent and subsidiary companies of TruckOman Group.

## STEPHEN R THOMAS OBE - CHIEF EXECUTIVE OFFICER

Mr. Stephen R Thomas joined Tawoos Group as General Manager of Tawoos Industrial Services Co. LLC in 1988. He took over as Chief Executive Officer of Renaissance Services SAOG in 1998. In the 2010 United Kingdom New Year's Honours List, Mr. Thomas was appointed OBE for services to business abroad and services to the community in Oman. He is a Director of Topaz Energy & Marine Ltd. and has also held other senior positions, including:

- Director of Renaissance Hospitality Services SAOG since foundation and until its merger with Renaissance Services SAOG in April 2002
- A Founder and former Chairman of Oman Society for Petroleum Services ("OPAL")
- Director of National Hospitality Institute SAOG

### 3.3 MEMBERSHIP OF OTHER BOARDS/ BOARD COMMITTEES (SAOG COMPANIES IN OMAN)

| Sr. No. | Name of Director | Directorship in other SAOG companies | Membership in board committees of other companies |
|---|---|---|---|
| 1 | Samir J Fancy | - | - |
| 2 | Ali bin Hassan Sulaiman | 1 | - |
| 3 | HH Sayyid Tarik bin Shabib bin Taimur | - | - |
| 4 | Sunder George | 1 | 1 |
| 5 | Manish Doshi | - | - |
| 6 | Colin Rutherford | - | - |
| 7 | Saleh bin Nasser Al Habsi | 1 | 2 |

### 3.4 NUMBER & DATES OF MEETINGS OF THE BOARD OF DIRECTORS

The Board held five meetings during 2018 on the following dates:

11 January 2018, 21 February 2018, 10 May 2018, 13 August 2018, and 12 November 2018.

## 4. AUDIT AND INTERNAL CONTROLS COMMITTEE & OTHER SUB-COMMITTEES (AICC)

The Audit and Internal Controls Committee is a sub-committee of the Board comprising of three Directors, two of whom are independent and one non-independent. All AICC members are non-executive Directors.

### 4.1 BRIEF DESCRIPTION & TERMS OF REFERENCE

The functions of the Audit and Internal Controls Committee are as follows:

- Recommends to the Board the appointment and removal of the Statutory Auditors and determine their independence, fee and terms of engagement for approval by the Shareholders.
- Review the audit plan and results of the audit in conjunction with the Statutory Auditors and provide its comments and consider whether Statutory Auditors have full access to all relevant documents.
- Following up on the work of the Statutory Auditors and approving any non-audit services which they are assigned during the audit process.
- Overseeing the preparation of the financial statements including:
  - Reviewing the annual and quarterly financial statements prior to publication.
  - Reviewing the reservations and qualifications of the external auditors in the draft financial statements.
  - Discussing the accounting principles in general, focusing on any changes in accounting policies and principles that had taken place and their impact on the financial position of the Company or any deviations from International Standards on Accounting, as well as ensuring compliance with the disclosure requirements issued by the authorities.
  - Ensuring compliance with disclosure requirements prescribed by the CMA.
- Consideration and follow up of the comments of the Statutory Auditor on the annual and quarterly financial statements and providing opinion and recommendation to the Board.
- Consideration and review of the Internal Audit function in general and submitting an annual report outlining its opinions and recommendations with particular reference to reviewing the scope of internal audit plan for the year, reports of internal auditors pertaining to critical areas, efficacy of internal auditing and whether the internal auditors have full access to relevant documents.
- Ensuring the appropriateness and adequacy of the company's internal controls based on the periodic reports of the internal and external auditors or through hiring specialised consultants in this field.
- Review any non-compliance with disclosure requirements prescribed by CMA.
- Oversee the Company's financial reporting process and the disclosure of its financial information to ensure accuracy, sufficiency and credibility of the financial statements.
- Consideration of the adopted accounting policies and principles and providing opinion and recommendation to the Board.
- Serve as a channel of communication between Statutory & Internal Auditors and the Board.
- Developing a risk management plan and following up on its implementation. The plan should include the key risks which the Company is exposed to, their probability, mechanisms for detecting, measuring and monitoring these risks and any mitigation mechanisms.
- Developing and reviewing risk management policies taking into account the business, any changes in market conditions and the Company's investment approach and

expansion tendencies and and examining the reasons for the company's failure to fulfil its obligations, if any.

- Guiding the Board and Executive Management on risk management matters.
- Reporting periodically, or as directed by the Board, on the risk status and management.
- Review proposed related party transactions and providing appropriate recommendations to the Board.
- Validating and verifying the overall efficiency of Executive Management in implementing operational directives and guidelines set up by the Board.
- Creating policies for safeguarding the Company's human, material and intellectual resources and assets.
- Seek the assistance of any other entity on a consultancy basis to assist it to perform its duties.
- Examining the cases of financial fraud and forgery committed through the presentation of fictitious figures in fraudulent financial statements and establishing strict control procedures that ensure the existence of accounting policies and principles in accordance with International Standards on Accounting which reflect the Company's true financial position.
- Recommend the appointment, termination of services and acceptance of resignation of the Head of Internal Audit to the Board.
- The AICC Chairman shall ensure that the audit reports and work documents are delivered to the new Head of the Internal Audit upon the termination or completion of the services of the Head of the Audit Department.
- Review the external assessment report of the Internal Audit department and submit it to the Board along with its recommendations. A summary of the assessment results shall be disclosed as a part of the governance report. (The Company shall conduct a comprehensive external assessment of the Internal Audit works at least once every (4) four years through a specialised external entity, other than the Company's External Auditor. The external assessor shall be appointed by a Board resolution).
- The material and in-kind benefits granted to the staff of the Internal Audit shall be approved by AICC Chairman.

### 4.2 COMPOSITION OF AUDIT AND INTERNAL CONTROLS COMMITTEE AND MEETINGS ATTENDANCE

During 2018, the Committee held four meetings on 21 February 2018, 09 May 2018, 12 August 2018 and 11 November 2018 respectively. The following table shows the composition of the Audit and Internal Controls Committee (AICC) and meeting attendance:

| Sr. No. | Name | Position | Meetings held during the year | Meetings attended during the year |
|---|---|---|---|---|
| 1 | Sunder George | Chairman | 4 | 3 |
| 2 | Ali bin Hassan Sulaiman | Member | 4 | 4 |
| 3 | Colin Rutherford | Member | 4 | 4 |

During its meetings in 2018, the Audit and Internal Controls Committee discussed and approved the annual internal audit plan, and recommended the appointment of the Statutory Auditors for the year 2019. It also reviewed and recommended the audited and quarterly accounts and looked into certain specific areas of the Company's operations and reported on these to the Board.

### 4.3 THE NOMINATION AND REMUNERATION COMMITTEE (NRC)

The Nomination and Remuneration Committee updates the parameters for assessment of compensation of key personnel, undertakes their performance assessment and reports to the Board on the Company's compensation and personnel policies. The duties of the NRC also include assisting the Board with finding suitable directors to sit on the Board, succession planning for Board members and senior Executive Management, drawing up job descriptions for Board members and formulating a policy for remuneration of senior executives.

The committee, which consists of the following Directors held two meetings on 27 March 2018 and 19 December 2018:

| Sr. No. | Name | Position | Meetings held during the year | Meetings attended during the year |
|---|---|---|---|---|
| 1 | Ali bin Hassan Sulaiman | Chairman | 2 | 2 |
| 2 | Samir J Fancy | Member | 2 | 2 |
| 3 | HH Sayyid Tarik bin Shabib bin Taimur | Member | 2 | 2 |

## 5. PROCESS OF NOMINATION OF THE DIRECTORS

In nominating and screening candidates to fill a casual vacancy, the Board, assisted by the Nomination and Remuneration Committee, seeks candidates with the skills and capacity to provide strategic insight and direction, encourage innovation, conceptualise key trends and evaluate strategic decisions. The Board focuses on professionalism, integrity, accountability, performance standards, leadership skills, professional business judgment, financial literacy and industry knowledge as core competencies of the candidates. While nominating competent candidates, the Board ensures that the Shareholders retain the power of electing any candidate, irrespective of his candidature being recommended by the Board or otherwise, and that any Shareholder has the full right of nominating himself.

## 6. REMUNERATION MATTERS

As per the approval accorded by the AGM held on 28 March 2018, the Chairman is paid Rial 1,000/- for attending Board meetings, and other Directors are paid Rial 500/- as sitting fees per meeting. Sitting fees of Rial 750/- are paid to Committee Chairmen and sitting fees of Rial 650/- are paid to Committee Members. The remuneration, sitting fees and travelling expenses relating to the attending of the meetings paid to the Chairman and Directors for 2018 are as follows:

| Sr. No. | Name of Director | Position | Sitting Fees Paid for Board & Sub-committee Meetings for 2018 (Rial) | Travel Expenses (Rial) |
|---|---|---|---|---|
| 1 | Samir J Fancy | Chairman | 6,300 | 1,601 |
| 2 | Ali bin Hassan Sulaiman | Deputy Chairman | 6,600 | 0 |
| 3 | HH Sayyid Tarik bin Shabib bin Taimur | Director | 3,800 | 276 |
| 4 | Sunder George | Director | 4,250 | 0 |
| 5 | Colin Rutherford | Director | 5,100 | 16,933 |
| 6 | Saleh bin Nasser Al Habsi | Director | 2,000 | 471 |
| 7 | Manish Doshi | Director | 2,500 | 0 |
| | **Total** | | **30,550** | **19,281** |

For the financial year 2018, it is proposed to pay remuneration of Rial 74,450 for the Directors.

Total remuneration paid to the top five senior executives of the Company (including its subsidiaries) during the year was Rial 1,649,682. This includes salary and benefits paid in cash, monetary value of all benefits calculated as per Company rules and a variable amount based on performance as recommended by the Nomination and Remuneration Committee of the Board.

The majority of the top 5 officers of the Company have been with the Company for a lengthy period of time. The employment contracts are usually entered into for an initial period of 2 years which are automatically renewed unless terminated in accordance with the terms mentioned therein. The notice period for termination of employment contracts for all the key personnel is a minimum of 2 months and the gratuity is computed and paid in accordance with the applicable Labour Laws.

The Company has a Senior Management Incentive Plan (SMIP). Under the plan, the Company has created an overseas based trust structure under the name of Renaissance Services SMIP Limited, and uses trustees from an independent professional firm to oversee and administer the employees' long-term benefit scheme independently from the Company. The scheme is a rolling programme that allows a part of the Company's senior Management bonus payments every year to be paid into the independent trust and the underlying structure. The proceeds are invested by the trustees in the shares of the Company through the MSM. The shares are directly released to the employees by the trustees proportionately over a period of 3 years. The structure and the operation mechanism ensure independency and transparency so that the employees are fully aware of the management and liquidity of their long-term employment benefits.

## 7. BOARD AND SUB-COMMITTEE PERFORMANCE EVALUATION BY EY – SUMMARY OF FINDINGS

The Board of Directors of Renaissance Services SAOG recognises that the effectiveness of the Board is vital to the success of the Company.

In accordance with the approval accorded by Shareholders in the AGM dated 28 March 2018, the Company has undertaken an external evaluation of the Board for the year ended 31 December 2018 in order to assess how well the Board and its sub-committees are performing. This evaluation was carried out by independent consultants, EY, who have worked closely with the Board and Executive Management on the evaluation process.

This process involved circulation of questionnaires to all Board and sub-committee members for completion, interviews with the Board and Executive Management, and a detailed analysis of the data received from Board members. A number of key areas were covered as part of the evaluation; Group strategy, succession planning, Board size, the relationship between the Board and its sub-committees and other related areas.

The draft report was considered and discussed with the Chairman, individual directors, and subsequently collectively by the Board as a whole.

In summary, the performance of the Board and its sub-committees of Renaissance Services SAOG for the year ended 31 December 2018 resulted in an overall good and progressive performance.

## 8.DETAILS OF NON-COMPLIANCE BY THE COMPANY

There were no penalties or strictures imposed on the Company by the MSM/CMA or any statutory authority for the last three years. There are no areas in which the Company is not compliant with the Code of Corporate Governance.

## 9.MEANS OF COMMUNICATION

9.1 The Company sends its financial results and all material information to MSM website via the MSM Electronic Transmission System. The Company also publishes its annual audited & quarterly unaudited financial results and material information in both English and Arabic newspapers. The annual audited accounts and Chairman's Report are despatched to all shareholders by mail, as required by law.

9.2 The financial results and information on the Company are posted at: www.renaissanceservices.com as well as on the Muscat Securities Market website: www.msm.gov.om.

9.3 Meetings are held with analysts and members of the financial press in line with internal guidelines of disclosure.

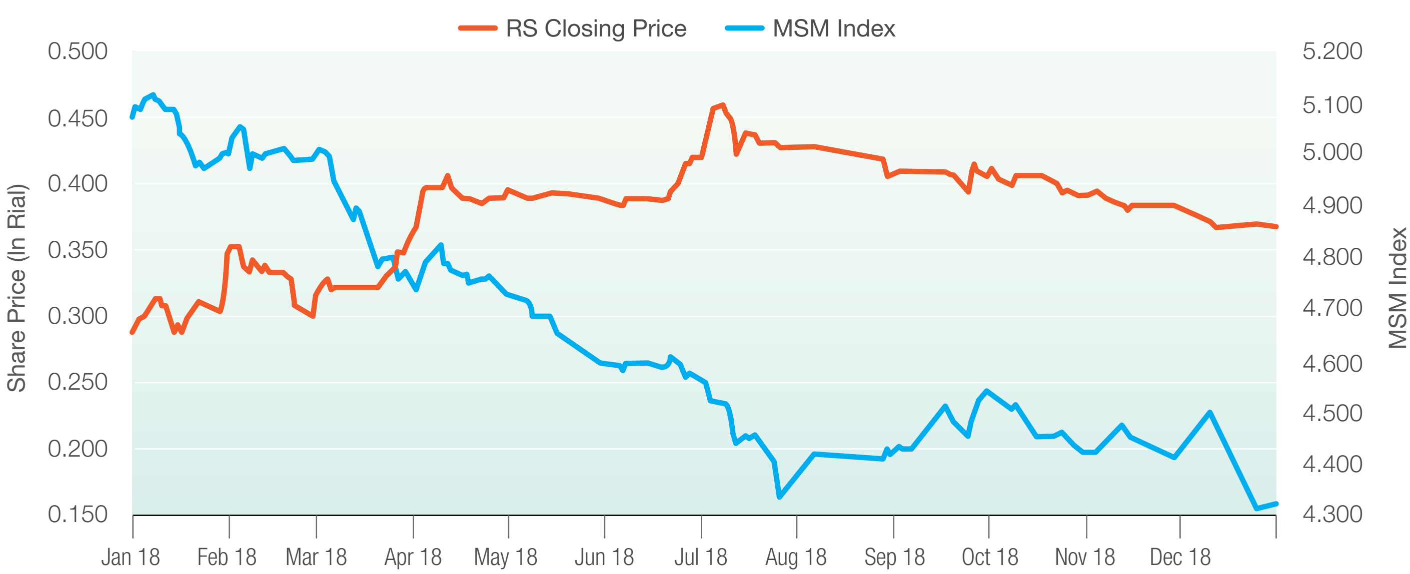
9.4 The CEO's Report, provided in the Annual Report, includes the Management Discussion and Analysis of the year's performance.

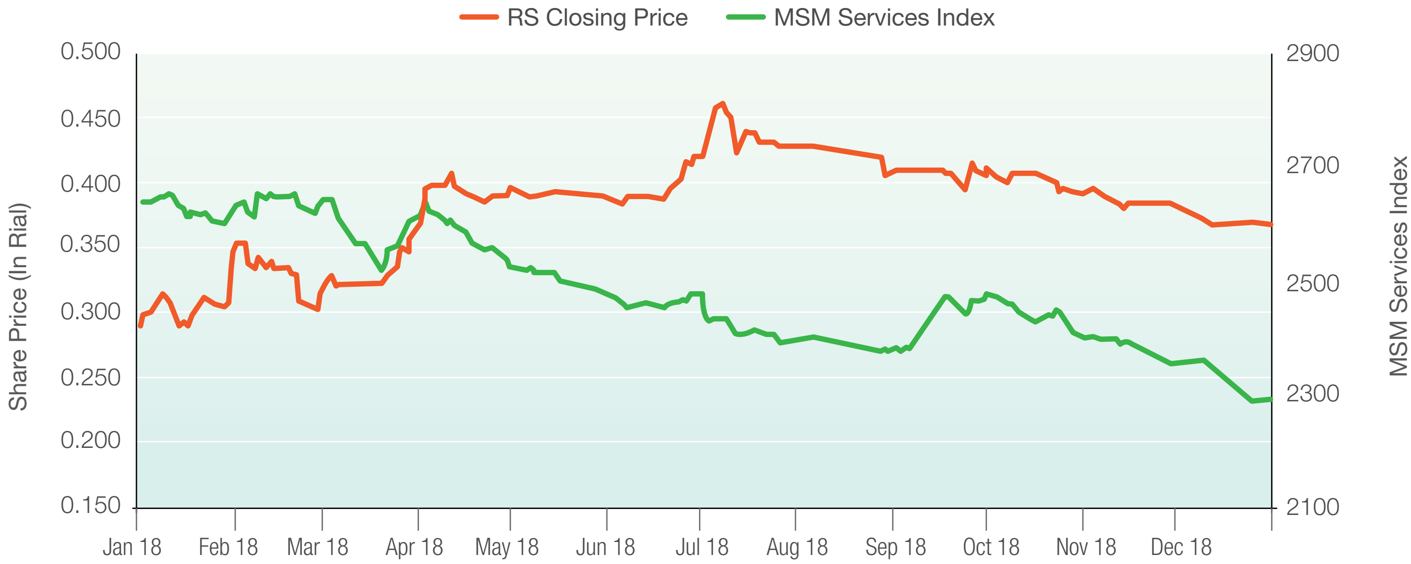
## 10. STOCK MARKET DATA

### 10.1 HIGH/ LOW SHARE PRICES DURING EACH MONTH OF 2018:

| Month | High/Low share price movement | |
|---|---|---|
| | High (Rial) | Low (Rial) |
| January 2018 | 0.352 | 0.279 |
| February 2018 | 0.366 | 0.290 |
| March 2018 | 0.362 | 0.300 |
| April 2018 | 0.410 | 0.358 |
| May 2018 | 0.394 | 0.380 |
| June 2018 | 0.424 | 0.382 |
| July 2018 | 0.462 | 0.408 |
| August 2018 | 0.428 | 0.400 |
| September 2018 | 0.420 | 0.370 |
| October 2018 | 0.412 | 0.392 |
| November 2018 | 0.396 | 0.378 |
| December 2018 | 0.374 | 0.368 |

### 10.2 RENAISSANCE SHARE PRICE MOVEMENT IN COMPARISON TO THE MSM INDEX AND MSM SERVICES INDEX






### 10.3 DISTRIBUTION OF SHAREHOLDING AS ON 31 DECEMBER 2018

*Source of Statistics: Muscat Clearing & Depository (SAOC)*

| Sr. No. | Category | Number of Shareholders | No. of Shares | % Shareholding |
|---|---|---|---|---|
| 1 | Less than 100,000 shares | 3,762 | 12,748,812 | 3.47% |
| 2 | 100,000 - 200,000 shares | 31 | 4,193,000 | 1.14% |
| 3 | 200,001 - 500,000 shares | 37 | 11,696,158 | 3.18% |
| 4 | 500,001 - 3,454,738 shares | 43 | 61,270,913 | 17.06% |
| 5 | 1% - 1.99% of share capital | 7 | 39,419,170 | 10.73% |
| 6 | 2% - 9.99% of share capital | 9 | 145,406,672 | 39.59% |
| 7 | 10% of share capital & above | 2 | 92,538,025 | 25.19% |
| | **Total** | **3,965** | **367,272,750** | **100%** |

## 11. PROFESSIONAL PROFILE OF THE STATUTORY AUDITORS

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

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### 11.1 AUDIT FEES PAID TO THE AUDITORS

During the year 2018, aggregate professional fees in the amount of Rial 617,638 were paid by the Company to Deloitte in respect of services provided, of which Rial 262,796 relates to Company Audit for the year 2018, and Rial 236,311 relates to audit work done for capital enhancement plans of one of the Company's overseas subsidiaries, Tax Services (Rial 38,500) and other services (Rial 80,031).

## 12. CONFIRMATION BY THE BOARD OF DIRECTORS

Renaissance is committed to conducting business legally and professionally under the highest standards of business ethics and moral code. This same high standard is expected and required of all Renaissance subsidiary companies and people working at every level throughout the group.

The Board of Directors confirms its accountability for the preparation of the financial statements in accordance with the applicable standards and rules.

The Board of Directors confirms that it has reviewed the efficiency and adequacy of the internal control systems of the Company. The Board is pleased to inform Shareholders that adequate and efficient internal controls are in place, and that they are in full compliance with the internal rules and regulations.

The Board of Directors also confirms that there are no material matters that affect the continuation of the Company, and its ability to continue its operations during the next financial year.

Chairman

Director

Deloitte.

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# Independent auditor's report to the shareholders of Renaissance Services SAOG and its Subsidiaries



## Report on the audit of the consolidated financial statements

### Opinion

We have audited the consolidated financial statements of **Renaissance Services SAOG** ("the Company"), **and its subsidiaries** (together referred to as "the Group") which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements set out in pages 8 to 103 including a summary of significant accounting policies.

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

### Basis for opinion

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 consolidated 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 Group's consolidated financial statements in 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 opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**Independent auditor's report**
**to the shareholders of**
**Renaissance Services SAOG and its Subsidiaries (continued)**



**Key audit matters (continued)**

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Carrying value of marine vessels* | |
| The Group's marine vessels are significant revenue generating assets with a carrying value of RO 475 million as at 31 December 2018 (2017: RO 376 million) which represents 60% (2017: 48%) of the Group's total assets as on that date. Recoverable amount of these vessels are based on an assessment of the higher of fair value less cost to sell and value in use. Estimates of fair value less costs to sell take into consideration vessel valuations from an independent ship broker, whilst value in use is calculated as the net present value of estimated future cash flows and in each case on a vessel by vessel basis. In the current year, there is a risk that the recoverable amounts could be adversely impacted by the prolonged lower prevailing oil and gas prices, due to the resultant impact on the Group's customer base in the oil and gas industry.<br><br>Management has assessed the recoverable amount based on the estimated value in use of each vessel and concluded that an impairment of RO 1.6 million is required for the year ended 31 December 2018. The key estimates and assumptions in this impairment calculations include, on a vessel by vessel basis:<br>- Cash flows (daily chartering rate and OPEX rate);<br>- Utilisation rate (revenue generating days);<br>- Discount rate/weighted average cost of capital; and<br>- Inflation/growth rate.<br><br>As referenced in note 5 to the consolidated financial statements, impairment of the Group's vessels is considered a critical accounting judgment and a key source of estimation uncertainty by Group management.<br><br>Further detail of the Group's vessels is provided in note 8 to the consolidated financial statements. | We challenged the assumptions made by management on a vessel by vessel basis by reference to publicly available information, our knowledge of the Group and industry, the Group's historical operational data and the Group's most recent business plan. This included:<br>- Understanding the process by which management has derived its value in use estimates;<br>- Comparing forecast of utilisation of marine vessels and chartering rates to those achieved in prior periods to ensure historical accuracy;<br>- Comparing forecast of chartering rates to signed contracts for contracted periods and challenging the basis of chartering rates used elsewhere in the calculations;<br>- Using our internal valuation specialists to perform an independent review of the discount rates used;<br>- Performing sensitivity analysis, using more conservative assumptions for forecasted chartering rates, utilization rates and OPEX rates, to take into consideration the current market conditions;<br>- Evaluating the design and testing the implementation of management's controls to address the risk of impairment of the Group's vessels; and<br>- Reviewing the arithmetical accuracy of the calculations. |

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**Independent auditor's report**
**to the shareholders of**
**Renaissance Services SAOG and its Subsidiaries (continued)**



**Key audit matters (continued)**

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Carrying value of goodwill*<br><br>The Group's assessment of whether there is a an impairment of goodwill is a judgmental process. This requires estimation concerning the estimated future cash flows associated with the cash generating unit relating to the goodwill, the determination of appropriate discount rates and the growth rate of revenue and costs based upon management's view of future business prospects to be applied in determining the value in use.<br><br>Refer to note 3 (Accounting policies), note 5 (Critical accounting estimates and judgements) and note 9. | We have assessed the design and tested the implementation of the Group's controls relating to review of impairment of goodwill.<br><br>We have reviewed the valuation model used and tested its accuracy to ensure that the input data is properly mapped to the processes applied.<br><br>We challenged each of the key assumptions used in the annual goodwill impairment test. This included a review of the weighted average cost of capital by our internal valuation specialists for the discount rate and growth rate used, including its methodology and inputs, comparison to independent market forecasts of revenue and cost growth in the relevant sectors and an assessment of the Group's historical accuracy of estimates and forecasts.<br><br>We have reviewed Management's sensitivity analysis in relation to the key inputs used in the goodwill impairment test model, as well as performing our own sensitivity analysis of the factors and assumptions used.<br><br>Finally, we also assessed the adequacy of related presentation and disclosures. |

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# Independent auditor's report to the shareholders of Renaissance Services SAOG and its Subsidiaries (continued)



**Key audit matters (continued)**

| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Revenue recognition – marine services*<br><br>Each of the Group's vessels earns revenues on the basis of a specific contract with the relevant counterparty. Each contract will typically specify a day rate, which can vary significantly by vessel and by counterparty, as well as reduced rates for when the vessel is not operating at full capacity or is laid up and not in use. Certain contracts also include amounts payable to the Group in respect of mobilising the vessel at the inception of the contract and / or demobilising the vessel at the end of the contract term. As disclosed in the accounting policies in note 3 to the consolidated financial statements, income generated from the mobilization or demobilization of the vessel to or from the location of charter under the vessel charter agreement is recognized over the period of the related charter contract. The costs of related equipment modifications or upgrades to vessels that are permanent in nature are capitalised and depreciated in accordance with the Group's fixed asset capitalisation and depreciation policy.<br><br>Accordingly, in order for revenue to be recorded appropriately, for each vessel the company needs to:<br>- Accurately record the number of days both on hire and on standby;<br>- Apply the correct contractual rates to the number of days in each of these categories; and<br>- Ensure mobilisation and demobilisation revenue has been appropriately recorded in accordance with the terms of the contract and the accounting policies above.<br><br>Due to the significant variability in contract terms by vessel and by counterparty, we have identified the completeness and accuracy of recording of marine services revenue as a key audit matter.<br><br>Further details of revenue arising during the year is provided in note 30 to the consolidated financial statements. | We have obtained a detailed schedule analysing the revenue earned by month and by vessel, which specifies both the number of days on hire/on standby and the relevant contractual rate, and agreed this to the general ledger. We have:<br>- On a sample basis agreed the days on hire / standby to invoices and to the report from Group's operations department;<br>- Performed an analytical review in respect of the number of days on hire / standby and obtained explanation for any gaps and reconciled this to our knowledge of each vessel's operational performance during the year;<br>- On a sample basis, agreed the day rate to the underlying contract;<br>- On a sample basis, recalculated the revenue figure and agreed this to both invoice;<br>- Obtained an overview of new contracts in the period and the appropriateness of the revenue recognition policies adopted; and<br>- For mobilisation and demobilisation revenue, determined whether revenue has been recorded in accordance with the terms of the contract and the Group's accounting policy in this area.<br><br>We have also evaluated the design and implementation, and operating effectiveness of management controls to address the risk of inappropriate revenue recognition. |

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# Independent auditor's report to the shareholders of Renaissance Services SAOG and its Subsidiaries (continued)



| Key audit matters | How our audit addressed the key audit matters |
|---|---|
| *Compliance with banking covenants*<br><br>The Group's subsidiary Topaz has a syndicated term loan facility (as disclosed in note 17), which includes certain covenants. At 31 December 2018, Topaz complied with these covenants. If Topaz is not able to achieve its business forecast for the year ending 31 December 2019, there is a risk that Topaz will be in breach of one or more covenants during the next 12 months.<br><br>The Directors have prepared a cash flow forecast model and further performed sensitivity analysis considering a reasonable downside scenario and possible mitigating actions to demonstrate that covenants in Topaz can be met on the measurement dates during the next 12 months. | We obtained and reviewed the Group's syndicated term loan facility agreements to understand the terms and conditions and agreed that the inputs relevant to management's cash flow forecast model, including maturity dates, the level of facilities available to the Group and ensured that the loan covenant definitions were consistent with the loan agreement.<br><br>We obtained the cash flow forecast model and challenged and evaluated the future cash flow forecasts for the Group and the process by which they were drawn up. We also tested the integrity of the model and accuracy of the underlying calculations.<br><br>Further, as part of our audit procedures, we performed the following:<br><br>- We ensured that the budget and forecast used in the model had been approved by the Board and compared the prior year forecasted cash flows with current year actual results to assess historical accuracy;<br>- We compared forecast day rates and utilisation of marine vessels to signed charter party contracts for contracted periods, and challenged the basis adopted for day rates used elsewhere in the calculations;<br>- We obtained the covenant ratio compliance calculations on measurement dates and recalculated them to ensure there were no breaches for each covenant ratio throughout the 12 month period ending 31 December 2019; and<br>- We performed sensitivity analysis on the cash flow forecast model and assessed its impact on loan covenants. |

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## Independent auditor's report to the shareholders of Renaissance Services SAOG and its Subsidiaries (continued)



**Other information**

The Board of Directors ("the Board") is responsible for the other information. The other information comprises the Chairman's Report, Chief Executive's Report and Report on Corporate Governance. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Board of Directors for the consolidated financial statements**

The Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements issued by the Capital Market Authority, and for such internal control as the Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board 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 the Board 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.

**Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

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## Independent auditor's report to the shareholders of Renaissance Services SAOG and its Subsidiaries (continued)



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

- 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board.
- Conclude on the appropriateness of the Board's use of the going concern basis of accounting and based on the audit evidenced 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 consolidated financial statements or, if such disclosure 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board 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 the Board with a statement that we have complied with relevant ethical requirements regarding independence, and 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 the Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on other legal and regulatory requirements**

Further, we report that the consolidated financial statements comply, in all material respects, with the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended and the disclosure requirements issued by the Capital Market Authority.

Deloitte & Touche

**Deloitte & Touche (M.E.) & Co. LLC**
**Muscat, Sultanate of Oman**
**24 February 2019**

دیلویت آند توش (الشرق الأوسط) وشركاه ش.م.م
C.R. No. 1730256
Deloitte.
0901-01
Deloitte & Touche (M.E.)& Co. LLC.

**Signed by**
**Anis Sadek**
**Partner**

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2018

| | Notes | 2018 RO'000 | 2017 RO'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 30 | 243,959 | 194,624 |
| Operating costs | 6 | (128,322) | (117,219) |
| Depreciation and amortization | 8 & 9 | (38,584) | (35,106) |
| Impairment loss on marine vessels | 8 | (1,615) | (25,077) |
| Loss on sale of vessels | | (3,423) | - |
| Administrative expenses | 6 | (22,316) | (17,433) |
| **Profit / (loss) before financing and other costs** | | 49,699 | (211) |
| Finance costs – net | 6 | (33,186) | (28,467) |
| Refinancing costs of Senior Notes | 17 | - | (7,333) |
| Net gain on sale of investment in a subsidiary | 10 | 605 | - |
| Impairment of goodwill | 9 | - | (3,931) |
| Fair value change in derivative liability | 29 | - | (563) |
| **Profit / (loss) before tax** | | 17,118 | (40,505) |
| Taxation | 7 | (6,095) | (6,250) |
| **Profit / (loss) for the year from continuing operations** | | 11,023 | (46,755) |
| **Discontinued operations** | | | |
| Loss for the year from discontinued operations | 15 | - | (81) |
| **Profit / (loss) for the year** | | 11,023 | (46,836) |
| **Other comprehensive income / (loss)** | | | |
| *Items that may be subsequently reclassified to profit or loss* | | | |
| Foreign currency translation differences | | (47) | 134 |
| *Items that may not be subsequently reclassified to profit or loss* | | | |
| Re-measurement of post-employment benefit obligations (net of tax) | | - | (189) |
| | | (47) | (55) |
| **Total comprehensive income / (loss) for the year** | | 10,976 | (46,891) |
| **Total comprehensive income / (loss) from** | | | |
| Continuing operations | | 10,976 | (46,810) |
| Discontinued operations | | - | (81) |
| | | 10,976 | (46,891) |
| **Profit / (loss) for the year attributable to** | | | |
| Owners of the parent | | 6,806 | (44,485) |
| Non-controlling interests | | 4,217 | (2,351) |
| | | 11,023 | (46,836) |
| **Total comprehensive income / (loss) for the year attributable to** | | | |
| Owners of the parent | | 6,759 | (44,540) |
| Non-controlling interests | | 4,217 | (2,351) |
| **Total comprehensive income / (loss) for the year** | | 10,976 | (46,891) |
| **Earnings / (loss) per share from continuing and discontinued operations attributable to owners of the parent during the year (expressed in Rial Omani)** | | | |
| **Basic and diluted earnings / (loss) per share** | | | |
| From continuing operations | 25 | 0.009 | (0.1622) |
| From discontinued operations | | - | (0.0003) |
| | | 0.009 | (0.1625) |

The Parent Company statement of profit or loss and other comprehensive income is presented as a separate schedule attached to the consolidated financial statements.

The accompanying notes form an integral part of these consolidated financial statements.

RENAISSANCE SERVICES SAOG AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

| | Notes | 2018 RO'000 | 2017 RO'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | **636,514** | 612,020 |
| Intangible assets | 9 | **29,583** | 30,868 |
| Other long-term receivables | 13 | **-** | 946 |
| Investment at fair value through other comprehensive income | 11 | **-** | 322 |
| Deferred tax asset | 7 | **2,165** | 3,722 |
| **Total non-current assets** | | **668,262** | 647,878 |
| **Current assets** | | | |
| Investment at fair value through profit or loss | 11 | **249** | 151 |
| Inventories | 12 | **9,234** | 7,150 |
| Trade and other receivables | 13 | **74,949** | 71,486 |
| Cash and bank balances | 14 | **31,947** | 50,880 |
| | | **116,379** | 129,667 |
| Assets of disposal group classified as held-for-sale | 15 | **4,463** | 4,953 |
| **Total current assets** | | **120,842** | 134,620 |
| **Total assets** | | **789,104** | 782,498 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Share capital | 16 | **36,727** | 36,727 |
| Share premium | 16 | **26,936** | 26,936 |
| Treasury shares | 16 | **(6,853)** | (6,853) |
| Legal reserve | 16 | **12,446** | 12,446 |
| Subordinated loan reserve | 16 | **3,482** | 2,500 |
| Accumulated losses | | **(20,621)** | (21,802) |
| Exchange reserve | | **(96)** | (875) |
| **Equity attributable to owners of the parent** | | **52,021** | 49,079 |
| Perpetual notes | 18 | **46,799** | 46,799 |
| Non-controlling interests | 29 | **85,312** | 86,964 |
| **Total equity** | | **184,132** | 182,842 |
| **Non-current liabilities** | | | |
| Borrowings | 17 | **357,630** | 366,564 |
| Non-current payables | 19 | **4,879** | 14,201 |
| Advance from a customer | 20 | **73,779** | 79,735 |
| Staff terminal benefits | 21 | **5,487** | 5,198 |
| **Total non-current liabilities** | | **441,775** | 465,698 |
| **Current liabilities** | | | |
| Current portion of long-term borrowings | 17 | **24,684** | 13,288 |
| Advance from a customer | 20 | **43,676** | 19,139 |
| Trade and other payables | 22 | **90,515** | 88,025 |
| Short term borrowings and bank overdrafts | 23 | **4,322** | 13,506 |
| **Total current liabilities** | | **163,197** | 133,958 |
| **Total liabilities** | | **604,972** | 599,656 |
| **Total equity and liabilities** | | **789,104** | 782,498 |
| **Net assets per share (RO)** | 24 | **0.157** | 0.148 |

Chairman

Director

The Parent Company statement of financial position is presented as a separate schedule attached to the consolidated financial statements.

The accompanying notes form an integral part of these consolidated financial statements.

RENAISSANCE SERVICES SAOG AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

**for the year ended 31 December 2018**

| | | Attributable to shareholders' of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share Capital RO'000 | Share premium RO'000 | Treasury shares RO'000 | Legal reserve RO'000 | Subordinated loan reserve RO'000 | Accumulated losses RO'000 | Exchange reserve RO'000 | Total RO'000 | Perpetual notes RO'000 | Non-controlling interests RO'000 | Total RO'000 |
| At 1 January 2018 | | 36,727 | 26,936 | (6,853) | 12,446 | 2,500 | (21,802) | (875) | 49,079 | 46,799 | 86,964 | 182,842 |
| Profit for the year | | - | - | - | - | - | 6,806 | - | 6,806 | - | 4,217 | 11,023 |
| Other comprehensive loss for the year | | - | - | - | - | - | - | (47) | (47) | - | - | (47) |
| Total comprehensive income / (loss) for the year | | - | - | - | - | - | 6,806 | (47) | 6,759 | - | 4,217 | 10,976 |
| Transfer to subordinated loan reserve | 16 | - | - | - | - | 982 | (982) | - | - | - | - | - |
| Movement related to non-controlling interests | 29 | - | - | - | - | - | - | - | - | - | (5,869) | (5,869) |
| Transfer from exchange reserves | 16 | - | - | - | - | - | (826) | 826 | - | - | - | - |
| Perpetual notes coupon paid | | - | - | - | - | - | (3,817) | - | (3,817) | - | - | (3,817) |
| **At 31 December 2018** | | 36,727 | 26,936 | (6,853) | 12,446 | 3,482 | (20,621) | (96) | 52,021 | 46,799 | 85,312 | 184,132 |

The Parent Company statement of changes in equity is presented as a separate schedule attached to the consolidated financial statements.

The accompanying notes form an integral part of these consolidated financial statements.

RENAISSANCE SERVICES SAOG AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018 (continued)

| | | Attributable to shareholders' of the Parent Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital RO'000 | Share premium RO'000 | Treasury shares RO'000 | Legal reserve RO'000 | Subordinated loan reserve RO'000 | Accumulated (losses) / earnings RO'000 | Exchange reserve RO'000 | Total RO'000 | Perpetual notes RO'000 | Non-controlling interests RO'000 | Total RO'000 |
| At 1 January 2017 | | 29,878 | 22,302 | (5,163) | 10,163 | 1,429 | 27,371 | (1,009) | 84,971 | 46,799 | 90,721 | 222,491 |
| Loss for the year | | - | - | - | - | - | (44,485) | - | (44,485) | - | (2,351) | (46,836) |
| Other comprehensive loss for the year | | - | - | - | - | - | (189) | 134 | (55) | - | - | (55) |
| Total comprehensive loss for the year | | - | - | - | - | - | (44,674) | 134 | (44,540) | - | (2,351) | (46,891) |
| Transfer to legal reserve – net | 16 | - | (2,283) | - | 2,283 | - | - | - | - | - | - | - |
| Transfer to subordinated loan reserve | 16 | - | - | - | - | 1,071 | (1,071) | - | - | - | - | - |
| Movement related to non-controlling interests | 29 | - | - | - | - | - | - | - | - | - | (1,406) | (1,406) |
| Conversion of mandatory convertible bonds | 18 | 6,849 | 6,917 | (1,690) | - | - | 389 | - | 12,465 | - | - | 12,465 |
| Perpetual notes coupon paid | | - | - | - | - | - | (3,817) | - | (3,817) | - | - | (3,817) |
| At 31 December 2017 | | 36,727 | 26,936 | (6,853) | 12,446 | 2,500 | (21,802) | (875) | 49,079 | 46,799 | 86,964 | 182,842 |

The Parent Company statement of changes in equity is presented as a separate schedule attached to the consolidated financial statements.

The accompanying notes form an integral part of these consolidated financial statements.

RENAISSANCE SERVICES SAOG AND ITS SUBSIDIARY COMPANIES

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| **Operating activities** | | |
| Cash receipts from customers | **249,214** | 251,281 |
| Cash paid to suppliers and employees | **(138,976)** | (115,010) |
| **Cash generated from operations** | **110,238** | 136,271 |
| Income tax paid | **(6,512)** | (6,068) |
| **Net cash generated from operating activities** | **103,726** | 130,203 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(76,035)** | (84,941) |
| Proceeds from disposal of a subsidiary | **3,246** | - |
| Investment made in short term financials assets | **(100)** | (138) |
| Movement in intangibles | **(191)** | (221) |
| Movement in deposits placed with banks and financial institutions | **(1,000)** | 2,000 |
| **Net cash used in investing activities** | **(74,080)** | (83,300) |
| **Financing activities** | | |
| Perpetual Notes coupon paid | **(3,817)** | (3,817) |
| Borrowings received | **16,295** | 174,200 |
| Borrowings repaid | **(24,741)** | (163,394) |
| Net finance costs | **(31,784)** | (26,891) |
| Refinancing costs of Senior Notes | **-** | (5,885) |
| Net movement in related party balances | **15** | (146) |
| Funds paid to non-controlling interests | **(5,869)** | (1,406) |
| **Net cash used in financing activities** | **(49,901)** | (27,339) |
| **Net change in cash and cash equivalents** | **(20,255)** | 19,564 |
| Cash and cash equivalents at the beginning of the year | **47,880** | 28,316 |
| **Cash and cash equivalents at the end of the year** | **27,625** | 47,880 |
| **Cash and cash equivalents comprise the following:** | | |
| Cash and bank | **27,947** | 47,880 |
| Bank overdrafts | **(322)** | - |
| | **27,625** | 47,880 |

The Parent Company statement of cash flows is presented as a separate schedule attached to the consolidated financial statements.

The accompanying notes form an integral part of these consolidated financial statements.

## 1 Legal status and principal activities

Renaissance Services SAOG ("the Parent Company") is incorporated in the Sultanate of Oman as a public joint stock company. The business activities of Renaissance Services SAOG and its subsidiary companies (together referred to as "the Group") include investing in companies and properties, providing offshore supply vessels and other marine vessels on charter primarily to the oil and gas industry, providing turnkey and other contract services including accommodation solutions, facilities management, facilities establishment, contract catering, operations and maintenance services, training services and general trading and related activities.

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

### 2.1 New and amended IFRS Standards that are effective for the current year

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these consolidated financial statements.

The Group applies, for the first time, IFRS 9 *Financial Instruments* (as revised in July 2014) and IFRS 15 *Revenue from contracts with customers* ) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The impact of the initial application of these standards is disclosed in Note 2.3 to these consolidated financial statements.

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018.

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

| New and revised IFRS | Summary |
|---|---|
| | |
| IFRS 2 (amendments) *Classification and Measurement of Share-based Payment Transactions* | The Group has adopted the amendments to IFRS 2 for the first time in the current year. The amendments clarify the following:<br>1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.<br>2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.<br>3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:<br>(i) the original liability is derecognised;<br>(ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and<br>(iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately. |

## 2 Adoption of new and revised International Financial Reporting Standards (continued)

### 2.1 New and amended IFRS Standards that are effective for the current year

| New and revised IFRS | Summary |
|---|---|
| IAS 40 (amendments) *Transfers of Investment Property* | The Group has adopted the amendments to IAS 40 *Investment Property* for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties). |
| *Annual Improvements to IFRS Standards 2014 - 2016 Cycle* | The Group has adopted the amendments to IAS 28 included in the *Annual Improvements to IFRS Standards 2014-2016 Cycle* for the first time in the current year |
| Amendments to IAS 28 *Investments in Associates and Joint Ventures* | The amendments clarify that the option for a venture capital organization and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition.<br><br>In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. |
| IFRIC *22 Foreign Currency Transactions and Advance Consideration* | IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).<br><br>The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. |

Other than the above, there are no other significant IFRSs and amendments that were effective for the first time for the financial year beginning on or after 1 January 2018.

## 2 Adoption of new and revised International Financial Reporting Standards (continued)

### 2.2 New and revised IFRS in issue but not yet effective and not early adopted

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

| New and revised IFRSs | Effective for annual periods beginning on or after |
|---|---|
| IFRS 16 *Leases* | 1 January 2019 |
| Annual Improvements to IFRSs 2015–2017 Cycle amending IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing costs*. | 1 January 2019 |
| IFRIC 23 *Uncertainty over Income Tax Treatments* | 1 January 2019 |
| Amendments in IFRS 9 *Financial Instruments* relating to prepayment features with negative compensation. | 1 January 2019 |
| Amendment to IAS 19 *Employee Benefits* relating to amendment, curtailment or settlement of a defined benefit plan | 1 January 2019 |
| Amendments in IAS 28 *Investments in Associates and Joint Ventures* relating to long-term interests in associates and joint ventures. | 1 January 2019 |
| Amendments to References to the Conceptual Framework in IFRS Standards - amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework | 1 January 2020 |
| Amendment to IFRS 3 *Business Combinations* relating to definition of a business | 1 January 2020 |
| Amendments to IAS 1 and IAS 8 relating to definition of material | 1 January 2020 |
| IFRS 17 *Insurance Contracts* | 1 January 2021 |
| Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. | Effective date deferred indefinitely. Adoption is still permitted. |

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the consolidated financial statements of the Group in future periods, except as noted below:

## 2 Adoption of new and revised International Financial Reporting Standards (continued)

### 2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

**IFRS 16 *Leases***

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.

The Group has chosen the "Cumulative catch-up approach" for application of IFRS 16 on transition. Consequently, the Group will recognise lease liability for outstanding lease payments for existing operating leases using incremental borrowing rate at date of transition and carry forward existing finance lease liabilities and measure right-of-use asset at an amount equal to liability adjusted for any accruals or prepayments with no effect on the opening retained earnings on transition.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on lessee accounting

*Operating leases*

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

## 2 Adoption of new and revised International Financial Reporting Standards (continued)

### 2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

**IFRS 16 *Leases* (continued)**

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RO 15.46 million as disclosed in Note 28.

A preliminary assessment indicates that these arrangements relate to leases other than short-term leases and leases of low-value assets, and hence the Group will recognise a right-of-use asset of RO 3.2 million and a corresponding lease liability of RO 3.2 million in respect of all these leases. The impact on profit or loss will be to decrease other expenses by RO 1.3 million, to increase depreciation by RO 0.7 million and to increase interest expense by RO 0.25 million.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by RO 0.8 million and to increase net cash used in financing activities by the same amount.

*Finance leases*

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Group will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Group's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the Directors of the Company have assessed that the impact of this change will not have a significant impact on the amounts recognised in the Group's consolidated financial statements.

Impact on lessor accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts.

The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

As required by IFRS 9, an allowance for expected credit losses will be recognised on the finance lease receivables. The leased assets will be derecognised and finance lease asset receivables recognised. This change in accounting will change the timing of recognition of the related revenue (recognised in finance income).

**Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures***

The amendment clarifies that IFRS 9, including its impairment requirements, applies to long-term interests.

Furthermore, in applying IFRS 9 to long-term interests, an entity does not take into account adjustments to their carrying amount required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

## 2 Adoption of new and revised International Financial Reporting Standards (continued)

### 2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

The amendments apply retrospectively to annual reporting periods beginning on or after 1 January 2019.

Earlier application is permitted. Specific transition provisions apply depending on whether the first-time application of the amendments coincides with that of IFRS 9.

The directors of the Company do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

**IFRIC 23 Uncertainty over Income Tax Treatments**

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The Directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements

**Amendments to IAS 1 and IAS 8 relating to definition of material**

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

The Directors of the Company do not anticipate that the application of the amendments in the future will have a significant impact on the Group's consolidated financial statements.

The changes in accounting policies are reflected in the Group's financial statements as at and for the year ended 31 December 2018.

The Group has initially adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 January 2018.

**IFRS 15 *Revenue from Contracts with Customers***

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. IFRS 15 replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. IFRS 15 introduced a 5-step approach to revenue recognition. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

For contracts determined to be within the scope of revenue recognition, the Group is required to apply a five-step model to determine when to recognise revenue, and at what amount.

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

**Step 1 Identify the contract(s) 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.

**Step 2 Identify the performance obligations in the contract:** A performance obligation is a unit of account and a promise in a contract with a customer to transfer a good or service to the customer.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs

**IFRS 15 *Revenue from Contracts with Customers (continued)***

**Step 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.

**Step 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 consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.

**Step 5 Recognise revenue** when (or as) the entity satisfies a performance obligation.

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

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as and when 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 Group has an enforceable right to payment for performance completed to date.

For performance obligations where none of the above conditions are met, revenue is recognised at the point in time at which the performance obligation is satisfied.

**Variable consideration**

Variable consideration amounts are estimated at either their expected value or most likely amount and included in revenue to the extent that it is highly probable that the revenue will not reverse.

**Significant financing component**

The Group evaluates significant financing component, if the period between customer payment and the transfer of goods/services (both for advance payments or payments in arrears) is more than one year. The Group adjusts the promised amount of consideration for the time value of money using an appropriate interest rate reflecting the credit risk.

**Contract modification**

A contract modification occurs when the Group and the customer approve a change in the contract that either creates new enforceable rights and obligations or changes the existing enforceable rights and obligations. Revenue related to a modification is not recognised until it is approved. Approval can be in writing, oral, or implied by customary business practices.

The Group treats the contract modification as a separate contract if it results in the addition of a separate performance obligation and the price reflects the standalone selling price of that performance obligation. Otherwise, a modification (including those that only affect the transaction price) is accounted for as an adjustment to the original contract, either prospectively or through a cumulative catch-up adjustment.

The Group accounts for a modification prospectively if the goods or services in the modification are distinct from those transferred before the modification. Conversely, the Group accounts for a modification through a cumulative catch-up adjustment if the goods or services in the modification are not distinct and are part of a single performance obligation that is only partially satisfied when the contract is modified.

**Cost of obtainment and fulfilment**

The Group capitalises incremental costs to obtain a contract with a customer except if the amortisation period for such costs is less than one year.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 15 *Revenue from Contracts with Customers (continued)***

If the costs incurred in fulfilling a contract with a customer are not in the scope of other guidance - e.g. inventory, intangibles, or property, plant and equipment - then the Group recognises an asset only if the fulfilment costs meet the following criteria:

- Relate directly to an existing contract or specific anticipated contract;
- Generate or enhance resources that will be used to satisfy performance obligations in the future; and
- Are expected to be recovered.

If the costs incurred to fulfil a contract are in the scope of other guidance, then the Group accounts for such costs using the other guidance.

The Group amortises the asset recognised for the costs to obtain and/or fulfil a contract on a systematic basis, consistent with the pattern of transfer of the good or service to which the asset relates. In the case of an impairment, the Group recognises these losses to the extent that the carrying amount of the asset exceeds the recoverable amount.

***Impact on adoption of IFRS 15***

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances, when applying each step of the model to contracts with their customers. The Standard also specifies accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The Group has adopted IFRS 15 using the modified retrospective method of adoption, with the date of initial application as at 1 January 2018. The Group elected to apply the Standard to all contracts as at 1 January 2018 as permitted by IFRS 15, which are within the scope of IFRS 15.

The Group's revenue from contracts with customers is mainly derived from the charter of marine vessels, providing accommodation solution, contract services, project management and services fees, mobilisation and demobilisation of vessels, providing messing and accommodation services, maintenance and sundry income. The charter of marine vessels are currently treated as an operating lease and is accounted for under IAS 17 *Leases* and is therefore out of the scope of IFRS 15. IFRS 15 has therefore been applied for the remaining revenue streams.

In relation to one of the charter agreements entered into by the Group, the Group has accounted for the implied financing component within the contract using the guidance stipulated in IFRS 15. This being noted as, in determining the transaction price, a promised amount of consideration is adjusted for the effects of the time value of money if the timing of payments agreed to by the parties to the contract provides the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer. In such circumstances, the contract contains a significant financing component with may exist irrespective of whether the promise of financing is stated explicitly in the contract or implied by the payment terms agreed to by the parties to the contract. This has had no material impact on retained earnings and the amount of adjustment for each financial statement line item affected by the application of IFRS 15 for the current year is illustrated below:

***Impact on profit for the year***

| | 2018<br>RO'000 |
|---|---|
| ***Revenue*** | |
| Increase due to deemed revenue recognised on financing component of interest free advances from customer | **1,200** |
| ***Cost of revenue*** | |
| Increase in depreciation expense due to finance cost capitalised | **(167)** |
| ***Finance cost*** | |
| Increase in finance cost due to interest charged on the advances from customer | **(2,808)** |

Apart from the above, there have been no other changes identified which would have an impact on the performance of the Group.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 15 *Revenue from Contracts with Customers (continued)***

***Revenue Recognition accounting policy after adoption of IFRS 15***

The Group has applied the following accounting policy under IFRS 15 in the preparation of the consolidated financial statements for its revenue stream:

*Marine charter*

Revenue comprises operating lease rent from the charter of marine vessels, mobilisation income, and revenue from the provision of on-board accommodation, catering services and the sale of fuel and other consumables.

Lease rental income is recognised on a straight line basis over the period of the lease. Revenue from provision of on-board accommodation and catering services is recognised over the period of hire of such accommodation while revenue from sale of fuel and other consumables is recognised when delivered. Income generated from the mobilisation or demobilisation of the vessel to or from the location of charter under the vessel charter agreement is recognised over the period of the related charter party contract.

There is no change in marine charter revenue recognition policy after the implementation of IFRS 15. Revenue from sale of fuel and other consumables is recognized at a point in time when it is delivered and the control is transferred to the customer. Other marine charter revenues are recognized over the period as the performance obligation is satisfied over the contract period and the customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs.

*Project management*

Project management income is recognised when the services are rendered, by reference to the stage of completion of specific transactions assessed on the basis of the actual services performed as a percentage of the total services to be performed. It is considered to be a distinct service as it is available for customers from other providers in the market. The contract contains one perform obligation and the transaction price allocated to these services is recognised over the period based on percentage of completion.

There is no change in project management revenue recognition policy after the implementation of IFRS 15. Project management income is recognized over the period as the performance obligation is satisfied over the period and the customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs.

*Mobilisation and de-mobilisation*

The mobilisation and de-mobilisation of the vessels is considered to be a distinct service as it is available for customers from other providers in the market. The revenue related to this service is recognised over the term of the contract. The transaction price allocated to these services is recognised as a contract liability at the time of initial recognition and is released on a straight-line basis over the period of contract.

*Providing Accommodation Solution*

Revenue from provision of accommodation services is recognized over the period service is provided to the customer as the customer simultaneously receives and consumes the benefits provided by the Company's performance as and when the Company performs. There is no change in revenue recognition policy after the implementation of IFRS 15.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 15 *Revenue from Contracts with Customers (continued)***

***Revenue Recognition accounting policy after adoption of IFRS 15* (continued)**

*Goods sold and services rendered*

Revenue from the sale of goods is recognised in the profit or loss when the control has been passed to the customer i.e. when goods are delivered, accepted by the customer and the amount of revenue can be measured reliably. There is no change in revenue recognition policy as the significant risks and rewards incidental to ownership of the goods are transferred to the buyer at the same time.

Revenue from services rendered is recognised in the profit or loss over the period service is provided to the customer as the customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs. Revenue is recognized in proportion to the stage of completion of the transaction in the accounting period in which the services are rendered and the right to receive the consideration is established. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods. There is no change in the revenue recognition policy.

*Contract Services*

Revenues from provision of contract services, providing facilities management, facilities establishment, contract catering, operations and maintenance services are recognized over the period service is provided to the customer as the customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs. There is no change in revenue recognition policy after the implementation of IFRS 15.

*Maintenance contracts*

Income from maintenance contracts is recognised in the profit or loss on a straight line basis evenly over the term of the contract as the customer simultaneously receives and consumes the benefits provided by the Group's performance as and when the Group performs.

*Dividend income*

Dividend income is recognised in the profit or loss on the date that the right to receive dividend is established.

*Others*

Sale of operating assets are shown as part of other income and are recognised when the control is passed to the buyer and right to receive is established.

**IFRS 9 *Financial Instruments***

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied IFRS 9 prospectively, with an initial adoption date of 1 January 2018. Additionally, the Group adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that were applied to the disclosures for 2018 and to the comparative period. Differences arising from the adoption of IFRS 9 has no impact on the retained earnings and no material impact on the Group's consolidated financial statements.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 9 *Financial Instruments (continued)***

**Classification and measurement of financial assets and financial liabilities**

IFRS 9 *Financial Instruments* introduces principle-based requirements for the classification of financial assets and liabilities. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. The standard eliminates the existing IAS 39 categories of *held to maturity*, *available for sale* and *loans and receivables*. The classification of financial assets under IFRS 9 is generally based on the business model in which the financial asset is managed and contractual cash flow characteristics. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

**Initial recognition and measurement of financial instruments**

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

1. Trade and other receivables
2. Cash and cash equivalents
3. Amount due from related parties
4. Investments at FVOCI
5. Investments at FVTPL
6. Other receivables
7. Borrowings
8. Trade and other payables
9. Amount due to related parties

**Initial recognition**

***Financial assets***

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income – debt instruments; fair value through other comprehensive income – equity instruments; or fair value through profit or loss account.

*Financial assets at amortised cost*

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss account:

Business model test: The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes).

Cash flow characteristics test: 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.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 9 *Financial Instruments (continued)***

**Initial recognition (continued)**

***Financial assets (continued)***

Business model assessment

The business model reflects how the Group manages the assets in order to generate cash flows. This is whether the Group objective is solely to collect contractual cash flows from the assets or is it to collect both the contractual cash flows and cash flows arising from the sale of the assets. If neither of these are applicable then the financial assets are classified as other business model. Factors considered by the Group in determining the business model for a group of assets includes the past experience on how the cash flows for the asset were collected, how the assets performance was evaluated by the key management personnel, how risks are assessed and managed and how managers are compensated.

Contractual cash flows comprise of solely payment of principal and interest

Where the Group has a business model to collect contractual cash flows, the Group assesses whether the financial instrument cash flows represents solely payments of principal and interest (SPPI). 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin.

In making this assessment, the Group considers whether the contractual cash flows are consistent with the basic lending agreement which means the interest paid only includes the consideration for time value of money and credit risk. Financial instruments whose cash flows characteristics include elements other than time value of money and credit risk do not pass the test and are classified and measured at fair value through profit or loss.

*Financial assets at fair value through other comprehensive income*

Equity instruments which are not held for trading or issued as contingent consideration in business combination, and for which the company has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss. This election is made on an investment-by-investment basis.

Debt instruments where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

*Financial assets at fair value through profit or loss accounts*

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss account.

Financial assets, at initial recognition, may be designated at fair value through profit or loss, if the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis;

***Financial liabilities***

Financial liabilities are classified as measured at amortised cost or fair value through profit or loss account. A financial liability is classified as at fair value through profit or loss account if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Financial liabilities, at initial recognition, may be designated at fair value through profit or loss if the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis;
- The liabilities are part of a Company of financial liabilities which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or
- The financial liability contains an embedded derivative that would otherwise need to be separately recorded.

Financial liabilities at fair value through profit or loss account are measured at fair value and net gains and losses, including any interest expense, are recognised in the profit or loss account.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 9 *Financial Instruments (continued)***

**Subsequent measurement and gain or losses**

***Financial assets***

*Financial assets at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss account. Any gain or loss on derecognition is recognised in the profit or loss account.

*Financial assets at fair value through other comprehensive income*

a) *Debt instruments*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the profit or loss account. Other net gains and losses are recognised in the statement of other comprehensive income. On derecognition, gains and losses accumulated in the statement of other comprehensive income are reclassified to the profit or loss account.

b) *Equity instruments*

These assets are subsequently measured at fair value. Dividends are recognised as income in the profit or loss account unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in the statement of other comprehensive income and are never reclassified to the profit or loss account.

*Financial assets at fair value through profit or loss*

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the profit or loss account.

***Financial liabilities***

Financial liabilities are subsequently measured at amortised cost using the effective interest method, if applicable. The effective interest method is the method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to the net carrying amount on initial recognition.

Interest expense and foreign exchange gains and losses are recognised in the profit or loss account. Any gain or loss on derecognition is also recognised in the profit or loss account.

**Hedge accounting**

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group’s risk management activities have also been introduced.

IFRS 9 requires hedging gains and losses to be basis adjusted to the initial carrying amount of nonfinancial hedged items. This is consistent with the Group’s practice prior to the adoption of IFRS 9. Furthermore, because both IAS 39 and IFRS 9 state that the amount accumulated in hedging reserve is removed (not reclassified) and included in the initial carrying amount, such transfers were not treated by the Group as a reclassification adjustment under IAS 1 Presentation of Financial Statements and hence they did not affect other comprehensive income even before transition to IFRS 9. The hedging gains and losses subject to basis adjustments were categorised as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. Because similar presentation is required after transition to IFRS 9, the Group does not have any transition adjustment in this respect.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 9 *Financial Instruments (continued)***

Consistent with prior policies, the Group has continued to designate the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument in the Group's cash flow hedge and fair value hedge relationships.

As at 1 January 2018, the Group did not have any financial assets or financial liabilities under hedging relationship. During the year, any new hedging relationships have been accounted for in accordance with IFRS 9.

**Reclassification**

**Financial assets**

The Group will only reclassify financial assets if, and only if, the objective of the business model for managing those financial assets is changed. Such changes are expected to be very infrequent as these changes must be significant to the Group's operations and demonstrable to external parties.

If the Group determines that its business model has changed in a way that is significant to its operations, then it reclassifies all affected assets prospectively from the first day of the next reporting period (the reclassification date). Prior periods are not restated.

**Financial liabilities**

The Group determines the classification of financial liabilities on initial recognition. Subsequent reclassification is not allowed.

**Modifications of financial assets and financial liabilities**

**Financial assets**

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the profit or loss account.

**Financial liabilities**

If the terms of a financial liability are modified and the cash flows of the modified liability are substantially different then, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the profit or loss account.

**Derecognition**

**Financial assets**

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

a) The rights to receive cash flows from the asset have expired; or
b) The Group retains the right to receive cash flows from the asset, but assumes an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
c) The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 9 *Financial Instruments (continued)***

**Derecognition (continued)**

**Financial assets (continued)**

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in the statement of other comprehensive income is recognised in the profit or loss account.

From 1 January 2018, any cumulative gain / loss recognised in the statement of other comprehensive income in respect of equity instrument designated as fair value through other comprehensive is not recognised in the profit or loss account on derecognition of such instrument. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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 recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Financial liabilities**

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

**Offsetting**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets receivables, lease receivables and debt investments at FVOCI, but not on investments in equity instruments. The financial assets at amortized cost consist of trade receivables, investment in debt instruments and cash and cash equivalents.

Under IFRS 9, loss allowance are measured on either of the following bases:

- *12 month ECL*: these are ECLs that result from possible default events within 12 months after the reporting date; and
- *Lifetime ECL:* these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowance at an amount equal to lifetime ECLs, except for the following, which are measured as 12- month ECLs:

- Financial assets that are determined to have low credit risk at the reporting date; and
- Finance assets for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 9 *Financial Instruments (continued)***

**Derecognition (continued)**

***General approach***

The Group applies three-stage approach to measuring ECL. Assets migrate through the three stages based on the change in credit quality since initial recognition. Financial assets with significant increase in credit risk since initial recognition, but not credit impaired, are transitioned to stage 2 from stage 1 and ECL is recognized based on the probability of default (PD) of the counter party occurring over the life of the asset. All other financial assets are considered to be in stage 1 unless it is credit impaired and an ECL is recognized based on the PD of the customer within next 12 months. Financial assets are assessed as credit impaired when there is a detrimental impact on the estimated future cash flows of the financial asset. The Group applies general approach to all financial assets except trade receivable without significant financing component.

**Impairment of financial assets**

**Significant increase in credit risk**

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward- looking information.

The Company assumes that the credit risk on a financial asset has increased significantly based on the certain delinquency period (days past due) or if exposure has move from investment grade to non-investment grade on credit rating scale of independent credit rating agency in case of low credit risk instrument.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held) or based on the certain delinquency period (days past due).

***Simplified approach***

The Group applies simplified approach to measuring credit losses, which mandates recognition of lifetime expected loss allowance for trade receivables without significant financing component. Under simplified approach, there is no need to monitor for significant increases in credit risk and the Group will be required to measure lifetime expected credit losses at all times.

***Measurement of ECLs:***

ECLs are a probability weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

***Credit- impaired financial assets***

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.

***Write-off***

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

## 2 Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

### 2.3 Changes in significant accounting policies due to implementation of new IFRSs (continued)

**IFRS 9 *Financial Instruments (continued)***

**Derecognition (continued)**

**Impairment of financial assets (continued)**

***Presentation of impairment***

Loss allowance for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to financial assets are presented separately in the statement of profit or loss and other comprehensive income.

***Impact on adoption of IFRS 9***

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets as at 1 January 2018:

| Financial assets | Original classification under IAS 39 | New classification under IFRS 9 | Original carrying amount under IAS 39 | Reclassi-fication | Remeas-urement | New carrying amount under IFRS 9 | Retained Earnings effect as at Jan 1, 2018 |
|---|---|---|---|---|---|---|---|
| | | | RO'000 | RO'000 | RO'000 | RO'000 | RO'000 |
| Cash and bank balances | Loans and receivables | Amortised cost | 50,880 | - | - | 50,880 | - |
| Investments | AFS | FVTOCI | 322 | - | - | 322 | - |
| Investments | FVTPL | FVTPL | 151 | - | - | 151 | - |
| Trade and other receivables | Loans and receivables | Amortised cost | 61,614 | - | (1,310) | 60,304 | (1,310) |
| Due from related parties | Loans and receivables | Amortised cost | 833 | - | - | 833 | - |
| Other long-term receivables | Loans and receivables | Amortised cost | 204 | - | - | 204 | - |
| **Total** | | | **114,004** | **-** | **(1,310)** | **112,694** | **(1,310)** |

Management considers the impact of ECL amounting of RO 1.3 million on the adoption of IFRS 9 on 1 January 2018 as not material. Accordingly, no adjustment has been made in the opening retained earnings.

## 3 Summary of significant accounting policies

**Statement of compliance and basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of the Commercial Companies Law of 1974 and the disclosure requirements of the Capital Market Authority (CMA) of Sultanate of Oman. The standalone statement of financial position, statement of comprehensive income, changes in equity and cash flows of the Parent Company are provided in the attached schedule to the consolidated financial statements, in order to comply with the disclosure requirements of CMA. For a further understanding of the Parent Company's separate financial position and the results of its operations and the auditor's report on those financial statements, the schedule should be read in conjunction with the full set of separate financial statements of the Parent Company on which an unqualified opinion dated 21 February 2019 was rendered by the auditors.

These financial statements have been prepared in Rial Omani (RO) rounded to the nearest thousand, unless otherwise stated.

## 3 Summary of significant accounting policies (continued)

**Statement of compliance and basis of preparation (continued)**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Rial Omani (RO), which is the Group's presentation currency.

The consolidated financial statements are prepared under the historical cost convention modified to include the measurement at fair value of the following assets and liabilities:

- Financial assets at fair value through profit or loss;
- Financial assets at fair value through other comprehensive income; and
- Derivative financial instruments.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

**Basis of consolidation**

**Subsidiaries**

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any difference between the (i) the aggregate of the fair value of the consideration received and fair value of any retained interest and (ii) the previous carrying value of the assets (including goodwill) and the liabilities of the subsidiaries and any non-controlling interest is recognised in the statement of profit or loss. If the Group retains any interest on entity that was a subsidiary in the past, then such interest is measured at fair value at the date that the control is lost. Subsequently, it is accounted for as equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies.

**Associates**

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of profit or loss of the investee after the date of acquisition. Investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss and other comprehensive income of the associates are recognised in the Group's profit or loss and other comprehensive income respectively, with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the profit or loss.

## 3 Summary of significant accounting policies (continued)

### Basis of consolidation (continued)

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising on investments in associates are recognised in the profit or loss.

### Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint ventures (which includes any long-term interests that, in substance, form part of the group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

### Transactions eliminated on consolidation

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries are adjusted to conform to the Group's accounting policies.

### Accounting for business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities, contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

## 3 Summary of significant accounting policies (continued)

### Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is ceased, 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 a 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 the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

### Non-controlling interests

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.

### Property, plant and equipment

*Owned assets*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Cost of marine vessels includes purchase price paid to third parties, including registration and legal documentation costs, all directly attributable costs incurred to bring the vessel into working condition at the area of planned use, mobilisation costs to the operating location, sea trial costs, significant rebuild expenditure incurred during the life of the asset and financing costs incurred during the construction period of vessels. In certain operating locations where the time taken for mobilisation is significant and the customer pays a mobilisation fee, certain mobilisation costs are charged to the profit or loss. Costs for other items of property, plant and equipment include expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

### Property, plant and equipment (continued)

*Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in property, plant and equipment. All other expenditure is recognised in the profit or loss as an expense as incurred.

*Depreciation*

Depreciation is charged to the profit or loss on a straight line basis over the estimated useful lives of items of property, plant and equipment. The estimated useful lives are as follows:

| | **Years** |
|---|---|
| Buildings and improvements | 5 - 40 |
| Marine vessels and boats | 15 - 30 |
| Plant, machinery and equipment | 3 - 15 |
| Motor vehicles | 3 - 10 |
| Furniture and fixtures | 3 - 10 |

Freehold land is not depreciated. The cost of certain assets used on specific contracts is depreciated to estimated residual value over the period of the respective contract, including extensions if any. Depreciation method, useful lives and residual values are reviewed at each reporting date.

Vessels that are no longer being chartered and are held-for-sale are transferred to inventories at their carrying value.

*Capital work-in-progress*

Capital work-in-progress is stated at cost and comprises all costs including borrowing costs directly attributable to bringing the assets under construction ready for their intended use. Capital work-in-progress is transferred to property, plant and equipment at cost on completion. No depreciation is charged on capital work-in-progress.

## 3 Summary of significant accounting policies (continued)

*Dry docking costs*

The expenditure incurred on vessel dry docking, a component of property, plant and equipment, is amortised over the period from the date of dry docking, to the date on which the management estimates that the next dry docking is due which is generally between two to three years.

*Vessel refurbishment costs on owned assets*

Costs incurred to refurbish owned assets are capitalised within property, plant and equipment and then depreciated over the shorter of the estimated economic life of the related refurbishment or the remaining life of the vessel.

**Intangible assets**

**Goodwill**

Goodwill that arises on the acquisition of subsidiaries is presented within intangible assets. Goodwill is initially measured at the fair value of consideration transferred plus the recognised amount of any non-controlling interest in the acquiree plus, if the business combination is achieved in stages, the fair value of pre-existing equity interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any negative goodwill is immediately recognised in profit or loss. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or Groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets and liabilities of the Group are assigned to those units or Groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's operating segment format determined in accordance with IFRS 8 - Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**Other intangible assets**

Other intangible assets acquired by the Group are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. The useful lives of other intangible assets are assessed to be finite and generally amortised over 5 to 10 years.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the profit or loss in the expense category consistent with the function of the intangible asset.

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition.

## 3 Summary of significant accounting policies (continued)

**Financial assets (Applicable till 31 December 2017)**

**Classification (Applicable till 31 December 2017)**

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months, otherwise they are classified as non-current.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'other long-term receivables' and 'cash and cash equivalents' in the statement of financial position.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose them within twelve months of the end of the reporting period.

**Recognition and measurement (Applicable till 31 December 2017)**

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in the profit or loss in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are recognised in the profit or loss under 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss as part of finance income. Dividends on available-for-sale equity instruments are recognised in the profit or loss as part of other income when the Group's right to receive payments is established.

**Impairment of financial assets (Applicable till 31 December 2017)**

*Assets carried at amortised cost*

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

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

## 3 Summary of significant accounting policies (continued)

**Financial assets (Applicable till 31 December 2017) (continued)**

**Impairment of financial assets (Applicable till 31 December 2017) (continued)**

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

*Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets are impaired. For debt securities, the Group uses the criteria explained above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

**Impairment of non-financial assets**

*Non-financial assets (other than goodwill)*

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses, are recognised in the profit or loss.

The recoverable amount of an asset or its cash generating unit is the greater of its value-in-use and its fair value less costs to sell. 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 time value of money and risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined applying the first-in, first-out and the weighted average methods depending on the category of inventory and includes all costs incurred in acquiring and bringing them to their present location and condition. Net realisable value signifies the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

## 3 Summary of significant accounting policies (continued)

### Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

### Cash and cash equivalents

Cash and cash equivalents comprise cash at hand, bank balances and short-term deposits with an original maturity of three months or less. Bank borrowings that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of statement of cash flows.

*Deposits under lien*

Cash, which is under lien and held by commercial banks, is classified as deposits under lien.

### Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any gain or loss or income related to these shares is directly transferred to retained earnings and shown in the statement of changes in equity.

Gains and losses on measurement of transactions with shareholders are recognised in equity.

### Perpetual notes

The perpetual notes are instruments issued by the Group with no fixed redemption date. The notes currently carry affixed periodic rate of 7.9% per annum, payable semi-annually in arrears. Coupon liability is only recognised on the perpetual notes and the related charge recognised in equity, upon occurrence of certain trigger events specified in the terms of perpetual notes. Management has accounted for these instruments as equity in the consolidated financial statements as the notes do not carry an obligation to make payments. The transaction costs incurred on issuance of these notes are deducted from equity.

### Trade and other payables

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

### Non-current assets (or disposal groups) classified as held-for-sale

Non-current assets (or disposal groups) are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and their fair value less costs to sell.

### Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held-for- sale, and, represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Results of discontinued operations are presented separately in the profit or loss.

### Interest bearing borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

## 3 Summary of significant accounting policies (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefit will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liabilities.

### Onerous contracts

A provision for onerous contract is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### Leases

*Group as a lessee*

Finance leases, which transfer to the Group, substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Subsequent to initial recognition, leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the profit or loss.

Capitalised leased assets are depreciated over the estimated useful life of the asset or the lease term, whichever is less.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and are not recognised in the Group's statement of financial position. Operating lease payments are recognised as an expense in the profit or loss on a straight-line basis over the lease term. Lease incentives are recognised as an integral part of the total lease expense, over the term of the lease.

*Group as a lessor*

Finance leases, which transfer from the group substantially all of the risks and rewards incidental to ownership of the leased item, are recognised as a disposal of asset at the inception of the lease and are presented as receivables under a finance lease at an amount equal to the net investment in the finance lease. Lease receivables are apportioned between finance income and reductions of the receivables under a finance lease so as to achieve a constant periodic rate of return on the lessor's net investment in the finance lease. Finance income earned is recognised in the profit or loss. Lease receivables due within one year are disclosed as current assets.

### Employee benefits

Contributions to a defined contribution retirement plan for Omani employees, in accordance with the Oman social insurance scheme, are recognised as an expense in the profit or loss as incurred.

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 Oman Labour Law 2003, as amended (for employees working in Oman). 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. The entitlement to these benefits is based upon the employees' salary and length of service, subject to completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

## 3 Summary of significant accounting policies (continued)

**Employee benefits (continued)**

For non-Omani companies the end of service benefits are provided as per the respective regulations in their country.

The Group also operates a defined benefit pension plan which defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

**Dividend distribution**

Dividends are recognised as a liability in the year in which they are approved by the company's shareholders.

**Revenue recognition (Applicable till 31 December 2017)**

*Marine charter*

Revenue comprises operating lease rent from charter of marine vessels, mobilisation income, and revenue from the provision of on-board accommodation, catering services and sale of fuel and other consumables.

Lease rent income is recognised on a straight line basis over the period of the lease. Revenue from provision of on-board accommodation and catering services is recognised over the period of hire of such accommodation while revenue from sale of fuel and other consumables is recognised when delivered. Income generated from the mobilisation or demobilisation of the vessel to or from the location of charter under the vessel charter agreement is recognised over the period of the related charter party contract.

*Project management*

Project management income is recognised when the services are rendered, by reference to the stage of completion of specific transactions assessed on the basis of the actual services performed as a percentage of the total services to be performed.

*Goods sold and services rendered*

Revenue from the sale of goods is recognised in the profit or loss when the significant risks and rewards of ownership have been transferred to the buyer i.e. when goods are delivered, accepted by the customer and the amount of revenue can be measured reliably.

Revenue from services rendered is recognised in the profit or loss in proportion to the stage of completion of the transaction in the accounting period in which the services are rendered and the right to receive the consideration is established. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

*Maintenance contracts*

Income from maintenance contracts is recognised in the profit or loss on a straight line basis evenly over the term of the contract.

*Dividend income*

Dividend income is recognised in the profit or loss on the date that the right to receive dividend is established.

*Others*

Sale of operating assets are shown as part of revenue and are recognised when the right to receive is established.

## 3 Summary of significant accounting policies (continued)

### Interest expense and income

Interest expense on borrowings is calculated using the effective interest rate method. Financing costs are recognised as an expense in the profit or loss in the period in which they are incurred.

Borrowing costs comprise interest payable on borrowings. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the cost of those assets. All other borrowing costs are recognised as an expense in the year in which they are incurred. Borrowing costs are calculated using effective interest rate method.

Interest income is recognised in the profit or loss as it accrues, taking into account the effective yield on the asset.

### Directors' remuneration

The remuneration of the Parent Company's Board of Directors is accrued within the limits specified by the Capital Market Authority and the requirements of the Commercial Companies Law of the Sultanate of Oman.

### Segment reporting

An operating segment is the component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transaction with any of the Group's other components, whose operating results are reviewed regularly by the Group CEO (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Group CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and head office tax expenses.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment, and intangible assets other than goodwill.

### Income tax

Income tax is provided for in accordance with the fiscal regulations of the country in which the Group operates.

Income tax on the profit or loss for the year comprises current and deferred taxation. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in the equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the year when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The assessment regarding adequacy of tax liability for open tax year relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

## 3 Summary of significant accounting policies (continued)

### Earnings per share

The Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held. Diluted earnings per share is calculated by adjusting the profit and loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

### Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate prevailing at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in the consolidated statement of profit or loss and other comprehensive income except for differences arising in retranslation of a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, to the extent these hedges are effective, which are recognised in other comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Rial Omani at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Rial Omani at exchange rates at the date of the transactions.

Foreign currency differences are recognised in other comprehensive income and are presented in the translation reserve in equity. However, if the operation is a non-wholly-owned subsidiary then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statement of profit or loss and other comprehensive income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests. When the Group disposes of only part of its interest in an associate or a joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to consolidated statement of profit or loss and other comprehensive income.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of net investment in a foreign operation and are recognised in other comprehensive income, and are presented in the translation reserve in equity.

### Derivative financial instruments

The Group has applied IFRS 9 using cumulative effect method and therefore the comparative information has not been restated and continue to be reported under IAS 39. The details of accounting policies under IAS 39 are disclosed below.

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, options and interest rate swaps.

Derivatives are recognised initially at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

## 3 Summary of significant accounting policies (continued)

**Derivative financial instruments (continued)**

Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host – with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative.

Derivatives embedded in hybrid contracts with a financial asset host within the scope of IFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured as either amortised cost or fair value as appropriate.

Derivatives embedded in hybrid contracts with hosts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

If the hybrid contract is a quoted financial liability, instead of separating the embedded derivative, the Group generally designates the whole hybrid contract at FVTPL.

An embedded derivative is presented as a non-current asset or non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and is not expected to be realised or settled within 12 months.

Under IAS 39, the Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 32.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

**Determination of fair values**

Certain of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to the asset or liability.

*Investments*

For investments traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the reporting date. (Level 1).

For unquoted investments, a reasonable estimate of the fair value is determined based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2).

Fair value cannot be reliably measured for certain unquoted investments. Such investments are measured using discounted cashflow or other techniques not based on observable market data i.e. unobseravble inputs (Level 3).

*Other interest bearing items*

The fair value of interest-bearing items is estimated based on discounted cash flows using market interest rates for items with similar terms and risk characteristics. (Level 2).

**Hedge accounting**

The Group has applied IFRS 9 using cumulative effect method and therefore the comparative information has not been restated and continue to be reported under IAS 39. The details of accounting policies under IAS 39 are disclosed separately and the impact of changes is disclosed in Note 3.

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

## 3 Summary of significant accounting policies (continued)

**Hedge accounting (continued)**

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

The Group designates only the intrinsic value of an option contract as a hedged item, i.e. excluding the time value of the option. The changes in the fair value of the aligned time value of the option are recognised in other comprehensive income and accumulated in the cost of hedging reserve. If the hedged item is transaction related, the time value is reclassified to profit or loss when the hedged item affects profit or loss. If the hedged item is time period related, then the amount accumulated in the cost of hedging reserve is reclassified to profit or loss on a rational basis – the Group applies straight line amortisation. Those reclassified amounts are recognised in profit or loss in the same line as the hedged item. If the hedged item is a non financial item, then the amount accumulated in the cost of hedging reserve is removed directly from equity and included in the initial carrying amount of the recognised non financial item. Furthermore, if the Group expects that some or all of the loss accumulated in cost of hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

*Fair value hedges*

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVTOCI in which case it is recognised in other comprehensive income.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in profit or loss instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

## 4 Financial risk management

**Financial risks factors**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

## 4 Financial risk management (continued)

**Risk management framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. Senior Group management are responsible for developing and monitoring the Group's risk management policies and report regularly to the Board of Directors on their activities. The Group's current financial risk management framework is a combination of formally documented risk management policies in certain areas and informal risk management practices in others.

The Group's risk management policies (both formal and informal) are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Group's principal financial liabilities, other than derivatives, comprise bank loans, accounts payables and accruals and balances due to the holding company and other related parties. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as accounts and other receivables, bank balances and cash, long-term receivables and due from related parties which arise directly from its operations.

It is, and has been throughout the current year and previous year, the Group's policy that no trading in derivatives shall be undertaken.

**Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivable from customers, retention and other receivables, due from related parties, long-term receivables and balances with bank.

*Trade accounts and other receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country in which the customers operate, as these factors may have an influence on credit risk. Approximately 19% (2017: 16%) of the Group's revenue is attributable to sales transactions with a single customer. At 31 December 2018, the Group's ten largest customers account for 57% (2017: 54%) of the outstanding trade accounts receivable. Geographically the credit risk is significantly concentrated in the MENA region and the Caspian region.

The management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. Purchase limits are established for each customer, which represents the maximum open amount without requiring approval from the senior Group management; these limits are reviewed periodically.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade accounts and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

*Balances with banks*

The Group limits its exposure to credit risk by only placing balances with reputable financial institutions. Given the profile of its bankers, management does not expect any counterparty to fail to meet its obligations.

*Guarantees*

The Group's policy is to facilitate bank guarantees only on behalf of wholly-owned subsidiaries and the Group entities over which the Group has financial and management control or joint control.

## 4 Financial risk management (continued)

**Credit risk (continued)**

*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:

| | **2018 RO'000** | 2017 RO'000 |
|---|---|---|
| Other long term receivables | **-** | 204 |
| Investments at fair value through other comprehensive income | **-** | 322 |
| Investments at fair value through profit or loss | **249** | 151 |
| Trade receivables | **64,410** | 61,614 |
| Amount due from related parties | **45** | 833 |
| Bank balances | **31,947** | 50,880 |
| | **96,651** | 114,004 |

**Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group limits its liquidity risk by ensuring bank facilities are available. The Group's credit terms require the amounts to be paid within 90 days from the date of invoice. Accounts payable are also normally settled within 90 days of the date of purchase.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. As of 31 December 2018, the Group has sufficient undrawn facilities to meet its obligations as they fall due.

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. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows:

| **31 December 2018** | **Carrying amount RO'000** | **Contractual cash flows RO'000** | **Upto 1 year RO'000** | **1 year to 5 years RO'000** | **More than 5 years RO'000** |
|---|---|---|---|---|---|
| ***Non-derivative financial liabilities*** | | | | | |
| Borrowings | **382,314** | **487,788** | **53,684** | **378,162** | **55,942** |
| Short-term borrowings and bank overdrafts | **4,322** | **4,322** | **4,322** | **-** | **-** |
| Trade and other payables (excluding derivatives) | **71,545** | **71,584** | **70,015** | **459** | **1,110** |
| | **458,181** | **563,694** | **128,021** | **378,621** | **57,052** |
| 31 December 2017 | | | | | |
| *Non-derivative financial liabilities* | | | | | |
| Borrowings | 379,852 | 501,702 | 38,808 | 388,175 | 74,720 |
| Short-term borrowings and bank overdrafts | 13,506 | 13,564 | 13,564 | - | - |
| Trade and other payables (excluding derivatives) | 78,190 | 78,190 | 75,234 | 2,956 | - |
| | 471,548 | 593,456 | 127,606 | 391,131 | 74,720 |

## 4 Financial risk management (continued)

### Financial risks factors (continued)

### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group avails opportunities of restructuring of existing financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors of the Group.

The Group also enters into derivative transactions, primarily interest rate swaps and forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

### Foreign exchange risk

Trade accounts payable include amounts due in foreign currencies, mainly US Dollar, Euro, Pounds Sterling, UAE Dirham, Singapore Dollar, Norwegian Kroner, Kazakhstan Tenge, Nigerian Naira and Azerbaijan New Manat.

As Rial Omani (RO) is pegged to the US Dollar, the risk of transactions made in US Dollar is considered minimal. With respect to other currencies mentioned above, should the Rial Omani (RO) weaken / strengthen by 5%, with all other variables held constant, the resulting impact on the Group's consolidated financial statements is considered to be insignificant.

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations carrying floating interest rates.

The Group's policy is to manage its interest rate exposure through using a mix of fixed and variable interest rate debts. The Group's policy is to maintain at least 40% of its borrowings at fixed rates of interest. To manage this, the Group enters into interest rate swaps, whenever needed, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are used to hedge underlying debt obligations. As at 31 December 2018, approximately 70% of the Group's borrowings are at a fixed rate of interest (2017: 71%). Since, this meets the group policy of maintaining majority of its borrowings at fixed rates, no interest rate swap was transacted in 2017 and 2018.

***Profile***

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | **Carrying amount** | |
|---|---|---|
| | **2018** | 2017 |
| | **RO'000** | RO'000 |
| ***Fixed rate instruments*** | | |
| Financial assets - deposits | **4,000** | 3,000 |
| Financial liabilities | **269,643** | 279,425 |
| ***Variable rate instruments*** | | |
| Financial liabilities | **116,993** | 113,933 |

## 4 Financial risk management (continued)

**Financial risks factors (continued)**

**Interest rate risk (continued)**

***Fair value sensitivity analysis for fixed rate instruments***

The Group does not account for any fixed rate financial assets and liabilities at fair value through the consolidated statement of profit or loss and other comprehensive income, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect the consolidated statement of profit or loss and other comprehensive income.

***Cash flow sensitivity for variable rate instruments***

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) equity and the consolidated statement of profit or loss and other comprehensive income by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

| | Profit or loss | |
|---|---|---|
| | 100 bp increase | 100 bp Decrease |
| | RO'000 | RO'000 |
| ***31 December 2018*** | | |
| Variable rate instruments | **1,170** | **(1,170)** |
| *31 December 2017* | | |
| Variable rate instruments | 1,139 | (1,139) |

**Other market price risk**

Equity price risk arises from available-for-sale equity securities. Management of the Group monitors the mix of debt and equity securities in its investment portfolio based on market indices. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board of Directors.

**Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

## 4 Financial risk management (continued)

### Capital management (continued)

The Group's capital employed consists mainly of capital, perpetual notes and retained earnings. Management believes that the current level of capital is sufficient to sustain the Group's continuing operations and to safeguard its ability to continue as a going concern. The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

| | 2018<br>RO'000 | 2017<br>RO'000 |
|---|---|---|
| Borrowings | **386,636** | 393,358 |
| Less: Cash and short-term deposits | **(31,947)** | (50,880) |
| Net debt | **354,689** | 342,478 |
| Equity | **184,132** | 182,842 |
| Capital and net debt | **538,821** | 525,320 |
| Gearing ratio (%) | **65.8%** | 65.2% |
| Debt equity ratio | **1.93** | 1.87 |

There were no changes in the Group's approach to capital management during the year. As disclosed in note 17 and note 18 to the consolidated financial statements, the Group is subject to certain financial covenants from its borrowing arrangements.

At the reporting date, the Group has complied with all financial covenants.

## 5 Critical accounting estimates and judgements

### Judgements

In the process of applying the Group's accounting policies, management has made the following significant judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the consolidated financial statements:

*Going concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. The management has also examined the Group's funding agreements that are in place and prepared cash flow forecasts and performed downside sensitivity analysis over the Group's headroom assessment in respect of its liquidity and compliance with its bank covenants. Management is confident of achieving the forecasted cash flows and meeting the loan covenants over the next 12 months period. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

## 5 Critical accounting estimates and judgements (continued)

**Judgements (continued)**

*Accounting for investments*

The Group reviews its investment in entities to assess whether the Group has control, joint control or significant influence over the investee. This includes consideration of the level of shareholding held by the Group in the investee as well as other factors such as representation on the Board of Directors of the investee, terms of any agreement with the other shareholders etc. Based on the above assessment the Group decides whether the investee needs to be consolidated or equity accounted in accordance with the accounting policy of the Group (also refer to Note 3 to the consolidated financial statements).

*Leases*

Management exercises judgments in assessing whether a lease is a finance lease or an operating lease. The judgment as to which category applies to a specific lease depends on management's assessment of whether in substance the risks and rewards of ownership of the assets have been transferred to the lessee. In the instances where management estimates that the risks and rewards have been transferred, the lease is considered as a finance lease, otherwise it is accounted for as an operating lease.

Management have based this judgment on a number of factors that indicate that, in substance the risks and rewards of owning these vessels remain with the Group, which include:

- the lease periods are generally for a short term (10 years) when compared with the overall estimated economic life of the vessels (30 years or more);
- the leases do not automatically transfer the ownership of the vessels at the end of the lease term;
- the Group is responsible for regular dry-docking and insurance in addition to maintenance of the vessels;
- the customer is unlikely to want to bear the cost and responsibility of owning and maintaining these specialised vessels and is, therefore, unlikely to exercise options to purchase;
- the expectation that the customer would wish to renew its contracts for the leases of the vessels from the Group due to the Group's proven track record and established support and services infrastructure in the region of operation.

*Provisions*

In line with the Group's accounting policy, management's judgement is that the nature of the Group's financing of its long term operating assets having useful life of 25 to 40 years, primarily through term loans with average tenure of 7 to 8 years, creates a constructive obligation to arrange re-financing of debt on an on-going basis, as and when circumstances permit. Management, therefore, view the related refinancing and arrangement fees to be part of on-going costs of finance and have created a provision for such costs and for other constructive liabilities in an amount of RO 5.3 million (2017 - RO 7.8 million) included in accrued expenses, provisions and other payables.

**Estimates and assumptions**

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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.

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.

## 5 Critical accounting estimates and judgements

### Estimates and assumptions (continued)

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These calculations use current year actual free cash flows determined from EBITDA, which is extrapolated using the estimated growth rate of 3%. The growth rate does not exceed the long-term average growth rate of the business in which the CGU operates. The net carrying amount of goodwill at 31 December 2018 was RO 27.72 million (2017 - RO 28.49 million). Details of the impairment assessment are set out in Note 9.

*Impairment of vessels*

The Group determines whether its vessels are impaired when there are indicators of impairment as defined in IAS 36 Impairment of assets. This requires an estimation of the value in use of the cash-generating unit which is the vessel owning and chartering segment. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from this cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of the vessels as at 31 December 2018 was RO 475 million (2017 - RO 376 million).

The recoverable amount of all vessels has been determined based on value in use calculations where the fair value less cost to sell was lower than the carrying amount. These calculations use pre-tax cash flow projections based on the financial budgets approved by the management covering a period of 5 years based on the expected utilisation rates of the individual vessels using a discount rate of 13% (2017 - 12%). Cash flows beyond five years are estimated using a nil growth rate. The impairment charge has arisen due to continuing market pressures which are having a negative impact on the vessels utilisation and day rates. The projection of cash flows related to vessels is complex and requires the use of various estimates including future day rates, vessel utilisation and discount rates. These estimates are based on a number of key assumptions including asset replacement cost, ongoing maintenance and repair costs and estimated asset usage over the relevant period. These factors make it impracticable to provide sensitivity analysis on one single measure and its potential impact on the recoverable amount of the asset. Refer to Note 8 for further details.

*Measurement of the expected credit loss allowance*

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in the accounting policy above.

At the reporting date, gross trade accounts receivable were RO 68.22 million (2017 - RO 64.59 million) and the provision for expected credit losses was RO 3.81 million (2017 - provision for doubtful debts - RO 2.97 million). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the profit or loss.

*Impairment of inventories*

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis.

At the reporting date, gross inventories were RO 9.23 million (2017 - RO 7.15 million) and no provisions for old and obsolete inventories was recorded, based on management assessment (2017 - RO Nil). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the profit or loss.

## 5 Critical accounting estimates and judgements

**Estimates and assumptions (continued)**

*Useful lives of tangible and intangible assets*

Depreciation / amortisation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

The useful lives, residual values and methods of depreciation of property, plant and equipment and amortisation of intangible assets are reviewed, and adjusted if appropriate, at each financial year end. In the review process, the Group takes guidance from recent acquisitions, as well as market and industry trends.

*Provision for current tax and deferred tax*

The Group reviews the provision for tax on a regular basis. In determining the provision for tax, laws of particular jurisdictions (where applicable entity is registered) are taken into account. The management considers the provision for tax to be a reasonable estimate of potential tax liability after considering the applicable laws and past experience.

Management has evaluated the available evidence about future taxable income and other possible sources of realisation of income tax assets, and the amount recognised has been limited to the amount that, based on management's best estimate, is more likely than not to be realised.

*Fair value of derivative liability*

The fair value of the Group's derivative liability is determined using a number of assumptions. The assumptions used in determining the fair value of the derivative liability includes discount rate and the estimated equity volatility based on observed 5-year historical volatilities of the stock prices of a group of guideline public companies. Any changes in these assumptions will impact the fair value of the derivative liability.

## 6 Expenses by nature

Profit / (loss) before tax for the year from continuing operations is after charging:

| | **2018**<br>**RO'000** | 2017<br>RO'000 |
|---|---|---|
| Staff costs | **75,504** | 70,297 |
| Provision for expected credit losses (note 13) | **1,385** | 246 |
| Depreciation / amortization (notes 8 and 9) | **38,584** | 35,106 |
| Finance costs – net (i) | **33,186** | 28,467 |
| Impairment of vessels (note 8) | **1,615** | 25,077 |
| Impairment of goodwill (note 9) | - | 3,931 |

i) Finance cost is net of against finance income of RO 0.2 million (2017 – RO 0.3 million).

## 7 Income tax

The income expense relates to tax payable on the profits earned by the Group calculated in accordance with the taxation laws and regulations of various countries in which the Group operates.

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Tax charge for the year comprises of: | | |
| Current tax in respect of current year | **4,538** | 7,199 |
| Deferred tax in respect of current year | **1,557** | (949) |
| | **6,095** | 6,250 |
| The tax liabilities comprises of: | | |
| Current liability | **10,478** | 12,792 |
| Non-current liability | **3,348** | 3,094 |
| | **13,826** | 15,886 |
| **Deferred tax asset** | | |
| At 1 January | **3,722** | 2,773 |
| Credited / (charged) to profit or loss | **(1,557)** | 949 |
| **At 31 December** | **2,165** | 3,722 |

Deferred tax assets are recognised for temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Parent Company and its Oman incorporated subsidiaries are subject to income tax at the rate of 15% of taxable income (2017 – 15%) in accordance with the Income Tax Law of the Sultanate of Oman.

Reconciliation of tax charge is as follows:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Profit / (loss) before income tax from continuing operations | **17,118** | (40,505) |
| Loss before income tax of Group entities operating in non-taxable jurisdictions | **(5,768)** | (19,017) |
| Profit / (loss) before income tax of Group entities operating in taxable Jurisdictions | **22,886** | (21,488) |
| Tax at domestic tax rate | **3,433** | (3,223) |
| Tax effect of expenses that are not deductible in determining taxable profit | **721** | 804 |
| Impact of corporate rate restriction in UK | **(85)** | 250 |
| Unrelieved foreign tax | **188** | 1,906 |
| Provision for foreign tax | **950** | 1,083 |
| Effect of change in deferred tax recognition | **(187)** | 131 |
| Adjustment to prior year's deferred tax | **(140)** | 100 |
| Effect of different tax rates of subsidiaries operating in jurisdictions other than Sultanate of Oman | **1,215** | 5,199 |
| Tax expense for the year | **6,095** | 6,250 |

In some jurisdictions, the tax returns for certain years have not yet been reviewed by the tax authorities. However, the Group's management is satisfied that adequate provisions have been made for potential tax contingencies.

## 7 Income tax (continued)

The Parent Company's assessments for the tax years 2016 and 2017 have not been finalised with the Secretariat General for Taxation at the Ministry of Finance of the Government of Sultanate of Oman ('the Department'). The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax laws and prior experience.

The Parent Company has filed objection to Secretariat General for Taxation and appeals to the Tax Committee and the Court against certain adjustments made by the Department in the previous assessments. The main issues under appeal are taxation of overseas income, taxation of overseas dividend, and disallowances relating to interest and some specific expenses. As required under the tax laws, the Parent Company has paid the tax dues relating to those issues while continuing to appeal to the higher authorities.

The Parent Company has established provisions at 31 December 2018 against the tax liabilities, which may arise, relating to disallowances of interest and some specific expenses.

## 8 Property, plant and equipment

| | Freehold land and buildings RO'000 | Marine vessels RO'000 | Machinery and equipment RO'000 | Motor vehicles RO'000 | Furniture and fixtures RO'000 | Capital work-in-progress RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2017 | 88,278 | 661,186 | 17,829 | 1,805 | 2,207 | 131,313 | 902,618 |
| Additions | 8,178 | 8,531 | 1,625 | 256 | 385 | 55,298 | 74,273 |
| Transfers | 67,660 | 19,177 | 2,423 | - | 3,274 | (92,534) | - |
| Reclassified as held for sale (note 15) | - | (8,023) | - | - | - | - | (8,023) |
| Disposals | (13) | (16,186) | (809) | (189) | (605) | - | (17,802) |
| At 1 January 2018 | **164,103** | **664,685** | **21,068** | **1,872** | **5,261** | **94,077** | **951,066** |
| Additions | **9** | **13,751** | **2,734** | **184** | **425** | **51,657** | **68,760** |
| Transfers | **-** | **118,448** | **-** | **-** | **-** | **(118,448)** | **-** |
| Disposals | **-** | **(15,102)** | **(359)** | **(35)** | **(104)** | **-** | **(15,600)** |
| **At 31 December 2018** | **164,112** | **781,782** | **23,443** | **2,021** | **5,582** | **27,286** | **1,004,226** |

## 8 Property, plant and equipment (continued)

| | Freehold land and buildings RO'000 | Marine Vessels RO'000 | Machinery and equipment RO'000 | Motor vehicles RO'000 | Furniture and fixtures RO'000 | Capital work-in -progress RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2017 | 28,320 | 256,307 | 12,919 | 1,221 | 1,411 | - | 300,178 |
| Charge for the year | 5,645 | 26,345 | 1,680 | 223 | 569 | - | 34,462 |
| Amortisation of mobilisation costs | - | 179 | - | - | - | - | 179 |
| Impairment | - | 25,077 | - | - | - | - | 25,077 |
| Eliminated on reclassified as held for sale | - | (3,070) | - | - | - | - | (3,070) |
| Disposals | (13) | (16,186) | (803) | (179) | (598) | - | (17,780) |
| At 1 January 2018 | **33,952** | **288,652** | **13,795** | **1,265** | **1,382** | **-** | **339,046** |
| Charge for the year | **6,406** | **27,393** | **3,164** | **250** | **655** | **-** | **37,868** |
| Impairment | **-** | **1,615** | **-** | **-** | **-** | **-** | **1,615** |
| Disposals | **-** | **(10,394)** | **(356)** | **(32)** | **(35)** | **-** | **(10,817)** |
| **At 31 December 2018** | **40,358** | **307,266** | **16,603** | **1,483** | **2,002** | | **367,712** |
| **Net carrying value** | | | | | | | |
| **At 31 December 2018** | **123,754** | **474,516** | **6,840** | **538** | **3,580** | **27,286** | **636,514** |
| At 31 December 2017 | 130,151 | 376,033 | 7,272 | 607 | 3,879 | 94,077 | 612,020 |

## 8 Property, plant and equipment (continued)

Certain of the Group's property, plant and equipment excluding certain immaterial assets are pledged against bank loans and bank borrowings. Marine vessels with a net carrying value of RO 302.4 million (2017 - RO 336.9 million) are pledged against bank loans obtained. Further details of property, plant and equipment secured against borrowings are disclosed in note 17.

Capital work-in-progress includes costs incurred for construction of marine vessels and civil works.

Advances or deposits paid for construction or acquisition of assets are classified as advances to contractors, and the amount is transferred to capital work-in-progress after the commencement of construction.

The Group determines whether its vessels are impaired when there are indicators of impairment as defined in IAS 36 Impairment of Assets. As a result of the challenging market conditions and excess supply in the market, which is continuing to drive down charter day rates and utilisation rates, the Group has performed an impairment assessment for its marine vessels, which led to the recognition of an impairment loss of RO 1.6 million (2017 - RO 25.1 million) against 8 (2017 - 27) of its vessels.

The Group estimated the value in use of the cash-generating unit which is the vessel owning and chartering segment. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from this cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The recoverable amount of all vessels has been determined based on value in use calculations where the fair value less cost to sell was lower than the carrying amount. These calculations use pre-tax cash flow projections based on the financial budgets approved by the management covering a period of 5 years based on the expected utilisation rates of the individual vessels using a discount rate of 13% (2017 - 12%). Cash flows beyond five years are estimated using a nil growth rate. The recoverable amount of the impaired assets, which represent their value in use, is RO 14.5 million.

During the year, the Group capitalised borrowing costs amounting to RO 0.05 million (2017 - RO 0.384 million). Borrowing costs were capitalized for certain assets at the rate of 4.5% - 5.5% (2017 - 4.5%) per annum.

The depreciation charge has been allocated in the profit or loss as follows:

| | **2018 RO'000** | 2017 RO'000 |
|---|---|---|
| Operating expenses | **37,314** | 33,811 |
| Administrative expenses | **554** | 651 |
| | **37,868** | 34,462 |

## 9 Intangible assets

Intangible assets as at 31 December consisted of the following:

| | **2018 RO'000** | 2017 RO'000 |
|---|---|---|
| Goodwill | **27,726** | 28,487 |
| Computer software | **1,072** | 1,498 |
| Other intangible assets | **785** | 883 |
| **At 31 December** | **29,583** | 30,868 |

## 9 Intangible assets (continued)

Movement in intangible assets during the year is as follows:

| 2018 | Goodwill RO'000 | Other intangible assets RO'000 | Software RO'000 | Total RO'000 |
|---|---|---|---|---|
| At 1 January | **28,487** | **883** | **1,498** | **30,868** |
| Purchased during the year | - | - | **192** | **192** |
| Derecognized on disposal of a subsidiary (note 10) | **(761)** | - | **-** | **(761)** |
| Amortisation during the year | **-** | **(98)** | **(618)** | **(716)** |
| **At 31 December** | **27,726** | **785** | **1,072** | **29,583** |
| 2017 | | | | |
| At 1 January | 32,381 | 981 | 1,823 | 35,185 |
| Exchange difference | 37 | - | - | 37 |
| Impairment charged during the year | (3,931) | - | - | (3,931) |
| Purchased during the year | - | - | 221 | 221 |
| Amortisation during the year | - | (98) | (546) | (644) |
| At 31 December | 28,487 | 883 | 1,498 | 30,868 |

Goodwill represents the excess of the cost of acquiring shares in certain subsidiary companies over the aggregate fair value of the net assets acquired.

The carrying amount of goodwill at 31 December allocated to each of the cash-generating units is as follows:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Topaz Energy and Marine Limited | **25,826** | 25,826 |
| Tawoos Industrial Services Company SAOC | **1,900** | 1,900 |
| Norsk Offshore Catering AS (note 10) | **-** | 761 |
| | **27,726** | 28,487 |

The recoverable amount of each cash-generating unit is determined based on a value in use calculation, using cash flow projections based on financial budgets approved by the Board. The goodwill recognised on the acquisition of Doha Marine Services and Emirates Taste Catering Services Food LLC had been impaired during the year ended 31 December 2017 due to downturn in the business within the region.

***Key assumptions used in discounted cash flow projection calculations***

Key assumptions used in the calculation of recoverable amounts are discount rates, terminal value calculations and budgeted EBITDA. These assumptions are as follows:

*Discount rate*

The discount rate used for value in use calculations in 2018 ranges from 7% to 13% (2017 – 7% to 12%) for various cash generating units.

*Terminal value calculations*

The discounted cash flow calculations for all the cash generating units are based on the current year actual free cash flows determined from EBITDA. These cash flows then form the basis of perpetuity cash flows used in calculating the terminal value.

## 9 Intangible assets (continued)

*Growth rate*

Growth rate used for value in use calculation in 2018 is 3% (2017 - 3%).

*Sensitivity to changes in assumptions*

For the year ended 31 December 2018, management believes that there is adequate headroom for goodwill recognised on the acquisition of Topaz Energy and Marine Limited and Tawoos Industrial Services Company SAOC Unit, particularly with reference to the current oil prices as some of the key assumptions are conservative, particularly the expected growth rate. There have been no events or changes in circumstances to indicate that the carrying values of goodwill of the above two cash-generating units may be impaired.

**Other intangible asset**

This represents customer relationships recognized as a result of business acquisition by TISCO (a subsidiary of the Parent Company). These are amortized over the life of 10 years on a straight line basis. The fair value of the customer relationship has been determined by discounting the excess cash flows expected to be generated by the customer relationships over the period (Level 3 fair value hierarchy).

## 10 Principal subsidiaries

The details of Group and Parent Company investments in principal subsidiary companies are as follows:

| Company | Country of incorporation | Percentage shareholding | | Principal activities |
|---|---|---|---|---|
| | | **2018** | 2017 | |
| *Subsidiary companies* | | | | |
| Topaz Energy and Marine Limited (TEAM JAFZA) | United Arab Emirates | **100%** | 100% | Holding company |
| Tawoos Industrial Services Company SAOC (TISCO) | Sultanate of Oman | **100%** | 100% | Contract catering, facilities management and establishment, operations and maintenance services |
| Renaissance International Limited (RIL) | Cayman Islands | **100%** | 100% | Holding company |
| Renaissance Energy Limited (REL) | United Arab Emirates | **100%** | 100% | Holding company |
| Renaissance Duqm Holding SAOC (RDH) | Sultanate of Oman | **51.9%** | 51.9% | Holding company |
| Renaissance Integrated Facilites Management SAOC | Sultanate of Oman | **100%** | 100% | Contract catering, facilities management and establishment, operations and maintenance services |
| **Subsidiaries of TEAM JAFZA** | | | | |
| Topaz Energy and Marine Plc | United Kingdom | **100%** | 100% | Dormant company |
| Topaz Energy and Marine Limited (Topaz) | Bermuda | **86.5%** | 86.5% | Charter of marine vessels |

Topaz has a subsidiary BUE Marine Ltd, incorporated in UK, which operates through a number of vessel-owning subsidiaries and is engaged principally in charter of marine vessels and vessel management.

## 10 Principal subsidiaries (continued)

**Subsidiaries of TISCO**

| Company | Country of incorporation | Percentage shareholding | | Principal activities |
|---|---|---|---|---|
| | | **2018** | 2017 | |
| Rusail Catering and Cleaning Services LLC | Sultanate of Oman | **100%** | 100% | Catering and cleaning services |
| Renaissance Contract Services International LLC (RCSI) | Sultanate of Oman | **100%** | 100% | Holding company |
| Al Wasita Catering Services LLC (Al Wasita) | Sultanate of Oman | **100%** | 100% | Dormant company |
| Renaissance Facilities Management Company SAOC | Sultanate of Oman | **100%** | 100% | Contract catering, facilities management and establishment, operations and maintenance services |
| Supraco Limited (Supraco) | Cyprus | **100%** | 100% | Holding company |

Supraco Limited is a holding company. During the year it has disposed of its subsidiary in Norway through a sale agreement effective from 31 August 2018 for a net cash consideration of RO 3.2 million. Accordingly, the subsidiary was deconsolidated from that date as the Group loses control over the subsidiary from the effective date. Net assets of the subsidiary including goodwill allocated to the subsidiary were RO 2.6 million. The disposal of the subsidiary has resulted in a gain of RO 0.6 million during the year. Sale proceeds from the disposal has been received during the year.

RCSI through its subsidiaries in UAE provides catering and allied services in the respective countries.

**Subsidiary of Renaissance Duqm Holding SAOC**

| Company | Country of incorporation | Percentage shareholding | | Principal activities |
|---|---|---|---|---|
| | | **2018** | 2017 | |
| Renaissance Duqm Accommodation Company SAOC (RDAC) | Sultanate of Oman | **100%** | 100% | Build, own and operate permanent accommodation for contractors |

## 10 Principal subsidiaries (continued)

**Summarised financial information of subsidiaries in TEAM JAFZA with material non-controlling interest:**

Summarised statement of financial position

| | Topaz Energy and Marine Limited | | Caspian Region Subsidiaries | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RO'000** | RO'000 | **RO'000** | RO'000 |
| **Current** | | | | |
| Assets | **68,267** | 78,805 | **58,044** | 56,174 |
| Liabilities | **(112,222)** | (80,822) | **(65,068)** | (65,185) |
| Total current net assets / (liabilities) | **(43,955)** | (2,017) | **(7,024)** | (9,011) |
| **Non-current** | | | | |
| Assets | **511,122** | 484,029 | **175,452** | 183,531 |
| Liabilities | **(335,990)** | (346,630) | **(39,620)** | (44,950) |
| Total non-current net assets | **175,132** | 137,399 | **135,832** | 138,581 |
| Net assets | **131,177** | 135,382 | **128,808** | 129,570 |

Summarised statement of profit or loss and other comprehensive income

| | Topaz Energy and Marine Limited | | Caspian Region Subsidiaries | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RO'000** | RO'000 | **RO'000** | RO'000 |
| Revenue | **134,170** | 93,729 | **31,387** | 34,792 |
| Profit / (loss) before income tax | **12,968** | (39,838) | **11,153** | 12,627 |
| Income tax expense | **(7,345)** | (4,868) | **(11)** | - |
| Profit / (loss) for the year from continuing operations | **5,624** | (44,706) | **11,142** | 12,627 |
| Other comprehensive income | - | - | **-** | - |
| Total comprehensive income / (loss) for the year | **5,624** | (44,706) | **11,142** | 12,627 |
| Total comprehensive income / (loss) allocated to non-controlling interests | **5,572** | (6,312) | **5,570** | (6,312) |
| Dividends paid to non-controlling interests | **6,385** | 1,386 | **6,385** | 1,386 |

## 10 Principal subsidiaries (continued)

**Summarised financial information of subsidiaries in TEAM JAFZA with material non-controlling interest: (continued)**

Summarised statement of cash flows:

| | Topaz Energy and Marine Limited | | Caspian Region Subsidiaries | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **RO'000** | RO'000 | **RO'000** | RO'000 |
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | **63,103** | 110,600 | **27,272** | 20,360 |
| Income taxes paid | **(6,892)** | (5,661) | **-** | - |
| Interest paid | **(25,768)** | (26,805) | **(9,118)** | (10,844) |
| End of service benefits paid | **(104)** | (423) | **-** | - |
| Net cash generated from operating activities | **30,339** | 77,711 | **18,154** | 9,516 |
| Net cash used in investing activities | **(43,145)** | (68,192) | **(54)** | (1,291) |
| Net cash used in financing activities | **(3,504)** | 5,284 | **(18,100)** | (8,225) |
| **Net increase / (decrease) in cash and cash equivalents** | **(16,310)** | 14,803 | **-** | - |
| Cash and cash equivalents at 1 January | **29,981** | 15,178 | **-** | - |
| Cash and cash equivalents at 31 December | **13,671** | 29,981 | **-** | - |

The information above is before inter-company eliminations.

**Summarised financial information of subsidiaries in Renaissance Duqm Holding Company SAOC with material non-controlling interest:**

| | **2018** | 2017 |
|---|---|---|
| | **RO'000** | RO'000 |
| **Summarised statement of financial position** | | |
| **Current** | | |
| Assets | **4,269** | 4,673 |
| Liabilities | **(9,150)** | (7,832) |
| Total current net liabilities | **(4,881)** | (3,159) |
| **Non-current** | | |
| Assets | **71,571** | 71,853 |
| Liabilities | **(41,884)** | (42,501) |
| **Total non-current net assets** | **29,687** | 29,352 |
| **Net assets** | **24,806** | 26,193 |
| **Summarised statement of profit or loss and other comprehensive income** | | |
| Revenue | **8,451** | 3,418 |
| Total expenses | **(11,025)** | (6,951) |
| **Loss for the year** | **(2,574)** | (3,533) |

## 10 Principal subsidiaries (continued)

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| **Summarised statement of cash flows** | | |
| Net cash used in operating activities | **(419)** | (396) |
| Net cash used in investing activities | **(3,480)** | (12,253) |
| Net cash generated from financing activities | **2,650** | 12,628 |
| Increase in cash and cash equivalents | **(1,249)** | (21) |
| Cash and cash equivalents at 1 January | **1,161** | 1,182 |
| Cash and cash equivalents at 31 December | **(88)** | 1,161 |

## 11 Investments

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Fair value through other comprehensive income | **-** | 322 |
| Fair value through profit and loss | **249** | 151 |
| | **249** | 473 |

Investments at fair value through other comprehensive income represent investments in the following entities:

| | Ownership interest (%) 2018 | 2017 |
|---|---|---|
| Fund for Development of Youth Projects SAOC | **2.33** | 2.33 |
| Industrial Management Technology & Contracting LLC | **1.25** | 1.25 |

These investments have been fully impaired during the year.

Investments at fair value through profit and loss includes investments in open end mutual funds and perpetual bonds held for trading.

## 12 Inventories

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Stock and consumables | **9,234** | 7,150 |

During the year the Group did not require to make a provision for slow-moving and obsolete stock (2017 - Nil).

## 13 Trade and other receivables

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| **Current** | | |
| Trade receivables (net of provision for expected credit losses) | **64,410** | 61,614 |
| Other receivables and prepayments | **8,889** | 8,227 |
| Advances to suppliers and contractors | **1,605** | 1,554 |
| Due from related parties (note 26) | **45** | 91 |
| | **74,949** | 71,486 |
| **Non-current** | | |
| Due from related parties (note 26) | **-** | 742 |
| Other long-term receivables | **-** | 204 |
| Other long-term receivables | **-** | 946 |

As at 31 December 2018, trade receivables of RO 3.81 million (2017 - RO 2.97 million) were impaired and provided for.

The fair value of trade debtors and other receivables approximate their carrying amounts.

The other classes within trade and other receivables do not contain impaired assets as the effect of ECL is minimal.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above.

Movement in the allowance for impairment of receivables is as follows:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| At 1 January | **2,972** | 3,061 |
| Charge for the year | **1,385** | 246 |
| Amounts written-off | **(157)** | - |
| Released during the year | **(395)** | (335) |
| **At 31 December** | **3,805** | 2,972 |

Despite all efforts, certain receivables became irrecoverable and have been written off against provisions. These provisions were created over the years.

As at 31 December, the ageing of trade receivables (before provision for expected credit losses) is as follows:

| | | | Past due but not impaired | | | | |
|---|---|---|---|---|---|---|---|
| | Total RO'000 | Neither past due nor impaired RO'000 | Less than 30 days RO'000 | 30 - 60 days RO'000 | 60 - 90 days RO'000 | 90 - 120 days RO'000 | More than 120 days RO'000 |
| **2018** | **68,215** | **45,806** | **4,791** | **4,121** | **3,091** | **4,515** | **5,891** |
| 2017 | 64,586 | 43,267 | 7,026 | 2,706 | 2,364 | 2,192 | 7,031 |

The Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL using the simplified approach. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

## 13 Trade and other receivables (continued)

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. None of the trade receivables that have been written off is subject to enforcement activities.

It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

The carrying amounts of the Group's trade receivables (net of provision for expected credit losses) are denominated in the following currencies:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Rial Omani | 34,046 | 31,130 |
| US Dollar | 29,848 | 27,988 |
| Others | 516 | 2,496 |
| | 64,410 | 61,614 |

## 14 Cash and cash equivalents

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Cash and bank balances including fixed deposits | 31,947 | 50,880 |
| Deposits with maturity of more than three months | (4,000) | (3,000) |
| Cash and cash equivalents (excluding bank overdrafts) | 27,947 | 47,880 |
| Less: bank overdrafts (Note 23) | (322) | - |
| **Cash and cash equivalents** | 27,625 | 47,880 |

Deposit with maturity of more than 3 months are excluded from cash and cash equivalents. These deposits are denominated in Omani Rial with interest rate at 4.55% (2017 - 3% to 4.5%) per annum.

The Group has credit facilities from commercial banks comprising overdrafts, guarantees, bill discounting and other advances. These facilities are secured by a charge over the Group's floating assets and building, a negative lien over some of the Group's contract assets, assignment of project receivables and insurance interests in certain contract assets and corporate guarantees. Bank overdrafts carry interest rates ranging from 4.75% to 6.5% per annum (2017 - 4% to 6.5% per annum).

## 15 Non-current assets held-for-sale and discontinued operations

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Non-current asset held-for-sale | 4,463 | 4,953 |

The Group intends to dispose of a marine vessel it no longer utilises within the next 12 months. A search is underway for a buyer. No impairment loss was recognised on reclassification of the marine vessel as held-for-sale as at 31 December 2018 as management expect that the fair value (estimated based on the recent market valuation obtained) less cost to sell is higher than the carrying amount.

## 16 Capital and reserves

### Share capital

The authorised share capital of the Parent Company comprises 1,500,000,000 ordinary shares of RO 0.100 each (2017 - 1,500,000,000 of RO 0.100 each). At 31 December 2018, the issued and fully paid up share capital comprised 367,272,750 ordinary shares of RO 0.100 each (2017 - 367,272,750 of RO 0.100 each).

Details of shareholders, who own 10% or more of the Parent Company's share capital, are as follows:

| | Number of shares '000 | | % | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Cyclical Services LLC | **53,455** | 53,455 | **14.55** | 14.55 |
| Tawoos LLC | **42,538** | 42,538 | **11.58** | 11.58 |

### Legal reserve

The Omani Commercial Companies Law of 1974 requires that 10% of an entity's net profit be transferred to a non-distributable legal reserve until the amount of the legal reserve becomes equal to one-third of the entity's issued share capital. The legal reserve is not available for distribution. Legal reserve also includes a transfer relating to non-Oman registered subsidiary companies as per the respective regulations in their country of incorporation. During the year, the Parent Company has transferred RO Nil (2017 - RO 2.283 million) to legal reserve from the share premium.

### Treasury shares

These are shares held by a subsidiary of the Parent Company at the cost of RO 6.853 million (2017 - RO 6.853 million). Dividend received on these treasury shares has been directly transferred to retained earnings and shown as movement in the statement of changes in equity. At 31 December 2018, the subsidiary held 35,466,175 shares (2017 - 35,466,175 shares) in the Parent Company. The market value of these shares at 31 December 2018 was approximately RO 13.05 million (2017 – RO 10.53 million).

### Share premium

The Group utilises the share premium for issuing bonus shares and transfers to legal reserve.

### Subordinated loan reserve

As per the subordinated loan agreement, the Parent Company is required to create a subordinated reserve by transferring an amount equal to 1/7th of the outstanding aggregate amount of loan notes out of annual profits after tax of the Parent Company. The reserve will be completely released at the time of full repayment of the subordinated loan (refer note 17). During the year, the Parent Company has transferred RO 0.982 million (2017 – RO 1.1 million) from retained earnings to subordinated loan reserve being 1/7th of the outstanding loan balance at the reporting date.

### Exchange reserve

The exchange reserve comprises of foreign currency differences arising from translation of the financial statements of foreign operations. An amount of RO 0.826 million has been transferred to retained earnings on disposal of a foreign subsidiary.

## 17 Borrowings

| | Total | 1 year or less | 2 - 5 years | More than 5 years |
|---|---|---|---|---|
| | RO'000 | RO'000 | RO'000 | RO'000 |
| **31 December 2018** | | | | |
| Parent company - term loans | **69,165** | **7,832** | **38,637** | **22,696** |
| Parent company - subordinated loan | **6,875** | **875** | **6,000** | **-** |
| Borrowings of subsidiary companies: | | | | |
| TEAM JAFZA | **258,563** | **12,847** | **245,716** | **-** |
| TISCO | **5,400** | **1,080** | **4,320** | **-** |
| RDAC | **42,311** | **2,050** | **14,578** | **25,683** |
| | **382,314** | **24,684** | **309,251** | **48,379** |
| 31 December 2017 | | | | |
| Parent company - term loans | 69,980 | - | 36,862 | 33,119 |
| Parent company - subordinated loan | 7,500 | 625 | 5,375 | 1,500 |
| Borrowings of subsidiary companies: | | | | |
| TEAM JAFZA | 254,859 | 11,538 | 243,321 | - |
| TISCO | 5,400 | - | 4,320 | 1,080 |
| RDAC | 42,113 | 1,125 | 12,488 | 28,500 |
| | 379,852 | 13,288 | 302,366 | 64,199 |

### Term loans in Parent Company

| | 2018 | 2017 |
|---|---|---|
| | RO'000 | RO'000 |
| Parent company - term loans | **70,377** | 71,377 |
| Less: Deferred finance costs | **(1,212)** | (1,397) |
| | **69,165** | 69,980 |
| Less: loan amounts due within one year shown as current liability | **(7,832)** | - |
| | **61,333** | 69,980 |

The Parent Company obtained a syndicated long-term loan ("the facility") from commercial banks dated 4 July 2013. The total facility limit is RO 130 million. Out of this RO 90 million was drawn down on 23 August 2013. Subsequently the Parent Company cancelled the balance portion of RO 40 million in 2015. The facility carries interest of 5.77% per annum (2017 – 5.85% per annum) and is repayable in 52 quarterly installments as per the facility agreement. Interest rate is reset annually by the majority of lenders as per terms of the agreement. The facility is secured by commercial and legal mortgage over certain properties of the Parent Company, pledge of certain shares of one of the subsidiaries, account pledge with lead bank, assignment of receivables from the Parent Company's business, assignment of insurance and dividend income.

During the year 2016, the Parent Company raised term loans from the local commercial banks of RO 15 million for the purpose of funding its subsidiaries businesses and repurchase of MCBs. These loans carry interest at 7.5% per annum and are repayable from 2018 and 2019. These loans are secured against commercial mortgage over shares of one of the subsidiaries. During the year 2018, the Parent Company has prepaid RO 1.0 million towards instalments for the years 2019 and 2020.

## 17 Borrowings (continued)

In 2017, the Parent Company had prepaid its installments due in the year 2018, accordingly, no current portion was presented for the term loans in 2017.

A reconciliation between opening and closing balances in the statement of financial position for liabilities that result in financing cash flows is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **RO'000** | RO'000 |
| At 1 January | **69,980** | 82,501 |
| Cash flows | **(1,000)** | (12,889) |
| Non-cash changes | **185** | 368 |
| At 31 December | **69,165** | 69,980 |

**Subordinated loan in Parent Company**

In 2010, the Parent Company raised a subordinated loan of RO 40 million through an issue of subordinated loan notes denominated in Rial Omani, which is secured by a second charge over the assets of the Parent Company and its subsidiaries. The loan has been raised by the Parent Company for funding its subsidiary company, TEAM JAFZA for meeting the financing requirements of the expansion plans in TEAM JAFZA's marine (Offshore Support Vessels) businesses.

The first drawdown of RO 20 million of the loan was made on 6 December 2010 and the second drawdown of RO 20 million was made on 28 February 2011. The tenure of the loan is 7 years with repayment of four annual installments of RO 10 million with effect from November 2014. Pursuant to the subordinated loan agreement, the Parent Company is required to restrict dividends, raise additional capital and create a subordinated loan reserve by transferring an amount equal to 1/7th of the outstanding aggregate amount of loan notes out of annual profit after tax of the Parent Company. The subordinated loan carries a fixed interest rate of 8.5% per annum. The remaining loan of RO 10 million was restructured during the year 2016. As per revised terms, the loan is being repaid over 7 years with installment commenced from 30 September 2017.

A reconciliation between opening and closing balances in the statement of financial position for liabilities that result in financing cash flows is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **RO'000** | RO'000 |
| At 1 January | **7,500** | 10,000 |
| Cash flows | **(625)** | (2,500) |
| Non-cash changes | **-** | - |
| At 31 December | **6,875** | 7,500 |

**Borrowings of subsidiary companies**

**Loans relating to TEAM JAFZA**

| | **2018** | 2017 |
|---|---|---|
| Term loan, at LIBOR plus 2.75% p.a. (i) | **115,420** | 113,933 |
| USD 375M, 9.125% Senior Notes (ii) | **141,570** | 140,926 |
| USD 350M, 8.625% Senior Notes (iii) | **-** | - |
| Bill Discounting Facility at Libor + 3.75% | **1,573** | - |
| | **258,563** | 254,859 |
| Current portion | **(12,847)** | (11,538) |
| Non-current portion | **245,716** | 243,321 |

## 17 Borrowings (continued)

**Borrowings of subsidiary companies (continued)**

**Loans relating to TEAM JAFZA (continued)**

(i) In 2015, TEAM JAFZA entered into an agreement with a syndicate of banks for a financing facility of RO 211.75 million (USD 550 million) carrying interest at the rate of three-month LIBOR plus 2.75% which is repayable in quarterly instalments until April 2022. The initial drawdown of RO 134.6 million (USD 350 million) was made in 2015 and a further drawdown of RO 23.1 million was made during the year ended 31 December 2018 (2017 - RO 9.6 million).

(ii) On 26th July 2017 TEAM JAFZA issued RO 144.2 million (USD 375 million) aggregate principal amount of 9.125% senior notes (the "Senior Notes") that will mature on 26 July 2022. The Senior Notes pay interest semi-annually in arrears on 26 January and 26 July of each year, commencing 26 January 2018. Interest has been accrued from the issue date. On and after 26 July 2019, TEAM JAFZA may redeem some or all of the Senior Notes at the redemption prices (expressed as percentages of principal amount) equal to 104.5625% for the twelve month period beginning 26 July 2019, 102.2813% for the twelve month period beginning 26 July 2020 and 100% beginning 26 July 2021, plus accrued and unpaid interest and additional amounts, if any, to the redemption date. No redemption has been made during the year ended 31st December 2018. The Senior Notes have been issued by Topaz Marine S.A., a wholly-owned subsidiary of Topaz Energy and Marine Limited, incorporated in Luxembourg. The Senior Notes have been admitted for trading on the Official List of The International Stock Exchange Authority (formerly The Channel Islands Securities Exchange Authority Limited).

The gross proceeds from the issue of the Notes were used to fund the repurchase and redemption of Topaz's existing RO 134.6 million (USD 350 million) 8.625% Senior Notes due in 2018 and the associated costs.

In conjunction with the Senior Notes offering, RO 3.5 million (USD 9.10 million) in debt issuance costs was incurred and was accounted in accordance with IAS 23 and amortised as a finance cost over the life of the Senior Notes using the effective interest rate basis.

As at 31 December 2018, the fair value of the Senior Notes is approximately RO 145.71 million (USD 378.85 million) [31 December 2017 - RO 149 million].

(iii) On 4 November 2013 TEAM JAFZA issued RO 134.6 million (USD 350 million) aggregate principal amount of 8.625% senior notes maturing on 1 November 2018. As explained above, these notes were fully repaid, including interest and redemption premium, in July 2017.

Of the total interest expense for the year ended 31 December 2018, RO 7.3 million (USD 19 million) was charged to statement of profit and loss in 2017 comprising of RO 5.9 million (USD 15.3 million) incurred towards bond redemption premium and RO 1.42 million (USD 3.7 million) towards write-off of unamortized issuance costs related to the redeemed Senior Notes.

(iv) The term loans of TEAM JAFZA are denominated in USD and are secured by a first preferred mortgage over selective assets of TEAM JAFZA, the assignment of marine vessel insurance policies, corporate guarantees and the assignment of the marine vessel charter lease income.

A reconciliation between opening and closing balances in the statement of financial position for liabilities that result in financing cash flows is as follows:

| **31 December 2018** | **1 January RO'000** | **Cash flows RO'000** | **Non-cash changes RO'000** | **31 December RO'000** |
|---|---|---|---|---|
| Term loan, at LIBOR plus 2.75% p.a. | **113,933** | **1,079** | **409** | **115,420** |
| USD 375M, 9.125% Senior Notes | **140,926** | **-** | **643** | **141,570** |
| USD 350M, 8.625% Senior Notes | **-** | **-** | **-** | **-** |
| Bill Discounting Facility Libor +3.75% | **-** | **1,573** | **-** | **1,573** |
| | **254,859** | **2,652** | **1,052** | **258,563** |
| 31 December 2017 | | | | |
| Term loan, at LIBOR plus 2.75% p.a. | 115, 420 | (1,923) | 436 | 113,933 |
| USD 375M, 9.125% Senior Notes | - | 140,731 | 195 | 140,926 |
| USD 350M, 8.625% Senior Notes | 132,655 | (134,615) | 1,960 | - |
| | 248,075 | 4,193 | 2,591 | 254,859 |

## 17 Borrowings (continued)

### Borrowings of subsidiary companies (continued)

### Loans relating to TEAM JAFZA (continued)

The borrowing arrangements include undertakings to comply with various covenants including net debt to EBITDA ratio and EBITDA to debt service ratio as well as an undertaking to maintain a minimum tangible net worth and free liquidity. At the reporting date, TEAM JAFZA was in compliance with all financial covenants.

### Loans relating to Tawoos Industrial Services Company SAOC (TISCO)

During the year 2016, TISCO obtained a long-term loan from a commercial bank for funding to the Parent Company. The total facility amounts to RO 10 million. The facility carries interest at 7.5% (2017 - 7.5%) per annum and is repayable in 24 quarterly installments. The first drawdown from the facility of RO 6 million was made on 6 December 2016. TISCO has cancelled the balance portion of RO 4 million. The facility is secured by the corporate guarantee provided by the Parent Company, pledge of treasury shares and shares of one of the subsidiaries of the Parent Company. The Company had already prepaid last year for current portion due in 2018, accordingly, there is no movement in loan liability in 2018.

### Loans relating to Renaissance Duqm Accommodation Company SAOC (RDAC)

RDAC has signed a facility agreement dated 20 April 2015 with commercial banks and financial institutions in Oman amounting to RO 45,308,000. Out of total facility, RDAC has availed RO 45,308,000 (2017 - RO 44,048,000) as at the reporting date. The costs incurred to arrange this facility amounted to RO 844,810 which is being amortised over the loan period at the effective interest rate. These borrowings are denominated in Rial Omani. Under the terms of the facility agreement, the principal is repayable in 141 monthly instalments starting from 31 July 2017. The interest rate is fixed at 5.5% per annum up to 30 June 2019 (4.5% per annum up to 30 June 2018), and thereafter it will be set annually by the majority of the lenders in accordance with terms of the loan agreement. The loan is secured by mortgage over assets of the Group and assignment of insurance.

RDAC was required to comply with certain loan covenants including Debt to equity and Debt Service Coverage ratios effective from 31 December 2018. However, the lenders have agreed to change the covenants first compliance date from 31 December 2018 to 31 December 2019.

A reconciliation between opening and closing balances in the statement of financial position for liabilities that result in financing cash flows is as follows:

| | **2018 RO'000** | 2017 RO'000 |
|---|---|---|
| At 1 January | **42,113** | 27,951 |
| Cash flows | **134** | 14,098 |
| Non-cash changes | **64** | 64 |
| At 31 December | **42,311** | 42,113 |

Term loans are disclosed in the statement of financial position as follows:

| | **2018 RO'000** | 2017 RO'000 |
|---|---|---|
| Non-current | **357,630** | 366,564 |
| Current liabilities | **24,684** | 13,288 |
| | **382,314** | 379,852 |

The carrying amounts of term loans approximate to their fair values.

## 17 Borrowings (continued)

**Borrowings of subsidiary companies (continued)**

**Loans relating to Renaissance Duqm Accommodation Company SAOC (RDAC) (continued)**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | 2018<br>RO'000 | 2017<br>RO'000 |
|---|---|---|
| Rial Omani | **123,492** | 124,993 |
| US Dollar | **258,822** | 254,859 |
| | **382,314** | 379,852 |

## 18 Perpetual notes

The Group issued step-up subordinated perpetual notes ("perpetual notes") on 29 July 2015. Renaissance International Limited (the Issuer), a limited liability company registered in the Cayman Islands and a wholly-owned subsidiary of the Parent Company, has issued RO 48.3 million (USD 125.5 million) perpetual notes. Issuance costs amounting to RO 1.5 million (USD 3.9 million) were incurred. The perpetual notes are listed on the Irish Stock Exchange. These perpetual notes are a perpetual security in respect of which there is no fixed redemption date. The perpetual notes are callable by the issuer 5 years after the issue date, being 29 July 2020 (the "First Call Date"). The perpetual notes bear a coupon rate of 7.9% per annum, from the issue date to the first call date, payable semi-annually in arrears, however coupon is payable only upon occurrence of certain events, which are at the Group's discretion. The perpetual notes are therefore classified as equity instruments. Post the first call date the coupon rate on perpetual notes shall increase to 12.9% per annum on the outstanding perpetual notes. The coupon liability under perpetual notes is recorded as a liability and the related charge recognised in equity in the period in which the trigger event for such coupon liability occurs.

## 19 Non-current payables

| | 2018<br>RO'000 | 2017<br>RO'000 |
|---|---|---|
| Derivative financial instrument (note 29) | **-** | 8,151 |
| Income tax payable | **3,349** | 3,094 |
| Other payables and advances | **1,530** | 2,956 |
| | **4,879** | 14,201 |

## 20 Advance from a customer

| | 2018<br>RO'000 | 2017<br>RO'000 |
|---|---|---|
| Non-current | **73,779** | 79,735 |
| Current | **43,676** | 19,139 |
| | **117,455** | 98,874 |

Advances from customers comprises of premobilization funds received from Tengizchevroil (TCO) towards the Offshore Marine Module Transport contract. These advances will be recovered, subsequent to the commencement of operations, against amounts receivable from TCO for provision of transportation services. The current portion of RO 43.68 million (2017 - RO 19.1 million) represents management's estimate of the advance recoverable over next 12 months based on the progress of the contract at the reporting date.

## 21 Staff terminal benefits

The table below outlines the Group's post-employment liabilities:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Defined benefit pension plan - Funded (a) | **-** | 259 |
| Unfunded benefits (b) | **5,487** | 4,939 |
| | **5,487** | 5,198 |

(a) Defined benefit pension plan - Funded related to the Group's subsidiary in Norway which has been disposal during the year.

(b) The amount of unfunded benefits recognised in the statement of financial position are determined as follows:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| At 1 January | **4,939** | 4,731 |
| Accrued during the year | **910** | 1,581 |
| Payments during the year | **(362)** | (1,373) |
| **At 31 December** | **5,487** | 4,939 |

Provision for employees' end-of-service benefits is made in accordance with the labour laws of the respective countries in which the Group operates, and is based on current remuneration and cumulative years of service as at the reporting date.

## 22 Trade and other payables

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Trade payables | **14,838** | 22,836 |
| Accrued expenses, provisions and other payables | **55,177** | 52,397 |
| Income tax payable (note 7) | **10,478** | 12,792 |
| Derivative financial instrument (Note 29) | **10,022** | - |
| | **90,515** | 88,025 |

## 23 Short-term borrowings and bank overdrafts

Short-term bank borrowings and overdrafts carry interest rates ranging from 3% to 6.5% per annum (2017 - 3% to 6.5% per annum). Certain of the Group's bank borrowings are secured by a registered first mortgage over certain assets of the Group, guarantees and assignment of receivables.

## 24 Net assets per share

Net assets per share is calculated by dividing the net assets at the year-end attributable to the shareholders of the Parent Company by the number of shares outstanding as follows:

| | **2018 RO'000** | 2017 RO'000 |
|---|---|---|
| Net assets | **184,132** | 182,842 |
| Perpetual notes | **(46,799)** | (46,799) |
| Non-controlling interest | **(85,312)** | (86,964) |
| Net assets attributable to the shareholders of the Parent Company | **52,021** | 49,079 |
| **Number of shares** | | |
| Number of shares at 31 December ('000) | **367,273** | 367,273 |
| Treasury shares (note 16) ('000) | **(35,466)** | (35,466) |
| Number of shares at 31 December ('000) | **331,807** | 331,807 |
| Net assets per share (RO) | **0.157** | 0.148 |

## 25 Earnings per share

### Basic and diluted

Basic earnings per share is calculated by dividing the net profits for the year attributable to the shareholders of the Parent Company by the weighted average number of shares in issue during the year excluding ordinary shares purchased by the Group and held as treasury shares as follows:

| | **2018** | 2017 |
|---|---|---|
| Net profit / (loss) for the year attributable to the shareholders of the Parent Company (RO '000) from continuing operations | **6,806** | (44,404) |
| Perpetual notes coupon | **(3,817)** | (3,817) |
| | **2,989** | (48,221) |
| Net loss for the year attributable to the shareholders of the Parent Company (RO '000) from discontinued operations | **-** | (81) |
| Total profit / (loss) for the year attributable to the shareholders | **2,989** | (48,302) |
| Weighted average number of shares | | |
| Weighted average number of ordinary shares ('000) | **367,273** | 327,865 |
| Less: weighted average number of treasury shares ('000) | **(35,466)** | (30,481) |
| Weighted average number of shares ('000) | **331,807** | 297,384 |
| **Earnings / (loss) per share expressed in Rial Omani** | | |
| Basic and diluted earnings / (loss) per share from continuing operations | **0.009** | (0.1622) |
| Basic and diluted earnings / (loss) per share from discontinued operations | **-** | (0.0003) |
| Basic and diluted loss per share for the year | **0.009** | (0.1625) |

There were no outstanding potential ordinary shares at the reporting date.

## 26 Related parties

Related parties comprise the shareholders, directors, key management personnel and business entities in which the Group or these related parties have the ability to control or exercise significant influence in financial and operating decisions.

The Group has balances with these related parties which arise in the normal course of business. Outstanding balances at year end are unsecured and settlement occurs in cash.

The Group entered into transactions in the ordinary course of business with related parties, other affiliates and parties in which certain members and senior management have a significant influence (other related parties).

Significant related party transactions during the year are listed below:

| | **2018** | 2017 |
|---|---|---|
| | **RO'000** | RO'000 |
| **Income** | | |
| Services rendered and sales to other related parties | **168** | 206 |
| **Expenses** | | |
| Services received and purchases from other related parties | **298** | 295 |
| **Directors' remuneration and attendance fees** | | |
| Remuneration and attendance fees | **105** | 50 |

Remuneration and fees above relate only to the Parent Company.

Out of above related party transactions, following are the details of transactions entered into with the related parties holding 10% or more interest in the Parent Company:

| | **2018** | 2017 |
|---|---|---|
| | **RO'000** | RO'000 |
| Service rendered and sales | **10** | 10 |

**Compensation to key management personnel**

The remuneration of key management personnel during the year are as follows:

| | **2018** | 2017 |
|---|---|---|
| | **RO'000** | RO'000 |
| Short-term benefits | **1,584** | 1,174 |
| Employees' end of service benefits | **66** | 72 |
| | **1,650** | 1,246 |

TOPAZ has paid RO 297,299 (2017 - RO 293,962) as remuneration to its Chairman and Directors, who are also the Chairman and Directors of the Parent Company.

Amounts due from and due to related parties have been disclosed in notes 13 and 23 respectively. The Group has recognized an impairment loss of RO 0.77 million (2017 – Nil) against loan to a related party.

## 27 Commitments and contingent liabilities

| | 2018<br>RO'000 | 2017<br>RO'000 |
|---|---|---|
| **Commitments** | | |
| Capital expenditure commitments | **41,226** | 70,432 |
| **Contingent liabilities** | | |
| Letters of guarantee | **26,010** | 17,512 |

Contingent liabilities represent guarantees like bid bonds, performance bonds, refund guarantee retention bonds etc., which are issued by banks on behalf of Group companies to customers and suppliers under the non-funded working capital lines with the banks. These lines are secured by the corporate guarantee of various Group entities. The amounts are payable only in the event when certain terms of contracts with customers or suppliers are not met.

*Litigation and claims*

In August 2018 an order was issued by the Nigerian Courts for the arrest of two vessels in Nigeria as security for a claim filed against a subsidiary. The Group believes that the claim has no jurisdiction with the Nigerian court and the claim has been referred to arbitration in London. The Group has also filed counterclaims against the plaintiff. The Group is of the view, based on consultation with legal counsel, that the claim does not have any merits and an unfavourable outcome is unlikely.

## 28 Leases

### Operating lease receivables

The Group leases its marine vessels under operating leases. The leases typically run for a period between three months to ten years and are renewable for similar periods after the expiry date. The lease rental is usually renewed to reflect market rentals. Future minimum lease rentals receivable for the initial lease period under these operating leases as of 31 December are as follows:

| | 2018<br>RO'000 | 2017<br>RO'000 |
|---|---|---|
| Within one year | **144,474** | 105,198 |
| Between one and five years | **294,810** | 432,115 |
| More than five years | **30,073** | 5,088 |
| | **469,357** | 542,401 |

### Operating lease payables

The Group has future minimum lease payments under operating leases with payments as follows:

| | 2018<br>RO'000 | 2017<br>RO'000 |
|---|---|---|
| Within one year | **120** | 115 |
| Between one and five years | **530** | 509 |
| More than five years | **13,716** | 13,857 |
| | **14,366** | 14,481 |

During the year, an amount of RO 0.294 million (2017 - RO 0.223 million) was recognised as an expense in the profit or loss in respect of land obtained on operating lease.

## 29 Transactions with non-controlling interests (NCI) and movement in NCI

In 2014, a subsidiary of TEAM JAFZA (subsidiary) entered into a Subscription Agreement, consisting of the issue and sale of 27,902,522 common shares, from authorised but unissued capital stock, of the subsidiary (amounting to 9.8% of the subsidiary's share capital) at a price of RO 1.03 (USD 2.68) per share for total proceeds of RO 28.85 million (USD 75 million) in cash. As part of the issue and sale of the subsidiary's shares, TEAM JAFZA entered into a Shareholders Agreement with the investor whereby TEAM JAFZA and the subsidiary indicated that it shall use all reasonable endeavors to provide the investor a Liquidity Event, as defined in the Shareholders Agreement, within three (3) years. If a Liquidity Event has not been achieved within three years, the investor shall have the right thereafter to request the Parent Company to purchase the investor's entire share, at a price that yields the investor a return of 12% on the invested amount. The Parent Company has the right to decide whether or not to exercise this right. If the Parent Company does not exercise this right, the investor has the right to sell the shares it owns to a third party on arm's length terms. In the event, such a sale does not achieve the required return, TEAM JAFZA, will provide the investor the right to drag that portion of the TEAM JAFZA's shares in the subsidiary which would enable the investor to achieve the target return. The aggregate impact of these terms has been accounted for as a derivative liability.

The proceeds of the private placement were used by the subsidiary to fund expansion plans, which includes the acquisition of additional vessels, mergers and acquisition and joint venture transactions, repayment of existing third party debt, repayment of shareholder loans and general corporate purposes at the subsidiary.

On 19 December 2016, TEAM JAFZA transferred 10,534,626 common shares from the authorised and issued capital stock of the subsidiary (amounting to 3.7% of the subsidiary's share capital) to non-controlling interest, thereby increasing the total holding of the non-controlling interest from 9.8% to 13.5%. The guaranteed yield on the shares was reduced from 12% to 8% and the deadline within which the liquidity event may occur was extended from 3 to 6 years. This resulted in an increase in non-controlling interest by RO 6.095 million, which was recognised directly in equity in accordance with IFRS 10 *Consolidated Financial Statements*.

As at 31 December 2018, the fair value of the derivative liability is RO 8.151 million (2017 - RO 8.151 million) and was estimated by applying stochastic equity value simulation using Geometric Brownian Motion to model the distribution of paths that the equity value of the subsidiary might take. The fair value estimates are based on a discount rate of 14.75%, estimated equity volatility based on observed 5-year historical volatilities of the stock prices of a group of guideline public companies and expected dividend yield of the subsidiary. This is a level 3 fair value measurement.

The movement in the balance related to this non-controlling interest is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **RO'000** | RO'000 |
| At 1 January | **9,339** | 16,350 |
| Share of profit / (loss) during the year | **7** | (7,011) |
| **At 31 December** | **9,346** | 9,339 |

**Movement in NCI**

| | | |
|---|---|---|
| Equity contribution from minority investors in RDH | **532** | - |
| Dividends paid to minority investors in the Group | **(6,401)** | (1,406) |
| | **(5,869)** | (1,406) |

## 30 Segment reporting

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Group's CEO reviews internal management reports on a regular basis. The following summary describes the operations in each of the Group's reportable segments:

Marine (Offshore Support Vessel) services: includes vessel chartering to oil and gas off shore companies.

Contract services: includes contract services, accommodation solutions, and integrated facilities management (IFM) services.

Other operations include discontinuing operations such as the engineering services and training services. This also includes investments and related activities and unallocated corporate tax expenses.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit after income tax, as included in the internal management reports that are reviewed by the Group's CEO (chief operating decision-maker). Segment profit is used to measure performance as management believes that such information is most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Sales between segments are carried out at terms approved by management. The revenue from external parties reported to the Group's CEO is measured in a manner consistent with that in the consolidated statement of comprehensive income.

The amounts provided to the Group's CEO with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

## 30 Segment reporting (continued)

### Information about reportable segments

| | Marine (OSV) services | | Contract services | | Inter-segment eliminations and other unallocated items | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018 RO'000** | 2017 RO'000 | **2018 RO'000** | 2017 RO'000 | **2018 RO'000** | 2017 RO'000 | **2018 RO'000** | 2017 RO'000 |
| Total revenues (refer note below) | **135,583** | 94,249 | **108,376** | 100,375 | **-** | - | **243,959** | 194,624 |
| Net finance costs | **(30,207)** | (26,166) | **(2,979)** | (2,301) | **-** | - | **(33,186)** | (28,467) |
| Depreciation and amortisation | **(27,975)** | (26,962) | **(10,608)** | (8,145) | **-** | - | **(38,584)** | (35,107) |
| Reportable segment profit / (loss) after income tax (continuing operations) | **2,605** | (48,605) | **6,703** | 1,850 | **1,715** | - | **11,023** | (46,755) |
| Reportable segment (loss) / profit after income tax (discontinued operations) | **-** | - | **-** | - | **-** | (81) | **-** | (81) |
| Reportable segment assets | **605,757** | 588,898 | **209,090** | 210,139 | **(30,206)** | (21,492) | **784,641** | 777,545 |
| Assets of disposal group classified as held-for-sale | **4,463** | 4,953 | **-** | - | **-** | - | **4,463** | 4,953 |
| Capital expenditure | **55,469** | 68,193 | **5,818** | 6,280 | **-** | - | **61,287** | 74,473 |
| Reportable segment liabilities | **494,730** | 485,335 | **122,695** | 127,414 | **(12,453)** | (13,093) | **604,972** | 599,656 |

## 30 Segment reporting (continued)

### Geographical segments

Revenue based on the geographical location of the business activities is as follows:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Oman | **96,979** | 85,387 |
| Middle East and North Africa (excluding Oman) | **20,728** | 20,855 |
| Caspian | **103,984** | 72,051 |
| Norway | **8,695** | 12,343 |
| Others | **13,573** | 3,988 |
| | **243,959** | 194,624 |

Revenue for the year comprises of:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Charter and other revenues from marine vessels | **129,350** | 88,816 |
| Permanent accommodation solution | **41,200** | 34,494 |
| Contract services | **68,589** | 66,401 |
| Project management (i) | **4,615** | 4,498 |
| Income from mobilisation of marine vessels | **205** | 415 |
| | **243,959** | 194,624 |

(i) BUE Bulkers Limited, a subsidiary of the Group, has entered into a construction management services agreement with a customer, under which the Group has supervised the new build program for the three module carrier vessels (MCVs), mobilised the MCVs to the Caspian Sea, procured and supervised modification works to be undertaken to the MCVs following completion by the shipyard and on arrival in the Caspian Sea, procure potential temporary lay-up of the MCVs and mobilise the MCVs to the relevant trans-shipment bases.

The total of non-current assets other than financial instruments and deferred tax assets is as follows:

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| Oman | **138,386** | 141,374 |
| Others | **527,711** | 501,514 |
| | **666,097** | 642,888 |

Others include mainly MENA and Caspian regions.

## 31 Financial instruments

**Financial instruments by category**

| **31 December 2018** | **Amortised cost RO'000** | **Fair value through other comprehensive income RO'000** | **Fair value through profit or loss RO'000** | **Total RO'000** |
|---|---|---|---|---|
| **Assets** | | | | |
| Investments at FVOCI | **-** | **-** | **-** | **-** |
| Investments at fair value through profit or loss | **-** | **-** | **249** | **249** |
| Trade and other receivables (excluding other receivables and prepayments and advances) | **64,410** | **-** | **-** | **64,410** |
| Due from related party | **45** | **-** | **-** | **45** |
| Cash and bank balances | **31,947** | **-** | **-** | **31,947** |
| | **96,402** | **-** | **249** | **96,651** |

| 31 December 2017 | Loans and receivables RO'000 | Available-for-sale RO'000 | Assets at fair value through profit or loss RO'000 | Total RO'000 |
|---|---|---|---|---|
| Assets | | | | |
| Investments | - | 322 | - | 322 |
| Other long-term receivables | 946 | - | - | 946 |
| Investments at fair value through profit or loss | - | - | 151 | 151 |
| Trade and other receivables (excluding other receivables and prepayments and advances) | 61,705 | - | - | 61,705 |
| Cash and bank balances | 50,880 | - | - | 50,880 |
| | 113,531 | 322 | 151 | 114,004 |

| **31 December 2018** | **Liabilities at fair value through profit and loss RO'000** | **Other financial liabilities at amortised cost RO'000** | **Total RO'000** |
|---|---|---|---|
| **Liabilities** | | | |
| Borrowings | **-** | **382,314** | **382,314** |
| Non-current payables and advances | **-** | **1,530** | **1,530** |
| Trade and other payables | **-** | **80,493** | **80,493** |
| Derivative financial liabilities | **10,022** | **-** | **10,022** |
| Short-term borrowings and bank overdrafts | **-** | **4,322** | **4,322** |
| | **10,022** | **468,659** | **478,681** |

## 31 Financial instruments (continued)

**Financial instruments by category (continued)**

| 31 December 2017 | Liabilities at fair value through profit and loss RO'000 | Other financial liabilities at amortised cost RO'000 | Total RO'000 |
|---|---|---|---|
| Liabilities | | | |
| Borrowings | - | 379,852 | 379,852 |
| Non-current payables and advances | - | 11,107 | 11,107 |
| Trade and other payables | - | 75,233 | 75,233 |
| Derivative financial liabilities | 8,151 | - | 8,151 |
| Short-term borrowings and bank overdrafts | - | 13,506 | 13,506 |
| | 8,151 | 479,698 | 487,849 |

(i) With respect to exposures with banks, management considers the credit risk exposure to be minimal as the Group only deals with banks with a minimum rating of P-2 as per Moody's investor's service. Management does not expect any losses to arise from non-performance by these counterparties.

(ii) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, estimated based on historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix.

## 32 Derivative financial instruments

The following table presents the derivative liabilities for the year ended 31 December 2018 and 2017.

| | **2018 RO'000** | 2017 RO'000 |
|---|---|---|
| Embedded derivative (Note 29) | **8,151** | 8,151 |
| Foreign exchange forward contracts (i) | **1,871** | - |
| **At 31 December** | **10,022** | 8,151 |

(i) The table below shows the remaining period to maturity of financial instruments as at 31 December 2018:

| **31 December 2018** | **Positive fair value RO'000** | **Negative fair value RO'000** | **Net fair value RO'000** |
|---|---|---|---|
| **Derivatives held for trading** | | | |
| Foreign exchange forward contracts | **1,871** | **-** | **1,871** |

The table below shows the contractual value of Foreign exchange forward contracts and fair value of derivative financial instruments as at 31 December 2018:

| | **Contractual / notional amount** | | | |
|---|---|---|---|---|
| | **Up to 3 months RO'000** | **3 months -1 year RO'000** | **Over 1 year RO'000** | **Total RO'000** |
| **Derivatives held for trading** | | | | |
| Foreign exchange forward contracts | **30,864** | **-** | **-** | **30,864** |

## 33 Fair value of financial instruments

**Fair value hierarchy**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | Level 1 RO'000 | Level 2 RO'000 | Level 3 RO'000 | Total RO'000 |
|---|---|---|---|---|
| **31 December 2018** | | | | |
| Investments at FVTPL | **249** | **-** | **-** | **249** |
| Derivative financial instruments | **-** | **-** | **10,022** | **-** |
| 31 December 2017 | | | | |
| Investments | 151 | - | 322 | 473 |
| Derivative financial instruments | - | - | 8,151 | 8,151 |

*Valuation techniques and assumptions applied for the purposes of measuring fair value*

The fair values of financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2017.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2018 and 2017.

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| At 1 January | **8,151** | 7,588 |
| Fair value changes (Note 29) | **-** | 563 |
| Foreign exchange forward contracts | **1,871** | - |
| **At 31 December** | **10,022** | 8,151 |

There were no transfers between levels 2 and 3 during the year.

The fair value of the derivative liability has been calculated by an independent valuer and will need to be revalued at each reporting date (See Note 29 for the valuation technique and inputs used).

The fair values of other financial instruments are not materially different from their carrying values.

## 34 Approval of consolidated financial statements

The financial statements were approved by the Board of Directors and authorised for issue on 21 February 2019.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (PARENT COMPANY)

FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018<br>RO'000 | 2017<br>RO'000 |
|---|---|---|
| Revenue | 32,750 | 31,076 |
| Operating costs | (21,786) | (20,619) |
| **Gross profit** | 10,964 | 10,457 |
| Other income | 1,849 | 2,279 |
| Administrative expenses | (3,310) | (3,424) |
| **Profit before finance cost and tax** | 9,503 | 9,312 |
| Finance costs – net | (7,278) | (7,981) |
| **Profit before tax** | 2,225 | 1,331 |
| Taxation | 1,715 | (985) |
| **Profit and total comprehensive income for the year** | 3,940 | 346 |
| **Basic and diluted earnings per share (RO)** | 0.011 | 0.001 |

# STATEMENT OF FINANCIAL POSITION (PARENT COMPANY)

AS AT 31 DECEMBER 2018

| | **2018 RO'000** | 2017 RO'000 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, plant and equipment | **61,928** | 65,927 |
| Investments | **157,121** | 156,789 |
| Subordinated loan to subsidiaries | **19,820** | 30,600 |
| **Total non-current assets** | **238,869** | 253,316 |
| | | |
| **Current assets** | | |
| Financial assets at fair value | **238** | 138 |
| Inventories | **811** | 752 |
| Trade and other receivables | **9,293** | 9,884 |
| Amount due from subsidiaries and other related parties | **22,549** | 24,471 |
| Current portion of subordinated loan to subsidiaries | **16,520** | 4,640 |
| Cash and bank balances | **8,356** | 12,184 |
| **Total current assets** | **57,767** | 52,069 |
| **Total assets** | **296,636** | 305,385 |
| | | |
| **EQUITY AND LIABILITIES** | | |
| **Capital and reserves** | | |
| Share capital | **36,727** | 36,727 |
| Share premium | **26,937** | 26,937 |
| Legal reserve | **12,242** | 12,242 |
| Subordinated loan reserve | **3,482** | 2,500 |
| Retained earnings | **35,989** | 33,031 |
| **Total equity** | **115,377** | 111,437 |
| | | |
| **LIABILITIES** | | |
| **Non-current liabilities** | | |
| Borrowings | **61,333** | 69,980 |
| Subordinated loan | **6,000** | 6,875 |
| Non-current payables | **3,348** | 3,094 |
| Subordinated loan from subsidiaries | **52,638** | 53,718 |
| Staff terminal benefits | **1,361** | 1,263 |
| **Total non-current liabilities** | **124,680** | 134,930 |
| | | |
| **Current liabilities** | | |
| Term Loans | **7,832** | - |
| Current portion of long-term subordinated loan | **875** | 625 |
| Trade and other payables | **17,429** | 19,971 |
| Amount due to subsidiaries | **28,443** | 27,916 |
| Short-term borrowings | **2,000** | 10,506 |
| **Total current liabilities** | **56,579** | 59,018 |
| **Total liabilities** | **181,259** | 193,948 |
| **Total equity and liabilities** | **296,636** | 305,385 |
| **Net assets per share (RO)** | **0.314** | 0.303 |

# STATEMENT OF CHANGES IN EQUITY (PARENT COMPANY)

FOR THE YEAR ENDED 31 DECEMBER 2018

| | Share capital RO'000 | Share premium RO'000 | Legal reserve RO'000 | Subordinated loan reserve RO'000 | Retained earnings RO'000 | Total RO'000 |
|---|---|---|---|---|---|---|
| At 1 January 2017 | 29,878 | 22,302 | 9,960 | 1,429 | 33,756 | 97,325 |
| Comprehensive income: | | | | | | |
| Profit for the year | - | - | - | - | 346 | 346 |
| Shares issued on conversion of MCBs | 6,849 | 6,917 | - | - | - | 13,766 |
| Transfer to subordinated loan reserve | - | - | - | 1,071 | (1,071) | - |
| Transfer to legal reserve | - | (2,282) | 2,282 | - | - | - |
| At 1 January 2018 | **36,727** | **26,937** | **12,242** | **2,500** | **33,031** | **111,437** |
| Comprehensive income: | | | | | | |
| Profit for the year | **-** | **-** | **-** | **-** | **3,940** | **3,940** |
| Transfer to subordinated loan reserve | **-** | **-** | **-** | **982** | **(982)** | **-** |
| **At 31 December 2018** | **36,727** | **26,937** | **12,242** | **3,482** | **35,989** | **115,377** |

# STATEMENT OF CASH FLOWS (PARENT COMPANY)

FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018 RO'000 | 2017 RO'000 |
|---|---|---|
| **Operating activities** | | |
| Cash receipts from customers | **33,676** | 30,728 |
| Cash paid to suppliers and employees | **(21,541)** | (17,063) |
| **Cash generated from operations** | **12,135** | 13,665 |
| | | |
| Net financing costs | **(7,094)** | (7,612) |
| Income tax refund / (paid) | **550** | (149) |
| **Net cash generated from operating activities** | **5,591** | 5,904 |
| | | |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(407)** | (350) |
| Proceeds from sale of property, plant and equipment | **2** | 23 |
| Net movement in fixed deposits | **(1,000)** | 4,000 |
| Purchase of bonds | **(100)** | - |
| Increase in investment in subsidiaries | **(654)** | (138) |
| Dividend received | **1,602** | 2,000 |
| **Net cash (used in) / generated from investing activities** | **(557)** | 5,535 |
| | | |
| **Financing activities** | | |
| Net payments of borrowings | **(10,131)** | (9,884) |
| Net movement in related parties | **269** | 1,128 |
| | | |
| **Net cash used in generated from financing activities** | **(9,862)** | (8,756) |
| | | |
| **Net change in cash and cash equivalents** | **(4,828)** | 2,683 |
| Cash and cash equivalents at the beginning of the year | **11,184** | 8,501 |
| | | |
| **Cash and cash equivalents at the end of the year** | **6,356** | 11,184 |