



CORPORATE PRESENTATION FOR TOPAZ GROUP

21 October 2013

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1. General Information about Topaz Group

Overview

We are a leading OSV group operating a fleet of over 90 modern OSVs, primarily in the Caspian Sea and the MENA region with selective contracts in global markets that include Nigeria, the North Sea and the Mexican sector of the Gulf of Mexico. Our fleet caters to a wide range of offshore services required by the oil and gas industry, including supply, logistics, maintenance and repair work on rig and platform installations primarily during the development and production phases of oil and gas production. We contract our vessels to our clients, which typically are IOCs, NOCs and offshore services companies of international standing, on a daily charter-rate basis with our contract terms usually ranging from three months to ten years (excluding contract extensions). Our contract lengths vary in each region in which we operate, with longer durations, ordinarily three to ten years, in our core market, the Caspian Sea, which accounted for 61.3% of our EBITDA in the twelve months ended June 30, 2013. In the twelve months ended June 30, 2013, we generated revenue, EBITDA and Pro Forma Adjusted EBITDA of \$352.6 million, \$155.3 million and \$192.1 million, respectively. As of June 30, 2013, the carrying value of our vessels was \$933.5 million. Our owned fleet, as of June 30, 2013, which does not include chartered-in vessels or planned purchases, was valued by a third-party independent valuation expert on August 28, 2013 at approximately \$970.3 million, and after including the Caspian Supplier, which we acquired on September 2, 2013, was valued at approximately \$1.0 billion. As part of our selective vessel acquisition program, we expect to spend approximately \$300.0 million in 2013 and 2014 to add eleven new vessels to our owned fleet. We are a wholly owned subsidiary of the Principal Shareholder, a publicly traded oil and gas services company listed on the Muscat Securities Market in Oman.

We provide our services through our diversified fleet of OSVs, which includes AHTSVs, PSVs, MPSVs and ERRVs, among other vessels. Our versatile fleet caters to a wide range of services required by oil and gas companies and is deployable in all phases of oil and gas production. Our OSV fleet is one of the world's largest and youngest, with an average vessel age of 7.3 years (compared to an industry average vessel age of approximately 15 years, pertaining only to AHTSVs, PSVs, AHTs, crew boats and MPSVs, according to Clarkson Research), competitively positioning us to meet the increasing demand in the OSV industry for newer, safer and more reliable vessels.

Our operations are primarily focused on the Caspian Sea and MENA, two of the world's core oil and gas exploration, development and production regions, which together represented over 50% of global oil and gas reserves as of December 31, 2012 (Source: BP Statistical Review of World Energy 2013). We have leading market positions in the Caspian Sea, where we have operated for over 20 years, with a market share of approximately 48% as of September 2013 and we are the market leader in Azerbaijan. Our well established presence in the Caspian Sea has provided us with a deep understanding of the logistical challenges associated with operating in the region, such as mobilizing vessels and equipment as well as client and regulatory requirements, including those relating to the employment of minimum numbers of local nationals as crew and staff. In the fragmented MENA market, we are the second largest OSV operator in Qatar and the fourth largest OSV operator in Saudi Arabia (Source: IHS Report). Our established MENA presence and our selective OSV contracts in Nigeria and the Mexican sector of the Gulf of Mexico help diversify our revenue sources. In the twelve months ended June 30, 2013, our Caspian Sea operations, MENA operations and Global operations generated 61.3%, 27.3% and 11.2% of our EBITDA, respectively.

With over 30 years of experience, we believe that we have been consistently successful at winning tenders from our clients due to our established market positions in the Caspian Sea and MENA region, young and technically advanced fleet, strong HSE track record and diversified service offering. We believe that our consistently high levels of vessel utilization demonstrate our strong track record of winning tenders. Our clients include many of the world's largest international oil and gas exploration and production companies, including IOCs such as Agip, BP and Total; NOCs, such as Saudi Aramco; and other offshore services companies of international standing, such as McDermott and Maersk Oil. While our clients employ our vessels to provide a wide range of services supporting the exploration, development and construction phases of the upstream offshore oil and gas industry, we have historically focused, and expect to continue to focus, on the development and production phases, because we believe that they provide greater stability and certainty as to future revenue than the exploration phase. We have long-standing relationships with our key clients with an average length of our relationship with our top five clients (based on revenue for the twelve months ended June 30, 2013) of over seven years. Historically, we have experienced limited instances of contract cancellations, with no contracts being cancelled in the year ended December 31, 2012 and the six months

ended June 30, 2013. Additionally, we have a strong record of contract renewal in the Caspian Sea as demonstrated by the fact that none of our core assets have been removed from the Caspian Sea in the past 15 years.

We have experienced steady revenue growth over recent years despite challenging economic conditions. Our revenue growth has been driven by strong demand and high core asset utilization (91% on average for the year ended December 31, 2012 and 94% on average for the six months ended June 30, 2013) across our operations from reputable top-tier clients, with our revenue increasing at a CAGR of 15.9% from \$243.8 million in the year ended December 31, 2010 to \$352.6 million in the twelve months ended June 30, 2013 and our EBITDA increasing at a CAGR of 8.3% from \$127.4 million in the year ended December 31, 2010 to \$155.3 million in the twelve months ended June 30, 2013. Additionally, our contracts in the Caspian Sea tend to have long durations (between three to ten years) and therefore provide us with visibility over future cash flows and reduce our exposure to seasonality and industry volatility.

We believe that the established relationships and long-term concessions that our reputable international clients enjoy in their operating areas as well as their partnerships with NOCs provide us with a high degree of revenue visibility. As of June 30, 2013, our total contract backlog, including both the initial contract period and client extension options, was approximately \$1,035.5 million.

Recent Developments and Trading Update

Trading Update

Based on internal management estimates, we expect our performance for the twelve months ended September 30, 2013 and for the nine months ended September 30, 2013 to be as follows:

- Revenue for the twelve months ended September 30, 2013 increased by approximately 5% to 6% compared to the twelve months ended June 30, 2013 and is expected to be in the range of approximately \$370 million to approximately \$372 million.
- Revenue for the nine months ended September 30, 2013 increased by approximately 26% to 28% compared to the corresponding period in 2012 and is expected to be in the range of approximately \$283 million to approximately \$285 million.
- EBITDA for the twelve months ended September 30, 2013 increased by approximately 4% to 5% compared to the twelve months ended June 30, 2013 and is expected to be in the range of approximately \$161 million to approximately \$163 million.
- EBITDA for the nine months ended September 30, 2013 increased by approximately 22% to 24% compared to the corresponding period in 2012 and is expected to be in the range of approximately \$124 million to approximately \$126 million.
- In the three months ended September 30, 2013, we acquired the Caspian Supplier for a total purchase price of \$30 million.
- We continued to generate robust cash flows with a cash balance of \$44.8 million as of September 30, 2013 (compared to \$37.0 million as of September 30, 2012 and \$63.1 million as of June 30, 2013). The increase in cash as compared with the corresponding period in 2012 was primarily attributable to a drawdown under the \$125.0 million Islamic lease financing entered into on May 1, 2013 by Barwa Bank during the fourth week of June 2013 and to a corresponding increase in EBITDA due to new vessels added during this period and the decrease in cash compared with June 30, 2013 was primarily attributable to the purchase of the Caspian Supplier.

In addition, net current assets and current assets decreased by approximately \$22.5 million and \$19.6 million, respectively as compared to June 30, 2013. The decreases in net current assets and current assets were primarily attributable to high cash balances as of June 30, 2013 as a result of debt refinancing and a partial drawdown under one of our credit facilities and a decrease in cash balances as of September 30, 2013 primarily due to the subsequent purchase of the Caspian Supplier.

The above information is based on preliminary results and estimates and is not intended to be a comprehensive statement of our financial or operational results for the twelve months ended September 30, 2013 and the nine

months ended September 30, 2013. Such information has been prepared by management and has not been audited, reviewed or verified by our independent auditors. The preliminary results mentioned above are derived from our management accounts, rather than our unaudited interim financial information, which will be prepared in accordance with IFRS. Our preliminary estimates are based on a number of assumptions that are subject to inherent uncertainties and subject to change. In addition, while we believe these estimates to be reasonable, over the course of the next several weeks we will be completing our financial statements for the nine months ended September 30, 2013. Accordingly, our actual results for the nine months ended September 30, 2013 may vary from our preliminary results and estimates above, and such variations could be material. As such, you should not place undue reliance on them.

CFO Appointment

In September 2013, we appointed a new Chief Financial Officer, Pernille Fabricius. Ms. Fabricius will join us as Chief Financial Officer effective January 2014. Ms. Fabricius previously served as Chief Financial Officer at Damco (one of the seven business units of the AP Møller Mærsk Group) and has held several senior management positions including Chief Executive Officer of TryghedsGruppen smba, Group Chief Financial Officer and Board member of TMF Group and Chief Financial Officer and Management Board member of TNS Group. Effective January 2014, Mr. Jay Daga will act as Deputy Chief Financial Officer.

New Vessels Entering into Service

In September 2013, we entered into a two-year contract with three one-year options with BP in Azerbaijan. The contract start date is November 15, 2013. As a result, we expect to deploy our vessel, Caspian Supplier, in Azerbaijan on November 15, 2013. In October 2013, we entered into a two-year contract with three one year options with BP relating to the deployment of the BP Vessel in Azerbaijan. The contract start date is June 1, 2014. As a result we expect to deploy the BP Vessel in Azerbaijan on June 1, 2014.

Backlog

Our backlog consists of the total estimated revenue attributable to the uncompleted portion of all of our vessel charter contracts, on the basis of our expectations of the revenue to be generated from the remaining contract period on the basis of the day rates specified in each contract, and the extension of those contracts at the option of our clients as per the terms of the contracts. The extension options in our contracts vary, depending on the terms of the specific contract with certain of our medium- and long-term contracts having two or three extension options of up to a year and others having a one-time extension option of up to five years. As of June 30, 2013, our backlog under our fixed-term contracts was \$621.1 million and our backlog in respect of client extension options totaled \$414.4 million, together totaling \$1,035.5 million. The table below sets forth our backlog as of June 30, 2013 for each of our geographic operational regions as of and for the years ended December 31, 2013, 2014, 2015, 2016, 2017 and 2018 and thereafter.

	2013	2014	2015	2016	2017	2018 and thereafter
	(\$ in thousands)					
Backlog as of June 30, 2013:						
Topaz Marine Caspian						
Fixed-term contract.....	54,578	99,074	72,662	55,394	43,858	86,564
Client extension options.....	11,387	47,504	41,580	19,637	21,602	85,704
Total Caspian region backlog	65,966	146,578	114,242	75,031	65,460	172,268
Topaz Marine MENA						
Fixed-term contract.....	27,317	49,595	20,839	7,229	7,209	12,620
Client extension options.....	2,497	4,109	29,215	37,774	8,695	13,132
Total MENA backlog	29,814	53,706	50,054	45,002	15,904	25,752
Topaz Marine Global						
Fixed-term contract.....	18,910	25,347	14,507	14,547	10,850	—
Client extension options.....	1,920	13,297	3,793	—	3,657	68,918
Total Global backlog	20,830	38,644	18,300	14,547	14,507	68,918
Total						
Fixed-term contract.....	100,806	174,017	108,008	77,169	61,917	99,184
Client extension options.....	15,805	64,911	74,587	57,411	33,954	167,753

Total backlog.....	<u>116,610</u>	<u>238,928</u>	<u>182,595</u>	<u>134,580</u>	<u>95,871</u>	<u>266,938</u>
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The amount of the backlog is not necessarily indicative of our future revenue or earnings. Although backlog reflects business that is considered by us to be firm, cancellations, non-extensions of options or scope adjustments may occur. Historically, we experienced limited instances of cancellations, non-extensions or scope adjustments, with no contracts being cancelled in the year ended December 31, 2012 and the six months ended June 30, 2013, and all options to extend contracts relating to large OSVs and long-term contracts were exercised by our clients during the year ended December 31, 2012 and the six months ended June 30, 2013.

Our Vessels

We employ various types of vessels to support our clients and their diversified requirements, including for the positioning of drilling structures and the transportation of personnel, equipment, materials and supplies. The table below shows the breakdown of our fleet categorized by primary function as of June 30, 2013.

Category	Number of Owned Vessels in Fleet ⁽¹⁾	Number of Chartered-in Vessels in Fleet	Estimated Asset Value of Owned Vessels in Fleet (\$ in millions) ⁽²⁾	Average Age of Vessels in Fleet ⁽³⁾	Industry Average Age ⁽⁴⁾	EBITDA for Twelve Months ended June 30, 2013 ⁽⁵⁾
AHTSV	22	7	375.5	4.5	16.3	45.2
PSV	8	1	195.5	7.6	8.4	35.4
MPSV	11	—	206.4	13.2	15.4	39.9
ERRV	3	—	61.0	7.2	24.3	7.3
Specialized barges.....	23	—	96.8	5.4	—	22.4
Crew boats	9	—	22.4	5.5	17.4	2.1
Other vessels	9	—	12.7	15.6	—	3.0
Total	85	8	970.3⁽⁶⁾	7.3	14.9⁽⁷⁾	155.3

(1) Number of vessels only includes owned assets as of June 30, 2013 and does not include the Caspian Supplier, which was acquired after June 30, 2013, chartered-in vessels or any planned purchases.

(2) Estimated asset value based on a valuation report prepared by a third-party expert and includes only owned assets as of June 30, 2013 but does not include the Caspian Supplier, which was acquired after June 30, 2013, chartered-in vessels or any planned purchases.

(3) Includes chartered-in vessels.

(4) Source: Clarkson Research, as of October 1, 2013.

(5) Includes chartered-in vessels.

(6) The estimated asset value of owned core assets is approximately \$914 million and the estimated asset value of our other assets is approximately \$56 million.

(7) Total for Industry Average Age includes AHTSVs, PSVs, AHTs, crew boats and MPSVs only and excludes ERRVs because they are deemed to be a specialized category outside the more general OSV fleet and also excludes specialized barges and other vessels.

We charter-in eight vessels typically on a long-term basis. The contracts for our chartered-in vessels include purchase options, which give us the flexibility to add these chartered-in vessels to our owned fleet. In the year ended December 31, 2012 and the twelve months ended June 30, 2013, our chartered-in vessels generated revenue of \$28.0 million, or 9.0% of our total revenue, and \$53.2 million, or 16.5% of our total revenue, respectively.

Our Global Operations

We are headquartered in Dubai with operational centers in the UAE, Qatar, Kazakhstan, Azerbaijan and Saudi Arabia, with a presence in West Africa and the Russian sector of the Caspian Sea. As of June 30, 2013, we employed over 1,800 people in ten countries. We carry out our business through three operating divisions: Topaz Marine Caspian, which oversees our operations in Azerbaijan and Kazakhstan and the Russian sector of the Caspian Sea; Topaz Marine MENA, which oversees our operations in MENA, primarily in the UAE, Qatar and Saudi Arabia; and Topaz Marine Global, which oversees our operations in the rest of the world, including in the Mexican sector of the Gulf of Mexico, the North Sea and West Africa.

Topaz Marine Caspian

We operate the majority of our modern OSV fleet (61 vessels, or approximately 66% of our total fleet size) in the Caspian Sea with 24 vessels deployed in Azerbaijan, 24 vessels in Kazakhstan and 13 in the Russian sector. The average age of our vessels deployed in the Caspian Sea is approximately 7.5 years. Our key clients in the Caspian Sea region include BP, Agip, Total and Saipem. In the twelve months ended June 30, 2013, Topaz Marine Caspian generated revenue of \$203.2 million and EBITDA of \$95.2 million.

Topaz Marine MENA

We currently deploy a fleet of 23 vessels (or approximately 25% of our total fleet size) in the MENA region, with ten vessels deployed in Qatar, nine vessels in Saudi Arabia and four vessels in the UAE. The average age of our vessels deployed in the MENA region is approximately seven years. Some of our key clients in the MENA region include Total, Saudi Aramco, Oxy, McDermott, Maersk Drilling, Dubai Petroleum and Dolphin Energy. In the twelve months ended June 30, 2013, Topaz Marine MENA generated revenue of \$90.8 million and EBITDA of \$42.4 million.

Topaz Marine Global

We deploy nine vessels (or approximately 10% of our total fleet size) in our Global operations with an average age of approximately seven years. In the twelve months ended June 30, 2013, our key clients in our Global operations included ABB and Petrobras. In the twelve months ended June 30, 2013, Topaz Marine Global generated revenue of \$58.4 million and EBITDA of \$17.4 million.

Our Competitive Strengths

We believe that our operations benefit from a number of competitive strengths, including the following:

Well positioned to benefit from strong long-term industry fundamentals. We primarily provide our products and services to clients in the oil and gas industry, which demonstrates robust industry dynamics. Global oil and natural gas demand is expected to increase substantially over time, with global oil demand expected to increase at a CAGR of 1.6% from 2013 to 2018 driven by growing economies in emerging markets, particularly Asia, global gas demand is expected to increase at a CAGR of 3.3% from 2013 to 2018, driven by rising global energy demand and the increased importance of natural gas as a source of energy. We expect that this increased demand, coupled with the natural depletion of oil reserves in onshore reservoirs, will be a factor in supporting long-term oil price expectations of over \$100 per barrel in the period from 2013 to 2018 (Source: Bloomberg), which are in excess of the minimum levels for offshore oil and gas capital expenditure projects. In the face of the natural depletion of existing onshore reserves, increasing demand and sustained high oil prices, the need for further offshore exploration to identify new reserves has increased. Accordingly, exploration and production companies are increasingly focused on offshore projects. Capital expenditures on offshore projects in the Caspian Sea, MENA and Global regions are expected to continue to increase between the years ending December 31, 2013 and December 31, 2018 at CAGRs of 12.0%, 9.1% and 7.6%, respectively. We believe that the increase in offshore capital expenditures is likely to continue to consist of significant spending on shallow-water capital expenditure with an increasing proportion of deepwater capital expenditure. Such increased deepwater expenditure is likely to require modern, larger vessels with high specifications. As of June 30, 2013, approximately 52.6% of our fleet (on the basis of asset value) was deployable in deep water based on vessel size and power. We are particularly well positioned to capitalize on this increase in offshore activity, as a result of the advantageous geographic positioning of our operations in areas most primed for exploration and market growth, with our core markets in the Caspian Sea and MENA region representing more than 50% of the world's oil and gas reserves in 2012 and our young and versatile fleet, which is well suited to address our clients' higher technical specifications and growing demand for younger vessels that are able to work in more challenging conditions.

Modern, versatile, technologically advanced and valuable fleet. We operate a modern and versatile fleet of vessels, including AHTSVs, PSVs, ERRVs, MPSVs, barges, crew boats and other specialized vessels. Our fleet consists of 93 vessels (85 of which we own and eight of which we typically charter-in on a long-term basis) with an average age of 7.3 years. The average age of our fleet is significantly lower than the industry average of approximately 15 years (according to Clarkson Research, which includes AHTSVs, PSVs, AHTs, crew boats and MPSVs). The increase in offshore activity in challenging regions accompanied with higher safety requirements has led clients to increasingly demand that OSVs are built to higher technical specifications and include additional capabilities in order to be able

to work in harsher environments and more challenging conditions. These requirements may include (i) newer vessels, (ii) larger vessel dimensions, (iii) increased technological sophistication and capability such as dynamic positioning-2 (DP2) capabilities, (iv) improved operational reliability, (v) increased power and winch capacity, (vi) lower fuel consumption and (vii) flexibility for operating in harsh environments. We believe that our young, advanced and versatile fleet composition and proven track record of operating these types of vessels position us well to meet this increasing demand. Additionally, our newer vessels require less maintenance and refurbishment work than older vessels, which we believe results in less downtime and provides greater operational flexibility and reliability for us and for our clients. Our fleet includes AHTSVs, PSVs and MPSVs, which are highly versatile and enable us to cater to a wider range of our clients' production and development needs. Our young fleet age and high specification vessels have led to increased utilization across our operations, with our utilization rates for our core assets increasing from 85% in the year ended December 31, 2010 to 94% in the six months ended June 30, 2013. Our fleet composition is also aligned with our strategic focus on the stable development and production phase, with over 95% of our operating fleet servicing the development and production phase. To ensure the high quality of our modern fleet and to maintain our strong HSE track record, we use best-in-class contractors and equipment providers, such as Rolls Royce and Caterpillar, and we manage our fleet closely from construction and commissioning at leading shipyards to maintenance. Additionally, we conduct stringent quality inspections on purchased vessels to ensure that they meet the same high standard as those for our newly constructed vessels. Our owned fleet, as of June 30, 2013, which does not include chartered-in vessels or planned purchases, was valued by a third-party independent valuation expert on August 28, 2013 at approximately \$970.3 million, and taken together with the Caspian Supplier, which we acquired on September 2, 2013, was valued at approximately \$1.0 billion.

Established and long-standing relationships with leading oil and gas companies. We have established strong, trusted and long-term relationships with our top clients as a result of our excellent historical operational and safety track record, technically advanced and modern fleet, and our overall commitment to superior client service. We benefit from a varied, blue-chip client base, consisting of IOCs and NOCs as well as other reputable offshore services providers. Our client base has included large and prominent IOCs and NOCs (including BP, Agip, Total, Saudi Aramco and Dolphin). Our top ten clients accounted for 88.6% of our revenue in the twelve months ended June 30, 2013. Our client base consists primarily of companies with high credit ratings, with more than 80% of our top ten clients having investment grade ratings and 60% of which are rated A or better by S&P. The average length of our relationships with our top five clients (based on revenues as of June 30, 2013) spans over seven years. We have had no contract cancellation in the year ended December 31, 2012 and the six months ended June 30, 2013. We believe that our robust contract renewal track record is a testament to our high quality service offering, operational excellence and the strength of our client relationships.

Leading market position in niche Caspian Sea market. We benefit from our established operational presence in the Caspian Sea, where we have operated for over 20 years and derived 57.6% of our revenue and 61.3% of our EBITDA for the twelve months ended June 30, 2013. According to the IHS Report, we have a leading market position in the Caspian region with an approximately 48% market share. We are currently the market leader in Azerbaijan (approximately 95% market share) and we have a strong presence in Kazakhstan, with a growing market share in the newly entered Russian sector of the Caspian Sea, which we entered in March 2013. Our contracts in the Caspian region consist of medium- to long-term contracts with top-tier clients such as BP, the State Oil Company of Azerbaijan, Shell, ConocoPhillips, Agip and Saipem. The longer tenor of our contracts in the Caspian region provides us with a stable stream of income and greater visibility over future cash flows. Additionally, we benefit from our long-standing relationships with our key clients, which have allowed us to gain an understanding of their needs and requirements. For example, our relationship with BP in Azerbaijan, through our acquisition of BUE Marine, dates from the beginning of BP's operations in Azerbaijan in 2002. The unique geography of the Caspian Sea favors established operators such as ourselves due to the logistical challenges inherent in operating in the area. Access to the Caspian Sea is limited for large parts of the year because of the freezing of the surrounding rivers and canals. Costs to entry can also increase as a result of customs and other governmental inspections. The high mobilization and demobilization costs in the Caspian region are paid for by the customer once a contract is signed. Therefore it is expensive for new entrants to enter the Caspian Sea market without having secured contracts. The high cost of entering the Caspian Sea market, due to these unique logistical challenges in mobilizing vessels and equipment to the area, provides us with a strong competitive advantage in this growing market since we already have several modern vessels located in the Caspian Sea that can service our clients' needs. Furthermore, the size of our existing fleet in the Caspian Sea allows us to achieve economies of scale by leveraging our cost base across our Caspian Sea fleet in a manner that provides us with cost advantages, which would be difficult for a new entrant to replicate. In addition, as a result of our established presence in the Caspian Sea, we have developed an understanding of the logistical challenges, such as mobilizing vessels and equipment, as well as a deep understanding of client and regulatory requirements, such as localization of crew and offshore staff, who are trained by us to ensure that our high

quality operating standards are maintained. These factors have allowed us to keep our costs of operating in the Caspian Sea competitive and therefore achieve strong margins.

Robust and diverse contract backlog providing cash flow visibility. We have and continue to build a strong revenue backlog, which provides us with a degree of future earnings visibility. Our contracts are renewed upon or close to expiration. As of June 30, 2013, we had a strong revenue backlog of approximately \$1,035.5 million. This consists of backlog under fixed-term contracts of \$621.1 million and backlog in respect of client extension options of \$414.4 million. Of our fixed-term contract backlog as of June 30, 2013, \$100.8 million is contracted for 2013, \$174.0 million is contracted for 2014 and \$108.0 million is contracted for 2015. Of our client extension option backlog as of June 30, 2013, \$15.8 million, \$64.9 million and \$74.6 million relate to client extension options which, if exercised, will be serviced in 2013, 2014 and 2015, respectively. We believe that the size of our revenue backlog, the quality of the clients behind it and our historically high and stable EBITDA margins of 45% on average provide us with an attractive and visible stream of cash flows over the next few years. We believe that our EBITDA margins are consistently within the top quartile of our peers. Since June 30, 2013, we have entered into seven new contracts with BP, Global Spectrum, Bumi Armada, Gas Survey, NPC and CMS. The total value of these contracts is \$66.8 million, of which \$30.8 million is options.

Excellent operational and health and safety records. Our long-standing operations demonstrate a strong track record for both operational performance and health and safety which is supported by the best practices we implement in our operations. We have invested substantially in our fleet and in our operational processes in order to ensure the safe and efficient performance of our fleet. As a result we have continued to experience high utilization rates across our operations, with utilization rates for our core assets (AHTSVs, PSVs, MPSVs, ERRVs and specialized barges) increasing from 86% in the year ended December 31, 2011 to 91% in the year ended December 31, 2012 and 94% in the six months ended June 30, 2013. Our expenditure on technological advancements in our fleet, our high-quality personnel and our emphasis on training to optimize our practices has resulted in a low incident rate and helped to minimize downtime on our vessels. These are attractive features for our clients, who prioritize safety, efficiency and reliability. Our fleet is compliant with relevant industry and quality standards relating to the control of work processes and safety management, HSE standards and labor conventions, and we are a long-standing and active member of the International Marine Contractors Association. We are the recipient of several operational and safety awards by recognized shipping industry societies. For example, in 2012, we were the recipient of the Lloyds List “Ship Operator” Award and the Seatrades “Workboats” Award and in 2011, we were awarded the Seatrades “Safety and Quality” Award.

Solid Financial Performance. Our operations have shown continued growth and profitability. In the period from the year ended December 31, 2010 to the twelve months ended June 30, 2013, our revenues and EBITDA increased at a CAGR of 15.9% and 8.3%, respectively, despite adverse trends in the oil and gas industry over that period, demonstrating the resilience of our business in the face of economic downturns. Our growth in EBITDA has primarily been driven by our higher utilization, better cost management and an increased focus on returns on assets in our new-vessel deployment, where we aim to achieve a cash IRR of at least 15%.

Experienced management team. We have a management team with extensive experience in the OSV industry and strong relationships with key clients. Our management team averages 26 years of relevant experience and combined expertise in all aspects of the commercial, technical, operational and financial areas of our business. We believe that our management team’s considerable knowledge and experience enhance our ability to operate effectively and capitalize on business opportunities as well as exercise consistent levels of prudence and discipline with respect to return on capital for fleet deployment. In addition, our team’s contacts in the industry provide us with valuable access to a wide range of clients and industry participants.

Our Strategy

Our goal is to be a leading global OSV operator consistently delivering superior returns within the industry’s top quartile. The key elements of our strategy include:

Further enhancement of our OSV fleet through selective vessel purchases. We intend to continue to add to our fleet of OSVs, both through the construction of new tonnage and selective purchases when opportunities present themselves, and we will continue to implement a policy of focusing on the rate of return on assets with respect to all our operations and future investments. With respect to vessel purchases, we plan to continue to purchase vessels in the market with contracts that we forecast will meet our IRR requirements as well as the high-quality specifications of our clients. We will continue to implement a disciplined approach to vessel purchases, limiting such purchases to

instances with final or close to final contracts in place, thus providing us with certainty on future cash flows by ensuring a predictable stream of revenues before we commit capital expenditure. With these new vessel acquisitions we will continue our focus on maintaining a young and modern fleet of vessels with an average age well below the global average in the industry, which is currently approximately 15 years (according to Clarkson Research). We intend to also optimize the fleet with strategic divestments of aging and non-strategic vessels in order to realign our fleet to focus on mid- to high-end OSVs, which are more versatile and can address a wider range of our clients' needs.

Maintenance of substantial revenue backlog to develop revenue visibility with optimum fleet utilization. Our goal is to keep all of our vessels fully utilized at attractive day rates. We aim to create an optimal balance between long-term contracts for most of our vessels (including most of our vessels in the Caspian Sea and some vessels in the MENA region), which provide visibility on cash flows at pre-agreed day rates, and short- to medium-term contracts for some of the vessels we deploy in our MENA and Global operations, which provide us with flexibility for capitalizing on current market conditions with shorter-term contracts at potentially higher day rates. We believe that this strategy enables us to maintain high fleet utilization rates while maintaining our high EBITDA margins. Additionally, we intend to continue increasing our market share with our existing clients in our core markets and to support our existing clients as they expand their operations into new regions. It is our aim to continue winning market share from other operators globally by continuing to focus on upholding our world-class operating standards and health and safety record with the goal of being the “provider of choice” to these clients. We also plan to continue expanding our market share with new top-tier clients by seeking new opportunities to tender by leveraging our experience, fleet capabilities, and operational and safety excellence. We aim to maintain our substantial backlog and therefore visibility for our future revenue.

Continued focus on the high quality of our services and robust HSE records as a differentiating competitive advantage. We intend to continue to maintain our world-class standards of service, thereby preserving and strengthening our relationships with our key clients and leading companies in the industry. We will continue to implement processes to ensure that our interactions with clients are proactive and responsive to their demands. We aim to remain a reliable partner to our clients, delivering a high quality service that addresses our client's needs for competitive prices with safety as a priority. We intend to improve not only our performance, but also our efficiency, by sustaining operational excellence while increasing fleet utilization especially with respect to our core assets, reducing the costs of operation, and primarily focusing our asset investment on the strategic, medium-sized AHTSV and PSV segments. To achieve these operational efficiencies, we plan to continue to implement best-in-class operational processes such as introducing a platform with single information technology and process structure throughout our fleet and operations.

Prudent financial policy with strong funding capability. We strive to maintain a strong balance sheet with ample liquidity. We will achieve this through our robust backlog and by continuing to focus on cash generation by achieving higher utilization, continuing to improve our cost management and focusing on the return on assets in our operations and future investments. We plan to continue to focus on cost reductions through continuing to conduct our monthly detailed financial and operational reviews with senior and regional management involvement, which are implemented at the vessel level to identify and address cost efficiencies in the operation of our vessels. We will also continue to optimize our capital structure by diversifying our sources of funding through a balance of bilateral debt with our relationship banks, access to the capital markets and equity injections from our Principal Shareholder and/or selectively from other investors. We intend to continue to use our cash flows to deleverage our balance sheet and reduce our net debt to EBITDA ratio. We also intend to use our generated cash flows to fund our disciplined capital expenditure.

Selective expansion into new geographic region with strong growth potential. The broad geographical positioning of our fleet positions us well to take advantage of opportunities in prime growth markets around the world. We intend to continue our strategy of selectively pursuing opportunities and expanding into key strategic markets poised for future growth while maintaining our leading market positions in the Caspian Sea and MENA region. We believe that there are significant growth opportunities to be captured in West and East Africa, Australia, the Mexican sector of the Gulf of Mexico and Brazil. We intend to pursue this selective expansion by assessing contract opportunities and sourcing vessels based on secured contracts that meet our internal IRR requirements or on outstanding tenders for which we are the favored bidder and by forming strategic alliances with experienced and capable local partners. We will also continue to support our key clients as they expand their own operations into other regions. In addition, we intend to diversify our revenue and EBITDA to reduce our dependence on operations in any single market.

Invest in our people and maintain a robust and scalable organizational structure. We will aim to continue focusing on strong principals of corporate governance including transparency, independence, accountability and fairness. We have historically kept our corporate and overhead costs low by standardizing equipment, vendors and service providers across our fleet and the regions in which we operate. While keeping our costs low is an important corporate goal, we believe in investing in our people and culture and creating in a responsive and dynamic organization. We intend to continue to invest in training our crews and offshore staff. We also intend to further enhance our performance-driven culture by developing performance-based evaluation to guide progress and development areas.

History

We were originally founded under the name of Nico International U.A.E. in 1973 as the Dubai branch of a Swedish company providing repair services to the increasing marine traffic generated by the oil industry in the Arabian Gulf. We entered the OSV market in 1988, owning and operating vessels under the name “Nico World.” The business grew steadily over the years and added to its fleet purely organically.

In 1998, Topaz Energy & Marine SAOG, a public joint stock company incorporated in Oman, was established as our holding company and listed on the Muscat Securities Market. In 2005, Topaz Energy & Marine SAOG merged with Renaissance Services for the purpose of the acquisition of BUE Marine Limited, a UK-based OSV operator with significant operations in the Caspian region. This acquisition gave Topaz a significant foothold in the Caspian region market and allowed us to take over the already established and strong relationships with BP and Agip. Renaissance is an Omani multinational company which provides a variety of services, including offshore support vessel operations, contract services to clients in a wide range of industries, education and training in the construction, retail and hospitality industries, and media communication.

Following the BUE Marine acquisition, Topaz has invested \$515.9 million in the Caspian region, growing its fleet organically, both through strategic vessel purchases and new builds, from a fleet generating \$32.8 million of EBITDA in the year ended December 31, 2005 to a fleet generating \$139.5 million of EBITDA in the year ended December 31, 2012.

In 2008, we acquired Doha Marine Services WLL, a Qatar-based marine services company that operated 14 vessels, which increased the total size of our fleet to 76 vessels. As with our previous acquisition, Topaz invested considerably to consolidate its position in the Qatari market and grew the capabilities of its fleet significantly.

Topaz gradually placed an increasing focus on acquiring larger, more technologically advanced and younger vessels in order to improve the capabilities of its fleet and its deployability with IOCs and NOCs. This was clearly demonstrated in 2010 through the purchase of Topaz’s first high-end multi-purpose support vessels: the Topaz Commander and Topaz Captain. In the same year Topaz entered the large and fast-growing Saudi Arabian market and now has nine vessels operating there.

In January 2012, we transferred our engineering division outside the Group to Topaz Engineering Limited, another wholly owned subsidiary of our Parent, allowing the OSV division to benefit from our management’s and Board of Directors’ undivided focus. In 2012, we established Topaz Marine Global, and also continued to expand our operations, including into the new markets of Russia and Nigeria.

Our Fleet

We operate a modern, technologically advanced and versatile fleet. As of June 30, 2013, our fleet comprised 93 OSVs (85 of which are owned by us and eight are chartered-in by us on a long-term basis). The vessels in our fleet have an average age of 7.3 years.

Services Provided by Our Fleet

The versatility of our fleet enables us to provide services to clients engaged in the exploration, development and production phases of the upstream offshore oil and gas industry. However, we have historically focused, and expect to continue to focus, on the development and production phases, because these typically provide greater stability and certainty as to future revenue. In the development phase contract terms are typically two to five years, whereas projects in the production phase may last up to 50 years. The earliest phase, exploration, is also the shortest and we

do not operate specialized vessels to support exploration. Over 95% of our fleet supports the development and production phases, with the remainder supporting the exploration phase.

These phases of the upstream offshore oil and gas industry often overlap within regions and within individual hydrocarbon fields. Individual vessels within our fleet are in many cases able to provide services in relation to more than one of these phases and, as a result of this versatility, we are able to provide a stable and consistent OSV service to clients in relation to oil and gas projects as they move through the phases described above.

Acquisition of Vessels

We commission new vessels from top-tier vessel suppliers in a range of regions and with a range of ship-building capabilities and specializations. In each case, we select what we believe is an appropriate shipyard on the basis of the type and specifications of the vessel required and the capabilities and specializations of the respective shipyards. High-specification and technologically advanced vessels are often commissioned from top-tier European shipyards, such as the Simek shipyard in Norway, which is a modern and well equipped shipyard located on the south coast of Norway that is focused on delivering high quality vessels. We also have strong relationships with high quality suppliers in Asia, such as Fujian Southeast Shipyard and Fujian Mawei Shipbuilding Ltd. We select our vessel suppliers based on their strong commitment to efficiency, excellence and speedy delivery. We source critical equipment for our vessels from high-end manufacturers in Europe, the United States, Japan and Singapore, including Rolls Royce and Caterpillar. We also have established maintenance contracts with reputable yards and the maintenance cycle for our vessels is governed by software-based planned maintenance systems.

In the MENA region, we occasionally invest in vessels without first having secured client contracts, based on our ability, shaped by extensive industry experience and client relationships, to anticipate market trends and future client requirements. However, we usually invest in vessels based on clearly identified opportunities. The vessels that we invest in for the MENA region are typically of a type for which there is generally high industry demand, and they are flexible for development and deployment across MENA and select global markets. Moreover, due to the high mobilization and demobilization costs of vessels in the Caspian Sea market, we order vessels only upon the awarding of a tender. We believe that supplier selection and our relationships with shipyards in Europe and Asia are critical to the management of the contractual risks associated with the procurement of vessels as a result of delays by shipyards in the delivery of a vessel. These risks are further mitigated by our in-house supervision team for newly constructed vessels, which is tasked with ensuring new vessels are delivered on time, on budget and with correct specifications, and by building into our contracts a cushion of 45 to 120 days between delivery and revenue generation.

We also make use of our relationships with an extensive global network of ship-brokers and vessel finance providers to access global vessel purchase opportunities. Historically, we have been able to take advantage of opportunities to acquire vessels from OSV operators and shipyards in distressed situations, which have, in some circumstances, allowed for vessel procurement at a discount to market rates and with shorter delivery lead times. For example, in 2012 we acquired Rayyan from a distressed Japanese operator, Sanko Steamship Co. Ltd, Japan, for approximately \$15.0 million and as a result achieved approximately \$2.0 million in cost savings. In addition, we have in the past acquired vessels that were already contracted to clients, which allows for immediate deployment and revenue generation upon acquisition. We are in negotiations to acquire two additional such vessels which are already deployed in the Caspian Sea region.

Historically, we have purchased vessels through a combination of debt and equity, typically in a proportion of 70% debt to 30% equity. The financing obtained for vessel purchases has typically been secured by charges over the relevant vessel and the shares of the relevant special purpose company that owns the vessel. Additionally, where we have joint ventures, our joint venture partner acquires a portion of ownership proportionate to their equity investment. Our joint venture partners do not contribute or finance the joint venture outside of their initial equity investments. The table below sets forth EBITDA and utilization rate for the years ended December 31, 2010, 2011 and 2012 and for the six months ended June 30, 2013 capital expenditure per vessel type and expected life per vessel.

(in US\$ mn) Vessel Type	Capex	EBITDA				Utilization (%)				Vessel Life
		2010A	2011A	2012A	1H 2013A	2010A	2011A	2012A	1H 2013A	
AHTSV	159	8	17	15	9	86%	81%	86%	99%	27
ERRV	21	4	3	3	2	96%	97%	100%	94%	27
Barge	21	1	2	2	1	99%	99%	100%	100%	27
MPSV	79	7	12	14	7	99%	84%	93%	86%	19
Vessel advances/upgrades	5									
2010A Vessels										
Acquisition										
(Total/Average)	286	19	33	33	19	91%	86%	91%	97%	26
Barge	47	—	2	6	3	—	63%	92%	100%	28
AHTSV	44	—	1	5	3	—	66%	89%	97%	28
Crew boat	8	—	0	1	1	—	71%	96%	100%	23
Vessel advances/upgrades	16									
2011A Vessels										
Acquisition										
(Total/Average)	115	—	3	12	7	—	66%	92%	99%	27
AHTSV	98	—	—	3	6	—	—	97%	99%	26
2012A Vessels										
Acquisition										
(Total/Average)	98	—	—	3	6	—	—	97%	99%	26
PSV	30	—	—	—	—	—	—	—	—	20
Vessel advances/upgrades	10									
2013YTD Vessels										
Acquisition										
(Total/Average)	40	—	—	—	—	—	—	—	—	20

Growth of Our Fleet

Since 2010, our core assets have grown from 64 vessels to 75 vessels as of June 30, 2013, with an additional nine core asset vessels currently under construction or contract for delivery. These include five new PSVs which are expected to be phased in between 2013 and 2014 for deployment in Saudi Arabia, two new ERRVs which are currently under construction and are expected to be deployed in 2014, and two additional PSVs to be deployed in 2013 and 2014 in the Caspian Sea. We are also negotiating the purchase of two AHTSVs that we currently charter-in which are currently deployed in the Caspian Sea. Three of these nine new core asset vessels already have contracts in place with terms of two to three years and one to three one-year extensions. The chart below shows the evolution of the size of our fleet over the past three years and for the year ended December 31, 2013:

Type of Vessel	AHTSVs	PSVs and MPSVs	ERRVs	Crew boats	Specialized barges	Others	Sub-total owned vessels ⁽²⁾	Sub-total non-owned vessels ⁽¹⁾	Total
Number of vessels as of January 1, 2010	18	16	8	8	19	10	79	5	84
Additions	5	3	—	3	—	5	16	—	16
Disposals	(1)	(1)	(3)	(2)	—	(5)	(12)	—	(12)
Net additions	4	2	(3)	1	—	—	4	—	4
Number of vessels as of December 31, 2010	22	18	5	9	19	10	83	5	88
Number of vessels as of January 1, 2011	22	18	5	9	19	10	83	5	88
Additions	—	2	—	—	6	1	9	—	9
Disposals	(1)	—	—	—	—	—	(1)	—	(1)
Net additions	(1)	2	—	—	6	1	8	—	8

Number of vessels as of December 31, 2011	21	20	5	9	25	11	91	5	96
Number of vessels as of January 1, 2012.....	21	20	5	9	25	11	91	5	96
Additions	4	—	—	—	—	—	4	4	8
Disposals.....	(1)	(1)	(2)	—	(1)	—	(5)	(1)	(6)
Net additions.....	3	(1)	(2)	—	(1)	—	(1)	3	2
Number of vessels as of December 31, 2012	24	19	3	9	24	11	90	8	98
Number of vessels as of January 1, 2013.....	24	19	3	9	24	11	90	8	98
Additions	—	—	—	—	—	—	—	1	1
Disposals.....	—	(1)	(1)	—	(1)	(2)	(5)	(1)	(6)
Net additions.....	—	(1)	(1)	—	(1)	(2)	(5)	—	(5)
Number of vessels as of June 30, 2013	24	18	2	9	23	9	85	8	93
Vessels under construction/contract for delivery	—	7	2	—	—	—	9	—	9
Expected number of vessels as of December 31, 2013	24	25	4	9	23	9	94	8	102

(1) “Owned vessels” are vessels owned by us or companies in which we have an interest, including joint ventures and jointly controlled entities, including vessels currently under construction or contract for delivery.

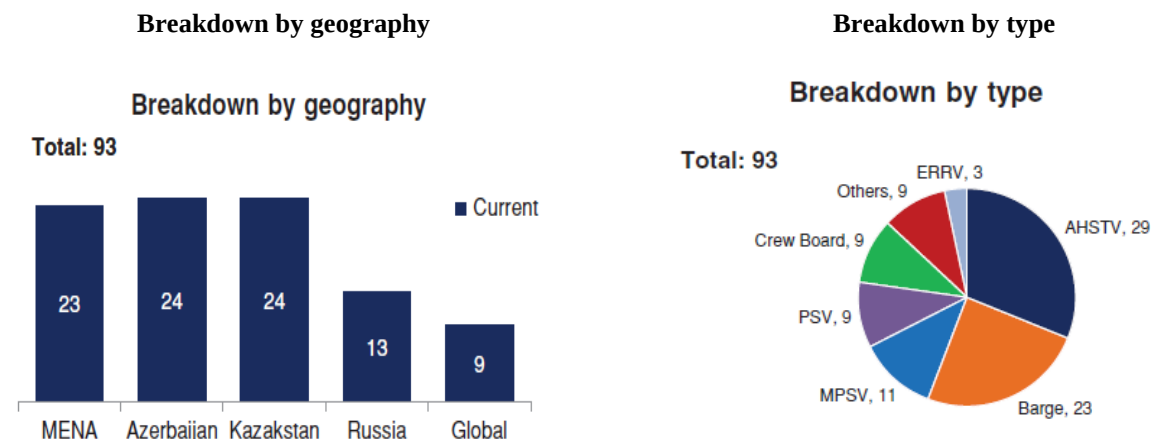
(2) “Non-owned vessels” are vessels that are wholly owned by persons or entities outside our Group but leased and operated by us as part of our fleet.

The growth of our fleet has been achieved through a combination of commissioning new vessels, exercising options to purchase vessels that we charter-in and acquiring individual existing vessels, existing fleets or fleet owners. Of the nine vessels under construction or contract for delivery, seven were vessels currently under construction and two vessels are planned to be acquired. Two existing chartered-in vessels under contract will be acquired and added to our owned fleet. As of September 30, 2013 and excluding the two existing chartered-in vessels under contract, one of these vessels had been delivered to us.

Our fleet composition is also evolving to increase the proportion of our core assets (AHTSVs, PSVs, MPSVs, ERRVs and specialized barges) which have increased from constituting 45% of our fleet as of December 31, 2009 to 56% as of June 30, 2013 and we expect this proportion to increase with our planned vessel acquisitions to approximately 60%.

Geographical Distribution of Our Fleet

The charts below show the breakdown of our total fleet by geography and by type as of June 30, 2013:



Vessel Ownership and Operation

Of the 93 vessels in our fleet as of June 30, 2013, 71 vessels were wholly owned by us, 14 by joint ventures in which we have a controlling interest and eight vessels were chartered-in on a long-term basis. In addition, the seven vessels that were under construction or on contract for delivery as of June 30, 2013 (five of which are KCM vessels and two of which are ERRVs) will all, when completed or delivered, be wholly owned by us. Our interests in our joint ventures, including joint ventures with Transmarine (which accounted for all of our joint ventures), reflect alliances with strategic local partners or legacy arrangements that we have acquired. Through physical custodianship, control of cash and majority board representation, we maintain management and operational control over all of our joint ventures and jointly controlled entities. For further details regarding our joint ventures and jointly controlled entities. For the twelve months ended June 30, 2013, the 71 vessels owned by us and the eight vessels operated by us under long-term charters represented \$204.6 million, representing 58.0%, and \$53.2 million, or 15.1%, respectively, of our revenues, and \$109.4 million, or 70.4%, and \$3.4 million, or 2.2%, respectively, of our EBITDA.

Our subsidiaries that own vessels, including joint ventures, are special purpose companies set up for the sole purpose of owning vessels. Typically, a vessel is leased by the relevant special purpose company (whether a wholly owned subsidiary or a joint venture) to another wholly owned subsidiary, as lessee under a bareboat charter. Bareboat charters are charters for the provision of a vessel, but not crew or provisions. Under the terms of the bareboat charter, the primary responsibility for the vessel is passed to the lessee, which operates the vessel for charter clients, including the provision of crew. None of our joint ventures or any of our partners in those joint ventures operates any vessel within our fleet.

Agip KCO has options to acquire certain of our vessels, including 13 ice-class vessels and barges, which are currently operated by us for Agip KCO under charter contracts with Agip KCO. The options can be exercised upon the expiration of the initial ten-year term of the contract or upon termination of the contract by Agip KCO to extend for an additional five years. If this option were to be exercised today, based on current market prices, the proceeds realized by us would likely be less than the net book value of the relevant vessels. To date, Agip KCO has not exercised any of the options they hold.

Capabilities of Our Fleet

The IHS Report defines the regions for offshore activity as either:

- “deep/harsh-water”: includes all water depths in the North Atlantic and Australia that are greater than or equal to 100 meters, and in the rest of the world are greater than or equal to 200 meters; or
- “shallow/benign-water”: includes all other water depths.

The IHS Report categorizes vessels as either:

- “shallow/benign-water”: vessels with deadweight of less than 2,000 tons or, in the case of AHTSVs, less than 10,000 bhp; or
- “deep/harsh-water”: vessels with deadweight of at least 2,000 tons or, in the case of AHTSVs, at least 10,000 bhp.

Of the 93 vessels in our fleet as of June 30, 2013, approximately 52.6% of our fleet (weighted by asset value) were deployable in deep water based on the above IHS criteria.

Vessels in our fleet are in many cases able to move between, and to operate in, a number of regions, although transporting vessels in and out of the Caspian Sea region can take time and involve significant costs (for further details. All of our contracts in the Caspian Sea include a clause whereby the client will pay a lump sum to cover demobilization at the end of the contract in the event that the vessel cannot be redeployed in the Caspian Sea.

A breakdown by the region in which the vessels were deployed as of June 30, 2013 (or, in the case of vessels under construction or contract for delivery as of June 30, 2013, the region in which we expect them to be deployed initially) is set forth in the table below:

Type of Vessel	MENA			Caspian region			Global			Total
	Currently operating in fleet	Under construction/contract for delivery	Total	Currently operating in fleet	Under construction/contract for delivery	Total	Currently operating in fleet	Under construction/contract for delivery	Total	
AHTSV	12	—	12	13	—	13	4	—	4	29
PSV	2	5	7	7	2	9	—	—	—	16
MPSV	7	—	7	1	—	1	3	—	3	11
ERRV	—	—	—	3	—	3	—	—	—	3
Crew boats	2	—	2	5	—	5	2	—	2	9
Specialized barges.....	—	—	—	23	—	23	—	2	2	25
Other vessels.....	—	—	—	9	—	9	—	—	—	9
Total	23	5	28	61	2	63	9	2	11	102

Operating Environments

Based on our internal definitions, our vessels primarily operate in “shallow water,” meaning water at a depth of less than 300 meters and “medium water” meaning water at a depth of 300 meters to 1,000 meters, as opposed to “deepwater,” meaning water at a depth of more than 1,000 meters. These environments present differing challenges and not all of our fleet can operate in both. For example, we are limited to deploying small vessels and barges in very shallow-water environments. The operating environments in the MENA region and the Kazakh and Russian sectors of the Caspian Sea are predominantly shallow water, while the Azerbaijani sector of the Caspian Sea and certain of the locations we consider to be growth areas for our operations, such as the Mexican sector of the Gulf of Mexico and West Africa, are predominantly medium- to deep-water. We believe that the balance of our fleet is versatile enough to allow us to operate successfully in each of these operating environments.

In addition, operating in the Caspian Sea presents challenges distinct from the differences presented by water depth. Our long-running operational presence in the Caspian Sea has provided us with extensive experience in operating in this challenging environment. OSVs can only access the Caspian Sea via the Lenin Volga–Don Shipping Canal and the Volga–Baltic Waterway. In order to pass through these systems, vessels often require significant modification, which can include the removal of the mast, the wheelhouse (the ship’s command room) or the deck, and then reassembly of the ship once it has reached the Caspian Sea. Such modification and reassembly can take from one to four weeks, depending on the degree of modification, and can cost approximately \$3–4 million for one-way modification and pursuant to the terms of our contracts in the Caspian Sea, such costs are borne by the client. Additionally, the Lenin Volga–Don Shipping Canal freezes annually from November to mid-April, rendering the Caspian Sea virtually inaccessible to OSVs for half of the year. These logistical challenges specific to the Caspian Sea environment make entry into the market challenging, providing us with a strong competitive advantage because we already have several modern vessels able to service our clients’ needs. Furthermore, the size of our fleet operating in the Caspian Sea affords us economies of scale by leveraging our cost base which is difficult for a new entrant to replicate.

One of the consequences of this operating and contracting environment is that obtaining vessel financing can be challenging for OSV operators, with financing typically only provided by a limited number of banks that specialize in vessel finance in the Caspian region, and typically only when a signed client contract for the relevant vessel is in place. Topaz has historically been able to obtain sufficient finance for its operational requirements in the Caspian Sea.

Maintenance and Upgrades

We focus on maintaining our fleet to internationally certified standards with considerable management and financial resources devoted to this important workstream.

All of our vessels are flag and class certified by ABS/DNV to confirm their adherence to HSE standards. The class certification process is internationally recognized, and involves inspections every two to five years by an independent third-party inspector. Historically, we have never had any issues with flag or class certification that have temporarily halted the operation of one of our vessels. In addition, with respect to newly constructed vessels, a representative is present at the shipyard to perform ongoing inspections on our behalf. Newly constructed vessels are also subject to inspections by third-party surveyors and must obtain flag and class certifications prior to deployment.

Since 2006, we have invested considerable capital to upgrade our fleet and tailor our OSV specifications to better meet client demands. This has involved equipment purchases and upgrades, such as larger and more powerful cranes and dynamic positioning-2 (DP2) capabilities which we believe further differentiate our fleet from our competition and allow our OSVs to offer more value-added services to clients. We aim to standardize the equipment on our OSVs within each asset class across our fleet in order to increase the speed and cost-effectiveness of the maintenance and repair work on our OSVs. An example of this is the use of Caterpillar main and auxiliary engines among 14 AHTSV sister vessels. This has enabled us to reduce the total stock of spare parts by sharing critical and consumable spares between two strategic bases in Saudi Arabia and in Qatar, instead of each vessel maintaining its own stock on board.

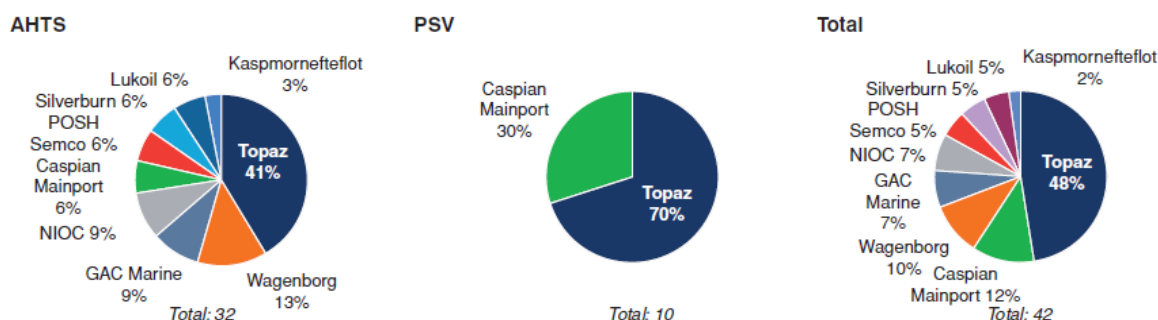
Operating Segments

Our operations are conducted under three operating divisions: Topaz Marine Caspian; Topaz Marine MENA; and Topaz Marine Global.

Topaz Marine Caspian

Topaz Marine Caspian principally operates across two business units, Topaz Marine Azerbaijan (which also oversees our operations in the Russian sector of the Caspian Sea) and Topaz Marine Kazakhstan, which are managed from Baku, Azerbaijan and Aktau, Kazakhstan, respectively. As of June 30, 2013, our Caspian region fleet consisted of 61 vessels (or approximately 66% of our total fleet), including 13 AHTSVs, one MPSV and seven PSVs. We believe that Topaz Marine Caspian is the dominant manager in the Caspian Sea. The market features nine competitors in AHTS and two competitors in PSV. Azerbaijan is the largest market in the Caspian Sea, accounting for 20 out of 42 vessels deployed in the Caspian Sea. Topaz operates 19 out of 20 PSV and AHTS vessels currently operating in the country.

Competitive dynamics in Caspian Sea—Topaz is the dominant player



Manager and vessel type overview for supply vessels in the Caspian Sea (All PSV & AHTS >=5,000 bhp)

Source: IHS Report

The average age of our Caspian region fleet, excluding vessels currently under construction or contract for delivery, was seven and a half years as of June 30, 2013, compared with an average age of eleven years for all OSVs operating in the Caspian region based on IHS criteria.

Our long-established presence in the Caspian Sea and our experience in operating in its unique geography have enabled us to successfully enter the Russian sector of the Caspian Sea in March 2013, through securing multi-year charters with Saipem with the redeployment of our idle vessels in Turkmenistan. We currently deploy 13 vessels in the Russian sector of the Caspian Sea.

The unique operating circumstances faced by vessel operators as a result of geographical conditions and the high mobilization and demobilization costs associated with contracting vessels in the region have resulted in high costs to entry and cost advantages for established OSV operators, and therefore our contracts in the Caspian Sea tend to be three- to ten-year contracts. Additionally, given the high mobilization and de-mobilization costs, we acquire vessels only once tenders have been awarded to us for new contracts.

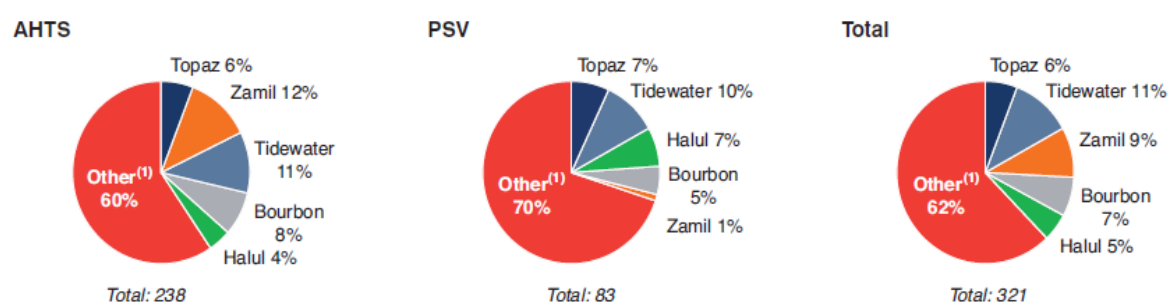
In the twelve months ended June 30, 2013, our Caspian Sea operations generated revenue of \$203.2 million (57.6% of our revenue) and EBITDA of \$95.2 million (61.3% of our EBITDA).

Topaz Marine MENA

Topaz Marine MENA is managed from Doha, Qatar and its fleet operates primarily in the Arabian Gulf, with facilities in the Jebel Ali port in Dubai, UAE and Al Khobar, Saudi Arabia.

The MENA market is fragmented, with the five major participants controlling approximately 40% of the market share in AHTS and 30% in PSVs. As of June 30, 2013, our MENA fleet consisted of 23 vessels (or approximately 25% of our total fleet), including twelve AHTSVs, seven MPSVs, two PSVs and two crew boats. Our market share is approximately 15% in Qatar, 8% in Saudi Arabia and 4% in the UAE (based on both PSV and AHTS vessels combined). Seventy-two players constitute the “Other” category in the charts below. The average fleet age of such operators is approximately 16 years, which we believe is a factor in explaining the low level of acquisitions and industry consolidation initiated by the larger operators.

Competitive dynamics in MENA—Topaz is a top-five player



Manager and vessel type overview for supply vessels operating in Middle East (All PSV & AHTS >=5,000 bhp)

Source: IHS Report

(1) References to “Other” represent approximately 80 managers.

The average age of our MENA fleet, excluding vessels currently under construction or contract for delivery, was seven years as of June 30, 2013, compared with an average age of 13 years for all OSVs operating in the Middle East based on IHS criteria, and therefore there is demand for our younger fleet offering.

In the twelve months ended June 30, 2013, our MENA operations generated revenue of \$90.8 million (25.7% of our revenue) and EBITDA of \$42.4 million (27.4% of our EBITDA).

Topaz Marine Global

Topaz Marine Global is managed from Dubai and operates fleets primarily in the North Sea, northwest Europe, Mexico and Nigeria. For reporting purposes, we include our operations and performance outside of the Caspian and MENA regions in the Topaz Marine Global operating segment.

As of June 30, 2013, our Global fleet consisted of nine vessels, including four AHTSVs, three MPSVs and two crew boats which represents approximately 10% of our total fleet. The average age of our Global fleet, excluding vessels currently under construction or contract for delivery was seven years as of June 30, 2013, compared with an average age of 14.9 years for all OSVs operating globally, according to Clarkson Research. Our vessels are typically deployed under short-term charter contracts for our Global operations.

Our key clients in our Global operations include ABB and Petrobras. We are increasingly seeking to diversify our operations globally and as a result have established operations in West Africa, the Mexican sector of the Gulf of Mexico, Australia and Brazil, where we had two vessels deployed from 2011–2013. As of the date of October 20, 2013, we no longer have vessels deployed in Brazil. We believe this will allow us to take advantage of demand growth in different regions as well as diversify our revenue base. Our contract in our Global operations tend to be a mix of short-term (three months to a year) and medium-term (one to three years) contracts. Short-term fluctuations in day rates across different geographic regions create value in bidding for business in growth markets and therefore we deploy a mix of high-end specialized vessels and modern AHTSV in an agile but disciplined fashion with a focus on pursuing opportunities with a high rate of return on assets.

In the twelve months ended June 30, 2013, our Global operations generated revenue of \$58.4 million (16.3% of our revenue) and EBITDA of \$17.4 million (11.2% of our EBITDA).

Local Partners and Joint Ventures

We regularly enter into joint ventures and strategic alliances with local partners. We believe that such arrangements are important to our efforts to improve our understanding of the local market and increase the number of local nationals we employ, help finance capital expenditures, and strengthen and maintain our relationships with clients and regulatory authorities.

We have historically maintained management, financial and operational control over our joint venture partnerships. Typically, the joint venture subsidiary owns vessels that we operate. One of our wholly owned subsidiaries (the operating company), enters into a bareboat charter with the vessel-owning joint venture and, further to such bareboat charter, makes the vessels available to the clients under specific time charters. After meeting the operating expenses and debt financing requirements associated with the vessels in the joint venture arrangements and the payment of a management fee to the operating company, the remaining free cash is available for distribution to us and our partner through a dividend (in proportion to equity ownership or for reinvestment). Historically, however, the majority of residual free cash has been reinvested in new vessels, with approximately \$10.5 million paid to our joint venture partner as dividends over the last eight years.

Topaz Marine Caspian

As of June 30, 2013, 14 of the vessels in our fleet in Azerbaijan are owned by joint ventures with Trans Marine United Shipping Limited (“**Transmarine**”). The joint ventures are documented by way of joint venture agreements. We have management and operational control over each such company under the joint venture agreements and each such company’s constitutional documents. By December 31, 2013, we expect the number of our joint ventures in Azerbaijan to increase from 14 to 20 in connection with our acquisition of two new vessels, which will be deployed in the Caspian Sea, and the exercise our option to buy two vessels, which we had previously chartered-in, and the termination of KMNF’s option to purchase two vessels as described below.

We are entitled to appoint three directors to the board of each joint venture, while Transmarine holds the right to appoint two directors. Decisions of the board of each such company are made on a majority basis, with the exception of a limited number of matters which require the prior unanimous consent of both us and Transmarine before they can be undertaken; these include, for example, undertaking business not contemplated under the joint venture

agreement, the disposal of vessels other than pursuant to specified bank facility agreements, the incurrence of any indebtedness other than pursuant to the specified bank facility agreement, the creation of any pledge or lien other than pursuant to the specified bank facility agreements or the merger or winding-down of the joint venture.

We and Transmarine respectively provide 50% of the equity financing of each relevant vessel and are entitled to receive 50% of the net assets and 50% of the net profits paid by each such company to its shareholders after the payment of operating and other commercial costs and the repayment of debt. Additionally, we receive a fee for the management of each relevant vessel ranging between 6%–8% of the revenue generated by the joint venture entity. Under the terms of the financing agreements related to the joint ventures, we guarantee 100% of the debt incurred by each joint venture.

In the year ended December 31, 2012, our joint venture entities generated \$44.9 million of revenue and \$38.9 million of EBITDA. In the twelve months ended June 30, 2013, our joint venture entities generated \$50.9 million of revenue and \$42.6 million of EBITDA. As of June 30, 2013, our joint venture entities had \$193.7 million of indebtedness outstanding.

As of June 30, 2013, 14 vessels owned by joint ventures with Transmarine were operated under bareboat charters (as part of our fleet).

Each of the joint venture agreements provides for certain circumstances in which an event of default can occur in respect of a shareholder and that shareholder shall be required to sell its shares in the joint venture entity, in accordance with the procedure set forth in the joint venture agreement. Such events of default include standard insolvency-related events of default as a change of control event of default.

In addition, in 2002 BUE Marine entered into a commercial alliance with KMNF, the vessel-owning division of the State Oil Company of Azerbaijan. Under the terms of this alliance, Topaz Marine Azerbaijan and KMNF cooperate in the provision of offshore support services in Azerbaijan and other segments of the Caspian Sea. KMNF promotes our operations in Azerbaijan, assists with our liaison with local government and regulatory authorities, helps us in meeting client expectations regarding local participation and provides us with access to its pool of local crew and shore staff, which facilitates our compliance with workforce localization requirements, and we pay them a fee in connection with the provision of these services. Both KMNF and Topaz Marine Azerbaijan have historically contributed vessels to this alliance, together with specialized personnel and technical expertise.

The original term of the alliance agreement is five years and can be extended by mutual agreement of the parties or is automatically extended if and up to the expiration of any vessel charter agreements. A short addendum to the alliance agreement covering the provision for a local Azeri crew for a particular vessel is normally signed on the first entry of a new vessel to the Topaz Marine Azerbaijan fleet on its arrival in Azerbaijan. Accordingly, the current term of the alliance agreement will expire either on the exit of the last of these vessels, or any future vessels, from Azerbaijan, or on another mutually agreed date. As of June 30, 2013, one vessel (the Castle) in the Topaz Marine Azerbaijan fleet was in the process of being transferred to KMNF and is operated by us. In December 2012, KMNF exercised its option to purchase this vessel for a purchase price of approximately \$6.0 million. Since May 2013 the purchase price is being partially paid with the profits generated from the operation the vessel. We expect to receive the remainder of the purchase price via these installments and a lump sum to be paid at the end of its current charter by December 31, 2013, subject to any extension of the Castle's current charter. KMNF is also entitled to acquire, at less than market value, ownership of two specified vessels (Islay and Jura) currently owned by us and operated within this alliance following the expiration of the relevant charter periods. We intend to acquire the options to purchase the two vessels by the end of November 2013, using cash on our balance sheet. Upon acquiring KMNF's options, we will transfer the two vessels into two new joint ventures. Upon the expiration of the operating contract and the payment of the purchase price with respect to the Castle, we currently do not anticipate operating any vessels under the KMNF alliance agreement. However, we expect other aspects of our relationship with KMNF to continue, including the provision of service relating to recruiting local crew and shore staff.

We believe that our partnership with Transmarine and our historical relationship with KMNF, coupled with our strong client relationship with BP in Azerbaijan, give us an important competitive advantage in Azerbaijan.

One of the vessels in Topaz Marine Russia's fleet is operated by Doha Marine Services WLL, which is 51% owned by Renaissance.

Topaz Marine MENA

We have entered into arrangements with local sponsors in certain countries in MENA, pursuant to which the local sponsors have agreed to facilitate and promote our operations, in particular by acting as our liaisons with governmental and regulatory authorities.

In addition, Doha Marine Services WLL, a company incorporated in Qatar that operates vessels in Topaz Marine MENA's fleet, but does not own any vessels, is 51% owned by Renaissance. Under its articles of association, Doha Marine Services WLL is operated and controlled by us and we are entitled to 80% and Renaissance is entitled to 20% of the net profits generated, in each case after deduction of amounts paid into a legal reserve fund as required by the articles of association. Renaissance has assigned to our holding company, Topaz Energy and Marine Limited, all dividends and other distributions declared, paid or made while it remains a shareholder, as well as the proceeds of any sale of its interest. Renaissance has not received any dividends from Doha Marine Service WLL and pursuant to an agreement to be signed between us and Renaissance, Renaissance will not receive dividends in the future. In addition, Renaissance has authorized our Parent, as its representative, to attend and vote at all shareholder meetings of Doha Marine Services WLL, and has granted our Parent a special power of attorney to take all necessary steps to sell Renaissance's shares in Doha Marine Services WLL to such persons and on such terms as our holding company in its sole discretion thinks necessary or desirable.

Topaz Marine Global

Topaz Marine has not entered into arrangements with local partners under its Global operations. Global may enter into a new joint venture in Australia if necessary in connection with our expansion into this area or potential acquisition of a contract in the region.

Clients

Our client base includes many of the world's largest and most technologically advanced oil and gas exploration and production companies, including IOCs such as BP and Total; NOCs such as Saudi Aramco and Petrobras; and offshore service companies of international standing, including McDermott and Maersk Oil, contracting either on their own behalf or on behalf of consortia of energy companies. For the twelve months ended June 30, 2013, our top ten clients accounted for 88.6% of our revenue. In addition, as of June 30, 2013, our top ten clients accounted for 92.4% of our backlog.

The chart below shows the length of relationship with and percentage of revenue that each of our top ten clients accounted for in the twelve months ended June 30, 2013.

Top 10 customers are a mix of major IOCs and NOCs						
LTM June 2013	Revenues (US\$m)	No. of years relationship	% of total revenue	IOC	NOC	Offshore Contractors
	 122	11	35%	✓	✓	
	 40	11	11%	✓		
	 35	5	10%			✓
	 34	2	10%		✓	
	 24	8	7%	✓		
	 22	9	6%	✓		
	 12	8	3%	✓		
	 10	9	3%			✓
	 8	3	2%		✓	
	 5	3	1%			
		6.2 on average	88.6% revenue contribution			

(1) AIOC and BP are considered to be one revenue stream due to their joint operations. AIOC is a consortium of IOCs that includes BP, Exxon, Chevron and Statoil and also includes the State Oil Company of the Azerbaijan Republic.

(2) Agip is considered to be an IOC due to its ownership by ENI.

(3) ABB is a tier one multinational corporation operating in robotics and in the areas of power and automation technology.

We benefit from repeat business from our key clients, with no options to extend any contracts relating to large OSVs and/or long-term contracts being terminated by our clients during the year ended December 31, 2012 and the six months ended June 30, 2013. Our repeat clients include BP, AIOC, Total and Agip, among others. AIOC, BP and Agip have been in our top five clients on a consistent basis during each of the years ended December 31, 2010, 2011 and 2012 and during the six months ended June 30, 2013. Our management and commercial teams continually work to build client relationships by initiating dialogue with prospective clients and maintaining an active dialogue with our existing clients to ensure that we are up to date with their requirements, particularly regarding health and safety, and trends in the industry, including regarding OSV specifications. Over 80% of our top ten clients have investment grade ratings and 60% are rated A or better by S&P. This demonstrates a significant proportion of counterparties that are of high quality.

Topaz Marine Caspian

Client concentration has historically been high in the Caspian region as a result of governments in this region granting concessions to major oil and gas industry participants, who often act on behalf of consortia. For example, in the twelve months ended June 30, 2013, 34.7% of our revenue was generated from contracts with BP, whose presence in Azerbaijan is principally as a result of its role as the primary operator on behalf of the AIOC and BP Shah Deniz consortia, which are currently not scheduled to expire until 2036 at the earliest. In particular, the Parent has entered into contracts with BP to provide vessels (including PSVs, AHTSVs and ERRVs), personnel and other services in connection with the development of the ACG oilfield and the Shah Deniz gas-condensate field.

Our relationships with key operators in Azerbaijan, such as AIOC and BP, span more than ten years, and as a result we have a strong track record of contract renewal with no large OSVs removed from the Caspian region in the last ten years. Our relationship with Agip in Kazakhstan spans over ten years.

Other clients of Topaz Marine Caspian include Total E&P Absheron BV, Overseas Operating Company (a subsidiary of Lukoil), Wintershall, Agip KCO and Saipem. In the twelve months ended June 30, 2013, 14.8% of our revenue, was generated from contracts with Agip KCO and Saipem.

In March 2013, we secured new multi-year charters with offshore contractor Siapem for nine of our OSVs in a contract worth approximately \$16.0 million. The vessels currently support the development of the Filanovsky oil and gas field in the Russian sector of the Caspian Sea.

Topaz Marine MENA

In the MENA region, our client concentration is relatively low, compared to the Caspian region. Topaz Marine MENA's top three clients by revenue for the twelve months ended June 30, 2013 were Saudi Aramco, Occidental Petroleum and Maersk Oil Qatar, representing \$52.4 million, or 57.7%, of MENA revenue, and 14.9% of our revenue, for the twelve months ended June 30, 2013. Other clients of Topaz Marine MENA include Dolphin Energy, Dubai Petroleum, and Total E&P Qatar.

Topaz Marine Global

Topaz Marine Global's top three clients by revenue for the twelve months ended June 30, 2013 were Petrobras, ABB and NDE, representing \$16.8 million, or 28.7%, of Global revenue, and 4.8% of Group revenue, for the twelve months ended June 30, 2013. Other clients of Topaz Marine Global include West African Ventures and Axxis Petroleum.

Contracts

We operate vessels for clients in return for day rates, in addition to other fees, under the terms of time charter contracts that are either "short-term" (for terms of between three months and one year), "medium-term" (for terms of one to three years) or "longterm" (for terms of more than three years). Time charters are not only for the provision of vessels, but can also include the provision of crew and supplies, among other things.

Our short-term contracts, which include arrangements made in the spot market in some regions, enable us to take advantage of short-term increases in OSV day rates. Our contracts for the Caspian region are typically long-term, while in the MENA and Global regions there is a greater proportion of contracts with short- or medium-term tenors. Because the majority of our contracts have lengthy durations, we use backlog to forecast our future cash flow. We also make use of the metrics "average utilization rate" and "average day rate" to understand how our vessels are being used and the revenue they are generating. The terms of our contracts vary based on whether the client is an NOC or IOC, or an offshore services company. The following is a discussion of our contracts, the key terms of our contracts and our backlog, as well as our average utilization and average day rates.

As of July 2013, our backlog of firm contracts and optional extensions is \$1,035.5 million.

IOC/NOC Time Charters

Time charters for IOCs/NOCs are typically obtained through the tender process. The tender process begins when a requestor issues a request for tender or an expression of interest. The terms of NOC/IOC time charters, which are

included in the request for tender, are typically more client-friendly and are often not subject to negotiation. This request is typically sent to a number of OSV operators and requires an indication of pricing and availability of the OSV proposed to be mobilized for the project, as well as other specifications, including the scope of work, the water depth and the personnel capacity of the vessel, in order to pre-qualify for the tender. OSV operators then submit detailed bids for the project, from which the client selects the winning bid. Key factors in winning tenders include: (i) proposed day rates and mobilization and demobilization costs; (ii) the specifications and capabilities of the proposed OSV; (iii) the health and safety track record; (iv) the operational track record; (v) a skilled employee base; and (vi) the depth of management's experience and client relationships.

The complete tender process can take from six months to a year, depending on a requestor's lead time, the complexity of the operation, the execution schedule and the availability of equipment. Our commercial team, consisting of four people and based in our headquarters in Dubai, has significant experience with the tender process and, we believe, is key in our success at winning tenders, in addition to other factors, including our modern and high-specification fleet, technical capabilities, HSE standards and record, and knowledge of local market conditions and operating environments. We believe that our high levels of vessel utilization demonstrate our strong track record of winning tenders.

Baltic and International Maritime Council Supply Time Charters

Typically, we obtain our time charters for our non-NOC/IOC clients through brokers, who look to match demand for vessels with those available on the market. The standard form for these time charters is Supplytime 2005 provided by the Baltic and International Maritime Council, an international shipping association. Supplytime 2005 addresses, among other terms, the period of the agreement, the delivery and redelivery of the vessel, requirements for and for determining the condition of the vessel, day rate and meal budget for crew members, and repair and maintenance of the vessel.

Key Contract Terms

Our contracts generally include: (i) a day rate, which is earned regardless of the activity level on the OSV; (ii) a rate per member of personnel on board to provide mess and accommodation for the client personnel and other workers on board the OSV; and (iii) a mobilization and demobilization fees, which cover the costs of moving an OSV to the contract location and back to an agreed location at contract expiration.

Our contracts typically include provisions related to the division of responsibility and authority between the master and crew of the ship and the client. The crew typically consists of a master and other senior officers that are our staff and the rest are obtained through agencies, save in the Caspian region where we have built up our own base of crew members over time, and are often local to where the project is taking place. The client may have as many as three members of its own personnel onboard, who provide the master and the crew with instruction, although the master typically has the final word on matters related to safety and the capabilities of the vessel.

We operate on the basis of fixed-term contracts. The durations of our contracts vary depending on client requirements. In some cases our contracts also include extension options. Generally, our contracts in the Caspian region with terms of one to seven years will typically include up to three one-year renewal options; while contracts with terms of ten years will usually include either a five-year renewal option or ten one-year renewal options. Our contracts in the MENA region with terms of up to three years will typically have either a two-year renewal option or up to three one-year renewal option. Most of our Global contracts do not have renewal options and for those with renewal options, the longer the tenor the longer the available renewal options. In order to exercise its extension option, a client must notify us of its interest by a certain date which will be prior to the end of the contract; after such date, we are not bound to honor the client's interest in extending the contract and may seek other opportunities for the relevant vessel. In practice, however, at the end of the initial contract period, our clients typically choose to extend their contracts. During the year ended December 31, 2012 and the six months ended June 30, 2013, no options to extend any contracts relating to large OSVs and/or long-term contracts were terminated by our clients.

Our contracts can be terminated by our clients within notice periods typically ranging from 30 days to six months, although some notice periods have been significantly shorter. The notice period is generally linked to the length of the fixed term of the contract, with longer contracts having longer notice periods. A termination of any one of our contracts, depending on the terms agreed with the client with respect to that particular contract, can either be without penalty or can carry a penalty determined either by an agreed rate per days remaining in the contract or as a percentage of the backlog associated with that contract as of the termination date. For example, certain of our

contracts contain cancellation terms that can amount to up to 50% or 80% of the unexpired contract revenue. The payment of these amounts mitigates our risks associated with the repayment of vessel-related debt. There have been no significant early terminations of our contracts in the year ended December 31, 2012. We are not typically able to terminate our contracts save in the case of default or nonperformance by the client.

Average Utilization and Average Day Rates

Our mixture of long-term, medium-term and short-term contracts is key to our average utilization rates, which is a measure of the extent to which our vessels are actively employed by or for our clients, and average day rates, which is a measure of the average daily revenue generated by our vessels.

The table below provides the overall average utilization rates for the years ended December 31, 2010, 2011 and 2012 and for the twelve months ended June 30, 2013.

	Year ended December 31,			Twelve months ended June 30, 2013
	2010	2011	2012	
Average core asset utilization rate for the period.....	85.2%	86.3%	91.1%	93.5%
Average fleet utilization rate for the period:				
Caspian region	91.0%	81.0%	68.7%	74.0%
MENA.....	79.0%	83.3%	85.1%	88.8%
Global	—	—	—	95.1%
Average total fleet utilization rate.....	88.5%	81.8%	74.6%	79.4%

The average utilization rate of a vessel in a given period is calculated retrospectively by reference to the number of days in that period the vessel was deployed as a percentage of days in the period on which the vessel was available for deployment, being 365 days less days required for dry-docking, repair and maintenance and, in Kazakhstan, for non-ice vessels, days on which the relevant vessel was unable to operate due to adverse weather conditions. The average fleet utilization rate is the average of the average utilization rates for all of our vessels.

The average day rate for a vessel in a given period is calculated as the total revenue generated by that vessel in that period divided by the number of days on which that vessel was deployed during that period (whether under one or more contracts and/or for one or more clients).

Competition

The OSV industry is highly competitive and fragmented, and includes several large companies that compete in many of the markets we serve, as well as numerous small companies that compete with us on a local basis.

We believe that the principal competitive factors in the market areas we serve include the technical sophistication, durability, range, timeliness and price of the services and products offered; relationships with clients and intermediaries; the proportion of employees who are nationals of the relevant jurisdiction; compliance with HSE standards; and reputational strength with respect to safety and quality. Additionally, we face increasing competition as a result of new market entrants, consolidation in the oil and gas industry, and deployment of additional OSVs in the regions in which we operate, among other factors.

In the Caspian region, we believe that our key competitors include Seacor, Caspian Offshore Construction, GAC Marine, SMIT and Wagenborg. The offshore services markets in MENA and the rest of the world are fragmented, which makes identifying key competitors difficult. We believe that our key competitors in the fragmented MENA region are Bourbon Offshore, Swire Pacific, Tidewater, Halul Offshore, Zakher Marine and Zamil. In the Global region, we do not directly compete with global operators to win contracts, since we operate in the global markets based on selective contracts with attractive returns.

Property

Our corporate headquarters are located in Dubai (UAE). The following table provides a summary of our key facilities and properties:

Group Headquarters

Location	Leased/Owned	Description
Dubai, UAE	Owned	58th Floor, Almas Tower Corporate headquarters

Headquarters of Our Operating Segments

Location	Leased/Owned	Description
Topaz Marine MENA:		
Jebel Ali, Dubai, UAE	Leased	Headquarters of Topaz Marine
Doha, Qatar	Leased	Headquarters of Topaz Marine MENA
Topaz Marine Caspian:		
Baku, Azerbaijan	Leased	Headquarters of Topaz Marine Azerbaijan
Aktau, Kazakhstan	Leased	Headquarters of Topaz Marine Kazakhstan
Topaz Marine Global:		
Jebel Ali, Dubai, UAE	Leased	Headquarters of Topaz Marine Global

Employees

As of June 30, 2013, we had 1,800 employees worldwide. These employees include departmental managers, support staff, engineers and other employees. The following table indicates the distribution of our employees by geographic region:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
Region:				
Corporate/Shared services	62	67	63	74
MENA				
MENA onshore	69	67	80	71
MENA offshore	429	727	580	618
MENA total	498	794	660	689
Caspian Sea				
Caspian onshore	108	109	88	100
Caspian offshore	627	632	732	805
Caspian total	735	741	820	905
Global				
Global onshore	—	—	—	6
Global offshore	—	—	150	126
Global total	—	—	150	132
Total	1295	1602	1693	1800

Sourcing and Induction

We have a firm commitment to source and induct potential crew and employees in a clear and systematic manner in accordance with our Topaz Competence Framework. At the sourcing stage, we work with reputable marine employment agencies to help identify candidates. We then conduct a series of interviews and authenticity verification processes to ensure that the candidate is technically proficient and compatible with our competence framework. At the induction stage and after the issuance of the employment contract, we use in-house crew management to inculcate employee identification and compliance with our work culture, ethos and practices.

Training

We employ both in-house trainers and approved maintenance and repair work party training providers to ensure a high standard of training is achieved in all areas of our operations. All of our offshore employees are trained in accordance with the International Convention on Standards of Training, Certification and Watchkeeping 1995 and hold valid international certification and accreditation for the various duties they undertake on each of our vessels. Our internal training curriculum covers key areas of rig operation such as confined space entry, working at height,

hot work and emergency response. Our approved external training providers are employed to cover nationally accredited courses such as H2S Awareness, Fire Team Members and Leaders programs, and Management of Major Emergencies as well as certification for any roles classed on board as “high risk.”

We carry out comprehensive employee assessment and training needs analyses on board each OSV quarterly in accordance with our Topaz Competence Framework. This assists us in identifying opportunities for improvement in both the safe operation of the OSV and the efficient running of the fleet. The outcome of this assessment drives the curriculum for the following quarter and is based on the core assessment areas laid out in the employees’ assessment process.

To further enhance the training on board our OSVs, our Health, Safety, Environmental and Quality department issues safety alert packages and fleet memos on current industry best practices in order to further bolster the knowledge of our crew. This information is passed on through daily tool-box talks and interactive weekly safety meetings. In addition, each OSV conducts emergency drills and scenarios on a weekly basis.

Insurance

We maintain a number of key insurance policies arranged through a specialized maritime insurance broker and consultant.

At a Group level, we maintain comprehensive policies relating to life insurance, personal accident insurance and insurance relating to directors’ and officers’ liability, professional indemnity and workmen’s compensation, with aggregate coverage of over \$16.3 million.

We also maintain insurance policies relating to our fleet, including the following:

- hull and machinery risk insurance—policies taken out on a “per vessel” basis through local insurers in each relevant region, with reinsurance support, to cover all damage to hull, machinery and equipment, with aggregate coverage of approximately \$1.3 billion;
- oil pollution insurance—policies relating to oil pollution caused by our vessels, taken on a per vessel basis with a limit of \$1 billion per accident;
- passenger risk—policies relating to passenger accident taken on a per vessel basis with a limit of \$2 billion per accident;
- war risk insurance—policies taken out to cover damage to or loss of vessels as a result of events such as war, civil strife, piracy, violent theft or terrorism, with aggregate coverage of approximately \$1.3 billion;
- piracy insurance—policies taken out each time a vessel travels through an area known to pose a risk of piracy to cover damage to or loss of vessels as a result of pirate attack with a limit of \$5 million per incident; and
- protection and indemnity insurance—policies relating to third-party liabilities, taken out on a “per vessel” basis.

Health, Safety and Environment

Health and Safety

HSE standards are fundamental to our pursuit of operational excellence. The Group has a corporate manager responsible for HSE reporting to the Chief Executive Officer and supported by an HSE team spread across the Group’s operations. We place great importance on the pursuit of HSE excellence throughout the Group and believe high HSE standards are central to the Group’s reputation, client relationships and strategy going forward.

The Group strives for an incident-free workplace and has accordingly implemented a training program to support continuous safety improvements across the organization. We use LTIF as a key measure of HSE performance. “**LTIF**” is calculated by the Group as the number of LTIs occurring per 1,000,000 man hours worked. LTI is defined as an incident leading to an injury as a result of which the injured party cannot return to work within 24 hours of the

incident. We had an LTIF across the Group of 0.82 in 2011 and 0.81 in 2012. Our key performance indicators relating to our safety record compare favorably with the industry standard:

Measure	Industry Benchmark ⁽¹⁾ 2012	Current Performance Year to date 2013
Fatal Incident Frequency	1.69	0.00
Lost Time Incident (LTI) Frequency	0.51	0.00
Total Recordable Case Frequency	1.93	3.34
Environmental Incident Frequency	Not Recorded	2.09
Proactive Recordable Case Frequency	312	1,975
Management Visit Rate	6.92	82.18

(1) International Marine Contractors Association, Safety Statistics for IMCA Members, Report for the period January 1–December 31, 2012.

We comply with industry best-practice techniques in respect of HSE standards, including DUPONT® S.T.O.P., Hazard Awareness, TapRoot® Root Cause Analysis methodology and software, and Accident Investigation Training. In addition, we have won numerous awards in recognition of our HSE standards and performance, including the Safety and Quality Award by Seatrade Middle East and the Safety at Sea Award by Lloyd’s List. We are also a member of the International Marine Contractors Association, an international trade association promoting safety within the offshore, marine and underwater engineering industries.

The best practices we implement in our operations to ensure that we continue to maintain our operational and HSE excellence include the Behavior-based Safety “Safety Observation Card” system which is used across our business units, TapRoot® Cause Analysis systems and software, and an annual company-wide Safety Culture Survey, launched in 2013, which is implemented by dedicated third-party specialists.

Our marine business is subject to a number of international conventions relating to minimum safety HSE standards and is subject to periodic survey and inspection requirements. International conventions with provisions which relate to HSE include:

- the International Safety Management Code for the Safe Operation of Ships/Vessels and Pollution Prevention (the “ISM Code”);
- the International Convention for the Safety of Life at Sea, which specifies minimum standards for the construction, equipping and operation of vessels; and
- the International Convention for the Prevention of Pollution from Ships/Vessels, which in the Caspian region strictly limits, and in some cases entirely prohibits, the discharge of waste (including garbage, grey water, sewage and oil).

As of the date of October 20, 2013, we are not aware of any material breaches by the Group of these conventions.

In each operating region we are certified compliant with the ISM Code and ISO 9001, an international quality management standard published by the International Organization for Standardization (“ISO”). Additionally, where required by clients, we have also been certified in accordance with ISO 14001, an environmental management standard published by ISO, and OHSAS 18001, an assessment specification for occupational health and safety published by the Occupational Health and Safety Advisory Services.

We have historically procured annual external audits of every ISM-compliant vessel of our compliance with the standards referred to above and internal audits are carried out on all of our vessels by Topaz HSE teams on an annual basis. In 2012, we won the Lloyd’s List “Ship Operator” Award and the Seatrade “Workboats” Award. We also received a “Highly Commended” Safety Award from Lloyd’s List. In 2011, we won the Seatrade “Safety and Quality” Award.

Intellectual Property

We do not own or use any patents, trademarks or other intellectual property that we consider significant to or necessary for the operation of our business.

Corporate Governance

We are currently implementing several changes to our corporate governance structure to ensure the independence of our Parent's board from the Principal Shareholder's board under the applicable Muscat Securities Market and Jebel Ali Free Zone Authority ("JAFZA") rules and regulations. These changes include certain amendments to our Parent's Memorandum of Agreement and Articles of Association (the "**Constitutional Documents**"), as well as related board and committee charter documents. The draft amended and restated Constitutional Documents have been submitted to JAFZA for their review prior to approval by the Principal Shareholder's board. Our independent board will be constituted by our Parent. We anticipate that the amendments to our corporate governance structure will be implemented by October 31, 2013.

During 2011, we implemented a new code of business conduct. While implementing this code, we uncovered potential financial and ethical misconduct in an overseas operation and we immediately undertook an investigation into such misconduct. The investigation identified certain unacceptable financial and ethical practices that had taken place in the business concerned over a number of years. In particular, in aggregate, approximately \$2.9 million of cash payments had not been properly approved and/or classified. However, since the payments had been recorded as expenses in the relevant years, there was no misstatement of the profit for any period. We also undertook investigations elsewhere in the Group which identified a limited number of cases of unacceptable practices and potential ethical misconduct. All of the potentially concerning transactions and activities were immediately stopped and, in addition to rigorous implementation of the new code of business conduct, we took further action, including taking all appropriate steps to ensure that such matters ceased immediately and permanently, ending the employment of certain personnel.

We established a special committee comprising an independent chairman and our Chairman to oversee the resolution of these matters and a major international law firm was appointed to advise the Group. The issues were discussed extensively with certain relevant authorities, but there has been no further communication with them since August 2012, in light of which we consider it unlikely that the authorities will take further action relative to the Group or its relevant subsidiaries.

Legal Proceedings

We are not, and have not in the last twelve months, been involved in any governmental, legal or arbitration proceedings which may have, or have had in the recent past, a significant effect on our financial position or profitability. In addition, so far as we are aware, no such proceedings are pending or threatened by or against us.

2. Industry and Market Overview

The Oil and Gas Industry

Crude oil is an internationally traded commodity that is primarily used as an input in the manufacturing of refined products, which are in turn used by end-consumers. Such refined products include major transport fuels, such as diesel, gasoline and kerosene, among other products.

The crude oil market is driven primarily by global supply and demand fundamentals as well as other factors, such as inventory levels, refinery outages, broader infrastructure availability and perceived levels of spare capacity held by OPEC countries and other key producing countries. Other factors influencing the oil market include environmental disruptions as well as geopolitical events.

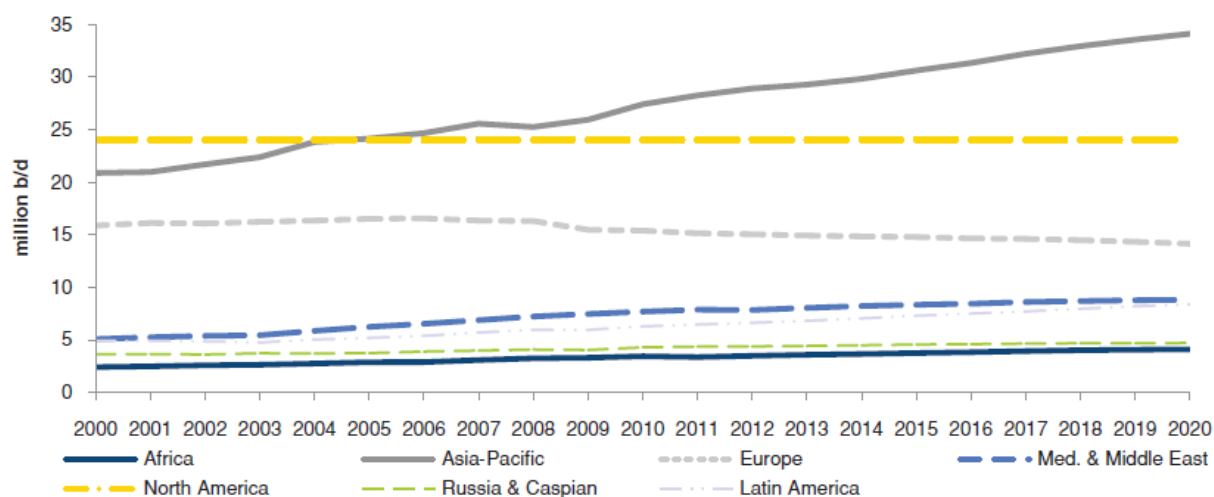
Demand

Global demand for crude oil is strongly correlated with global economic growth. Crude oil demand closely followed and expanded in line with global GDP growth between 2000 and 2008, when demand fell sharply following a decrease in energy consumption in the wake of the global economic recession. Demand for energy, including crude oil, recovered as a result of the improvement in global macroeconomic conditions subsequent to 2010. Global oil consumption in 2012 was 89.8 MMbpd, which represents a 0.9% increase over 2011 levels.

While oil consumption in the developed economies of North America, Western Europe and Japan has decreased from 42.5 MMbpd to 39.2 MMbpd over the last ten years, which represents a 7.8% decrease, it has increased from 28.5 MMbpd to 41.9 MMbpd over the same period in the emerging economies of Asia, Latin America, the Middle East and Africa, which represents a 47.1% increase. These emerging economies now account for 47.1% of global oil demand, which is an increase from 36.3% ten years ago.

According to IHS, this pattern is expected to continue to be a feature of the global oil markets in the next five years, with oil demand growth expected to be led by strong growth from emerging economies while demand from developed economies is expected to remain flat.

Global Oil Demand, Historical and Projected



Source: IHS Report

Supply

Crude oil is extracted by independent exploration and production companies, IOCs including oil majors such as ExxonMobil, BP, ConocoPhillips and Royal Dutch Shell and NOCs, such as Petrobras or Saudi Aramco. The single largest contributors to global oil supply are the OPEC countries, which collectively account for 72.6% of the world's proved reserves and 43.2% of global production as of the end of 2012, making the OPEC countries strategically important in maintaining global oil supplies. Another 7.5% of proved reserves and 16.3% of production are contributed to by former Soviet Union countries.

The supply of crude oil has evolved in a number of important respects. First, new sources of supply have emerged as a result of new discoveries in areas such as Brazil and West Africa. Second, supply from unconventional sources such as the United States, through extraction from shale oil deposits, and Canada, as a result of extraction of heavy oil from tar sands, continue to grow strongly. The commerciality and economic viability of these sources are particularly important to the international oil markets insofar as their increased relevance drives down North American imports needed to satisfy domestic demand.

In addition, other sources of supply have also become increasingly relevant as a result of the resolution of political, security or infrastructure constraints in certain countries. Examples include Colombia, Iraq (both southern Iraq and Kurdistan), Libya and Russia as a result of the commissioning of the East Siberia-to-Pacific Ocean pipeline. Meanwhile, supply from certain traditional producing regions such as the North Sea, Mexico, Indonesia and Iran (the latter due to economic sanctions), continues to decline.

In order to increase production to meet rising demand, companies in the oil industry are facing pressure to consistently maintain their RRR at above 100%, which requires them to increase their investments in exploration and development.

Market Developments

While prices were stable throughout most of 2010, with Brent crude oil trading in a tight band between \$77/barrel and \$95/barrel (source: Bloomberg), they increased towards the beginning of 2011 largely as a result of the "Arab Spring" which led to a collapse in Libyan production as well as concerns over potential production shortages elsewhere in the Middle East and North Africa. Global demand fundamentals remained strong during this time period. As a result, Brent crude oil prices initially increased to over \$120/barrel (source: Bloomberg) before renewed concerns relating to the global economic environment, particularly adverse economic conditions in Europe, ultimately led prices of Brent crude oil to decline to approximately \$107/barrel (source: Bloomberg) at the end of 2011.

The year 2012 also witnessed a volatile pricing environment for crude oil. Prices increased through the first quarter, partly as a result of stronger global economic growth but also due to concerns about undersupply and heightened economic and oil-related sanctions on certain oil-producing countries. Brent crude oil prices increased to a high of \$126/barrel (source: Bloomberg) in March 2012. However, prices declined significantly to \$91/barrel (source: Bloomberg) by June 2012 as a result of increased geopolitical stability, increased supply from non-OPEC regions such as the United States, Canada and Russia and renewed weakness in global macroeconomic expectations. By the second half of 2012, the market witnessed a recovery in prices aided by positive policy actions, including renewed quantitative easing by the U.S. Federal Reserve in September and December. By December 2012, Brent crude oil was trading at \$111/barrel (source: Bloomberg), which was in line with the price levels witnessed at the end of 2011.

In 2013, Brent crude oil has, until recently, traded mostly in a relatively narrow band of \$98/bbl (source: Bloomberg) to \$119/bbl (source: Bloomberg) with no supply or demand imbalances, high levels of inventories of crude oil, increasing OPEC spare production capacity and a strengthening global economy. More recently, there has been a decrease in a range of commodity prices, including crude oil, as a result of concerns regarding the global economy generally, and Chinese economic growth in particular, refinery outages for seasonal maintenance and continued growth in production in North America.

Industry Expenditures Outlook

Oil Price is Lead Driver of Expenditure Trends

The level of activity of oil and gas companies tends to be the result of long-term capital planning, which is often implemented over several years and with project time scales exceeding ten years. Exploration budgets are, however,

strongly driven by current and anticipated oil and gas prices, albeit with a time lag, which in turn drives the demand for offshore services such as those provided by OSVs. Sustained oil prices of more than \$100/barrel since May 2013 and expectations of continued price stability are anticipated to result in increased levels of expenditure on oil and gas exploration, development and production.

While sustained periods of low or high oil and gas prices significantly affect oil and gas companies' capital expenditures on exploration, development and drilling activity, operating expenditures are usually more resistant to oil price volatility. Operating expenditures includes expenditure relating to supply, logistics, maintenance and repair work on installations during the production and development phases, each of which are essential to maintaining production and therefore tends to be relatively stable.

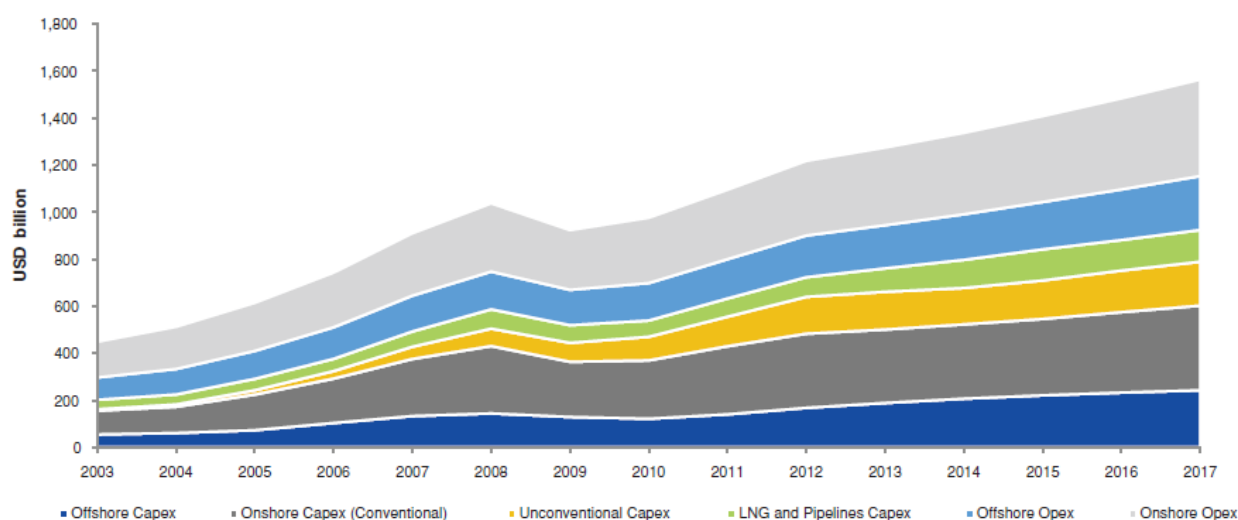
Several other factors influence the investment decisions of oil and gas companies in addition to oil and gas prices, including full-cycle project economics, the strategic priorities of the relevant operators, sunk-costs, financial flexibility and the fiscal stability of the relevant entity.

Capital Expenditures Outlook

IHS expects total global E&P spending, including both capital expenditures and operating expenditures, to increase from \$1,217 billion in 2012 to \$1,563 billion in 2017, which reflects an average annual growth rate of 5%.

Capital expenditure represents about 60% of exploration and production spending and is expected to grow 5% annually on average up to 2017 with operating expenditure also expected to grow 5% annually.

Global Exploration and Production Spending

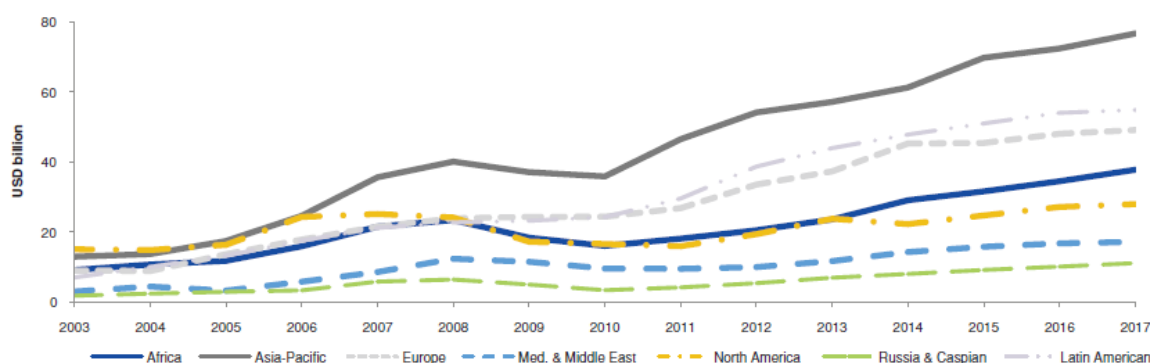


Source: IHS Report

Comparative economics and prospectivity, which refers to the potential of a particular geographic area to host oil and gas reserves, affect the distribution of oil and gas exploration, development and production expenditures across geographic regions and between offshore and onshore projects. According to IHS, capital expenditures on offshore oil and gas projects increased by approximately 206% from \$55 billion in the year ended December 31, 2003 to \$168 billion in the year ended December 31, 2012, which represents a CAGR of 13.2%. Between 2010 and 2012, the proportion of global upstream capital expenditures related to offshore projects grew from approximately 22.5% in the year ended December 31, 2010 to 23.2% in the year ended December 31, 2012, and is expected to increase to approximately 26.3% by 2017 according to IHS.

In addition, IHS expects total global offshore capital expenditures spending to increase from \$182 billion in 2012 to \$275 billion in 2017, which reflects an average annual growth rate of 8.7%. Cost escalations are expected to grow at a CAGR of 4.5%, while average activity will grow at a CAGR of 4.0%

Offshore Capital Expenditures per Region



Source: IHS Report

Offshore capital expenditure is expected to grow at approximately 16.0% annually in Russia and the Caspian region, from \$5 billion to \$11 billion in 2017, and at approximately 12.0% annually in the Middle East, from \$10 billion in 2012 to \$17 billion in 2017. Asia Pacific is the largest region, representing 30% of overall capital expenditure spending, growing at approximately 7.0% annually to approximately \$77.0 billion in 2017. Latin America offshore capital expenditure is dominated by Brazil, where most capital expenditure will take place in primarily deepwater-related projects, and it is expected to grow at approximately 7.0% annually from \$39 billion in 2012 to \$55 billion in 2017.

Overview of the Offshore Drilling Industry

The demand for offshore drilling services is driven by oil and gas companies' anticipation of oil and gas prices and worldwide demand for oil and gas.

Volatility in oil and gas prices have historically led to fluctuations in expenditures on drilling services. Variations in market conditions during such cycles impact different segments of the industry with a different magnitude, largely dependent on the length of drilling contracts. Contracts in shallow waters for jackup rig activities, for example, are typically shorter term compared to contracts in deepwater regions for semi-submersible rigs and drillships, and are therefore generally more sensitive to price variations.

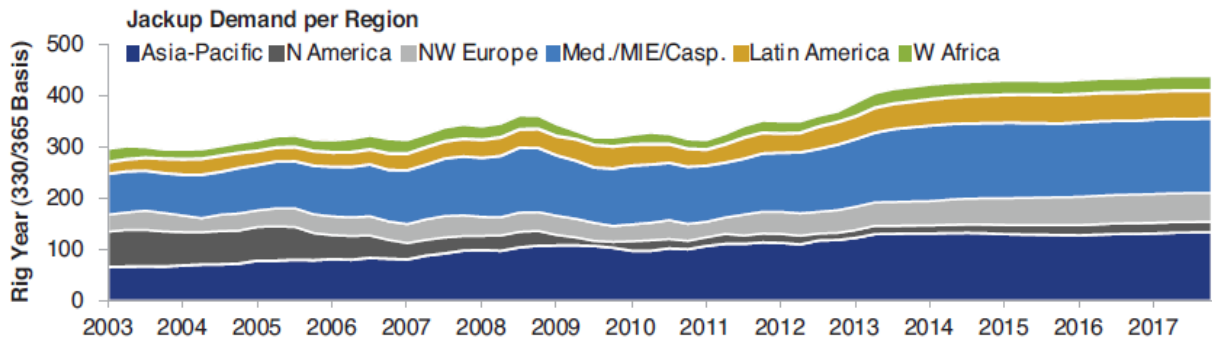
Offshore Fields

During the last ten years, the number of new platform-based fields in shallow and benign waters has decreased significantly, from 63 new fields to 34 new fields in 2012, with an increased use of subsea and floating schemes.

New developments have increased significantly in harsh and deepwater regions during this time. The number of new fixed offshore fields has remained constant during this period, while subsea developments and floating developments have become the main development schemes.

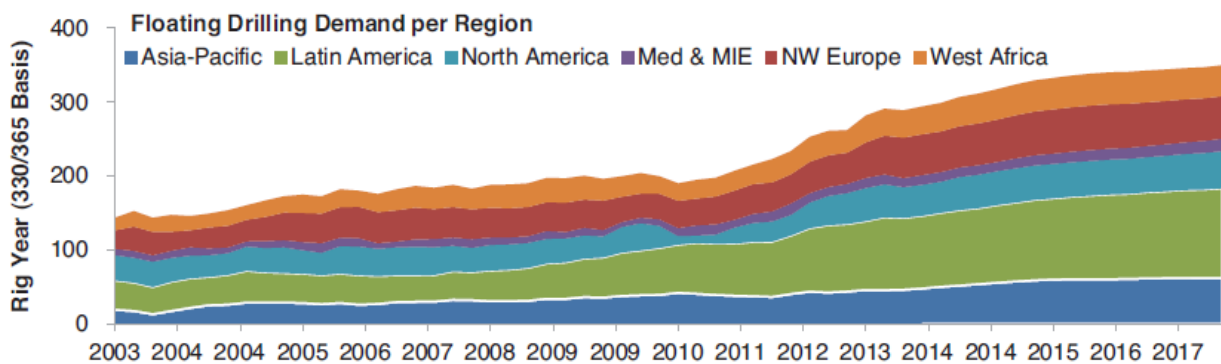
Mobile Offshore Drilling

Mobile offshore drilling activity is highly correlated with oil and gas prices. Mobile rigs include jackup rigs, or self-elevating units, and floating rigs such as semi-submersibles and drillships. Subsequent to a significant drop in 2009, demand has recovered, particularly in the Asia-Pacific region and the Middle East. Average demand growth for jackups is expected to be approximately 4.0% annually in the period from 2012–2017. An increase of 70 “rig years” is expected by 2017, which is a measure that calculates the number of rigs in service multiplied by the number of days such rigs are operating divided by the number of days in that period. The Middle East and Caspian regions each account for 17 rig years, while the Asia-Pacific region accounts for another 15 rig years.



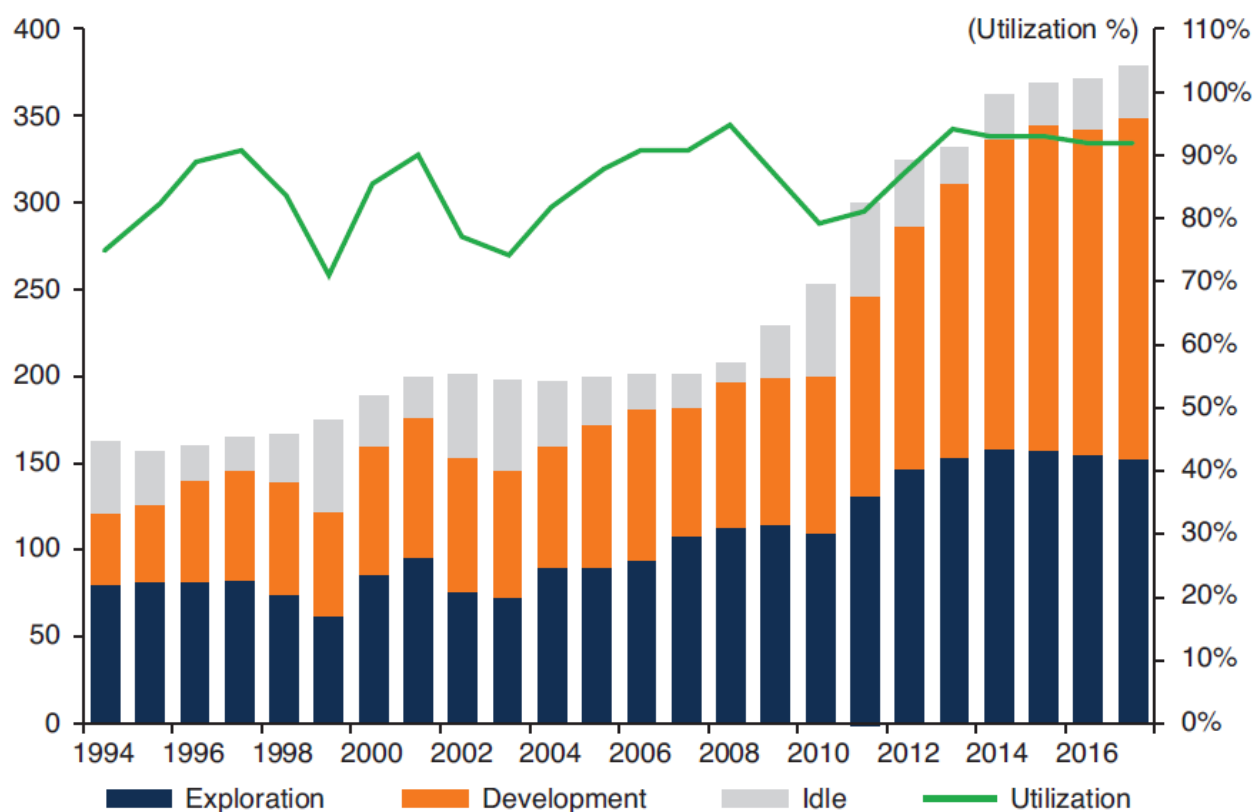
Source: IHS Report

Demand in the floating drilling market, primarily for semi-submersibles and drillships, experienced the same trend as jackups in 2009 after a period of full utilization. Over the next five years aggregate utilization is expected to be in the 90–95% range. Overall demand is expected to increase by approximately 5.0% annually in the period from 2012–2017. This growth is expected to affect all regions, with stronger demand for growth in the Asia-Pacific region, which is expected to experience an increase of 18 rig years, and in Latin America, which is expected to experience an increase of 30 rig years. An overall increase of 88 rig years is expected by 2017.



Source: IHS Report

Rig Demand and Utilization Rate⁽¹⁾



Source: IHS Report

(1) For Semi subs and Drillships only.

Overview of the Offshore Supply Vessel Industry

Overview of Offshore Supply Services

Introduction to Offshore Services Provided

The offshore supply services industry deploys vessels to support operations in offshore oil and gas exploration, development and production activities.

- **Exploration:** This phase typically requires AHTSVs, MPSVs, seismic survey vessels and crew boats in support of offshore oil and gas exploration activities.
- **Development:** This phase typically requires AHTSVs, PSVs, MPSVs, ERRVs, crew boats and specialized barges in support of clients engaged in oil and gas field development activities. Contract terms in the development phase are typically between two and five years and provide for greater stability and certainty as to future revenue compared to the exploration phase.
- **Production:** This phase typically requires AHTSVs, PSVs, MPSVs, ERRVs, crew boats and specialized barges in support of clients engaged in offshore oil and gas production activities. Production activities provide for greater stability and certainty as to future revenues than either of the exploration or development phases because production projects are generally long-term, in some cases lasting as long as 50 years.

Vessel Class and Specifications

Anchor Handling Tug Supply Vessel (AHTSV) / Anchor Handling Tug (AHT): These vessels are designed for anchor handling and towing offshore platforms, barges and production modules and vessels. AHTSVs also perform ordinary supply services and may have additional equipment for firefighting, oil recovery and rescue duties.

Platform Supply Vessel (PSV): These vessels are designed to transport supplies and equipment to and from offshore installations. PSVs are also used to supply drilling equipment, drilling bulks, fluids and pipes.

Multi-Purpose Support Vessel (MPSV): These vessels are designed to accommodate a range of offshore assets and equipment such as drilling products and to support inspection, maintenance, repair, diving and construction activities.

Emergency Recovery and Response Vessel (ERRV): These vessels are designed to provide safety support to offshore installations. Typical features include daughter craft and fast rescue craft and fire-fighting and oil recovery capabilities. ERRVs may also carry out duties such as inter-field cargo operations, towage assistance and pollution control.

Crew boats: These vessels are designed to transfer personnel and limited cargo from shore to offshore installations and between offshore installations.

Specialized barges: This category generally consists of vessels such as flat-top barges with cargo transport capability, cutting and bulk barges designed to carry drilling fluids and barges specialized for regional conditions such as shallow draft and ice-strengthened barges for operations in the Northern Caspian Sea.

Positioning of the Offshore Supply Vessel Industry within the Oil and Gas Value Chain

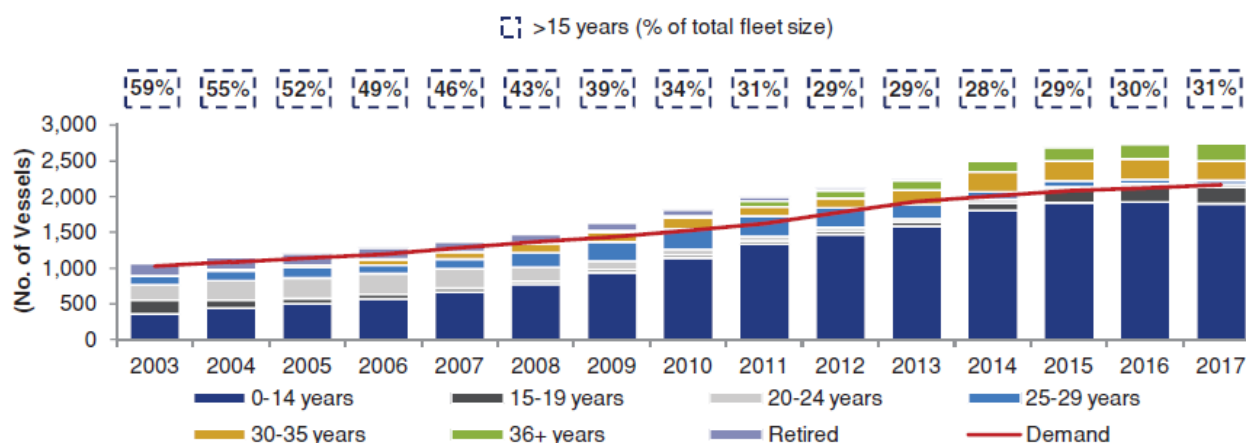
OSVs are used during the exploration, development and production phases of an offshore oil and gas installation's life cycle. The need for supplies, maintenance, personal transportation and repair increases with the scale of the project. All of these supporting services, which are carried out on an installation during the production phase, are essential to maintaining oil and gas production capacity.

	Exploration	Development	Production
Length of phase	3–5 years	2–4 years	5–55 years
Offshore vessels employed	Seismic survey vessels AHTSV MPSV Crew boats	AHTSV MPSV PSV ERRV Crew boats Specialized barges	AHTSV PSV MPSV ERRV Crew boats Specialized barges
Services	—Towing of jackups —Seismic surveys —Refueling and resupplying seismic survey vessels during operations —Supporting oil and gas drilling operations —Transporting general supplies	—Mobilization/demobilization of FPSOs/FSOs —Towing, mooring, anchor handling and providing safety standby services —Supporting diving operations —Transporting personnel, general supplies and machinery and equipment	—Towing/mooring of export tankers to FPSOs/FSOs —Providing safety and stand-by services —Repair and maintenance support services —Transporting oil field services personnel, machinery and equipment
Exposure to oil price	High	Moderate	Low

Overview of Global Fleet of Offshore Supply Vessels

Old vessels built before 1985 are commonly low-capacity vessels operating in shallow and benign waters, which are likely to be phased out in the coming years. As demonstrated in the graph below, approximately 29% of the current fleet is aged above 15 years and increasingly contractors require vessels that will be younger than 15 years at the end of a contract term. Operators of younger fleets may be beneficiaries of this trend because it will help to achieve sustained high utilization rates and is likely to result in higher unit rates for younger fleets because they have superior technical and safety characteristics in relation to the older fleets.

The main demand drivers for supply vessels are offshore fields and mobile drilling units in particular, given that each rig requires on average 2.5 vessels to service it. According to IHS, supply vessel demand is expected to grow by approximately 8.0% in 2013, as a result of a peak in fleet investments, and approximately 3.0% annually continuing until 2017.



Source: IHS Report

Regional Overview of the Offshore Supply Vessel Market

	Vessel type			Average age ⁽¹⁾
	AHTSV	PSV	Total	
Africa	228	175	403	12.6
Asia	688	286	974	9.0
Australia	45	19	64	6.3
Brazil	131	230	361	8.8
Caspian region	32	10	42	11.0
Middle East	238	83	321	13.0
North & Central America	87	476	563	10.1
North Mediterranean and Black Sea	44	13	57	15.5
Northwest Europe	99	265	364	10.2

Source: IHS Report

(1) The average age used here by IHS Report only includes PSVs and AHTSVs over 5,000 bhp. The average age presented elsewhere in this document is based on the Clarkson Report, which includes all OCVs.

Region	Description
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Africa	5 MMbpd of oil was produced in Africa in 2012, 80% of which was produced in Nigeria and Angola. Offshore capital expenditure was \$20.5 billion in 2012 with an expected average increase of 13% annually. Jackup demand is expected to recover from 17 rigs in 2009 to 27 rigs in 2017. Floating drilling demand is expected to increase to 42 rigs. Supply vessel demand is expected to grow 4% per annum on average up to 2017. This growth represents about 50 vessels
Asia	8 MMbpd of oil was produced in Asia in 2012. Offshore capital expenditure during this period was approximately \$54.0 billion with an expected average increase of approximately 7.0% annually. Supply vessel demand is expected to grow by 4.3% annually on average up until 2017. This growth represents about 77 vessels. However, supply growth is expected to significantly outpace demand growth in Asia given that there are 283 vessels under construction in the region. This is expected to lead to greater pressure on day rates in Asia compared to other regions.
Australia	0.5 MMbpd of oil and 0.9 MBOEPD of gas was produced in Australia in 2012. Offshore capital expenditure was approximately \$10.0 billion in 2013 and is expected to exhibit an average increase of approximately 35.0% annually. Jackup demand is expected to increase to three rigs. Floating drilling demand is expected to increase to 16 rigs. Supply vessel demand is expected to grow approximately 6.0% annually on average up until 2015. This growth represents about 22 vessels.
Brazil	2.1 MMbpd of oil and 0.3 MBOEPD of gas was produced in Brazil in 2012. Jackup demand is expected to increase to eight rigs in 2015. Floating drilling demand is expected to increase to 131 rigs in 2017. Supply vessel demand is expected to grow approximately 7.0% annually on average up to 2017. This growth represents about 115 vessels.
Caspian region	2.8 MMbpd of oil and 90 MBOEPD of gas was produced in the Caspian region in 2012. Offshore capital expenditure was approximately \$5.4 billion in 2012 with an expected average increase of 16.0% annually up until 2017. Jackup demand is expected to be seven rigs in 2017. Floating drilling demand is expected to remain at four rigs. Supply vessel demand is expected to grow approximately 4.0% annually on average up until 2017. This growth represents about seven vessels.
Middle East	28 MMbpd of oil was produced in the Middle East in 2012, of which 35% was produced by Saudi Arabia, and 494 MBOEPD of gas was produced in the region during this time. Offshore capital expenditure was approximately \$6.5 billion in 2013 and is expected to remain relatively stable at approximately \$7.0 billion until 2017. Jackup demand is expected to increase to more than 120 rigs from 2014. Supply vessel demand is expected to grow by approximately 3.0% annually on average up until 2017. This growth represents about 20 vessels.
North and Central America	Supply vessel demand in the Gulf of Mexico is expected to remain at 2013 levels up until 2017. Future demand growth is likely to be related to large capacity PSVs. Supply vessel demand in Central America is expected to grow 2.2% annually on average up until 2017.
North Mediterranean and Black Sea	0.2 MMbpd of oil and 34 MBOEPD of gas was produced in Romania, Italy and Ukraine in 2012. Offshore capital expenditure was approximately \$5.0 billion in 2013 with an expected average increase of approximately 10.0% annually until 2017. Jackup demand is expected to be 15 rigs in 2013. Floating drilling demand is expected to increase to ten rigs in 2017. Supply vessel demand is expected to grow by approximately 2.0% annually on average up until 2017.
Northwest Europe	Supply vessel demand is expected to grow by approximately 2.5% annually on average up until 2017. All of this growth is expected to be serviced by large-capacity PSVs. This growth represents about 36 vessels.

Source: IHS Report

Competitive Landscape

The supply vessel market is relatively fragmented. Tidewater is the leading manager with a market share of less than 8% of the market, which has a total of more than 400 managers, including single-asset owners. The table below lists the largest managers by number of AHTSs and PSVs and does not include other types of vessels owned.

Number of vessels per manager	AHTS	PSV	Total	Average fleet age (years)	Principal areas of operations
Tidewater.....	121	130	251	10.9	Gulf of Mexico/Americas, Africa/Europe, MENA
Bourbon Offshore.....	105	88	193	4.4	West Africa, Americas, Southeast Asia
Edison Chouest.....	30	125	155	6.7	Gulf of Mexico, Brazil
Gulfmark Offshore	18	66	84	8.1	North Sea, Gulf of Mexico, Southeast Asia
Swire Pacific.....	50	23	73	5.8	North Sea/West Africa, Asia, Middle East
Hornbeck	1	66	67	6.9	Gulf of Mexico, Brazil
Farstad	32	29	61	9.3	Australia, Brazil, North Sea
Maersk Supply Service	49	12	61	13.0	West Africa, Brazil, North Sea
Seacor Marine.....	21	29	50	10.2	Gulf of Mexico, North Sea, West Africa
Topaz Marine	31	13	44	6.5	Caspian & MENA regions
Other (399 managers).....	1,190	1,007	2,197	11.1	Various
Total.....	1,648	1,588	3,236	10.1	

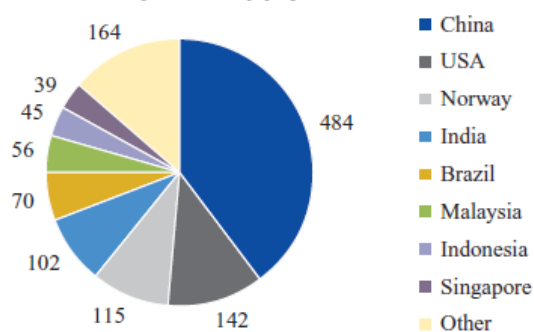
Source: IHS Report (includes all PSV and AHTS greater than or equal to 5,000 bhp) and Company information.

Construction Yards and Key Technical Specifications

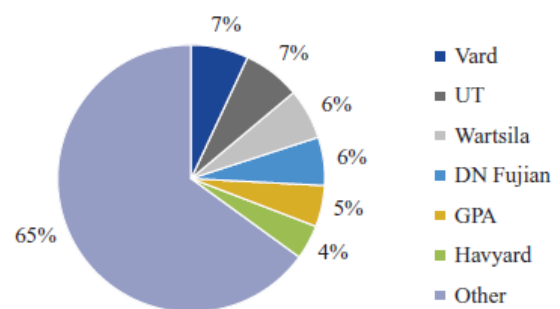
A total of 1,217 supply vessels have been delivered since 2010, which have primarily been from China, the United States, Norway and India. Fujian, Sinopacific and Yuexin are the dominant shipyard groups in China, and Edison Chouest Offshore is the single largest shipyard group in the United States. The Vard Group, which consists of the former STX and Aker yards, dominates the Norwegian supply vessel construction market. ABG is the largest shipyard in India.

The six most popular ship designs for supply vessels represent approximately 35% of all deliveries since 2010. This demonstrates the variety of yard-specific standard designs used in the industry.

Build country for supply vessels since 2010



Design of supply vessels since 2010



Source: IHS Report

The industry has seen an increased emphasis on technical requirements, and the Dynamic Positioning (“DP”) system has become a common standard. DP is the ability of a vessel to remain in a fixed geographical position through the use of external propulsion synchronized by computer programming. The terms “DP1,” “DP2” and “DP3” denote increasing degrees of system reliability. Approximately 63.0% of all supply vessels delivered since the beginning of 2010 are equipped with DP2 capabilities, while approximately 16.0% are equipped with DP1 capabilities and approximately 22.0% are without any DP system. However, given the lack of data related to DP equipment, DP2 may possibly be higher than estimated. Oil and gas companies currently typically prefer DP2 standard vessels when awarding contracts.

3. Risk Factors

Our business depends on the level of expenditure by the oil and gas industries, which may be affected by global economic conditions.

The success of our business is dependent upon the level of expenditure on exploration, development and production by the international and national oil and gas companies that make up a significant proportion of our client base. The oil and gas exploration and production industry historically has been characterized by significant changes in the levels of exploration and development activities. The global economic downturn has contributed to oil and gas price volatility in recent years and future economic downturns may again impact prices adversely. As a result, the levels of expenditure on exploration, development and production activities have varied over long periods and may continue to do so. Any prolonged downturn in the overall level of exploration and development activities could materially and adversely affect our business, financial condition and results of operations.

Global and regional oil and gas exploration, development and production activity is affected by numerous factors beyond our control, including:

- the demand for energy, which is determined by population growth and general economic and business conditions;
- oil and gas production by countries not members of the Organization of Petroleum Exporting Countries (“OPEC”);
- the policies and laws of various governments regarding the exploration, development and production of their oil and gas reserves, energy sources and energy efficiency requirements;
- the costs of exploration, development and production;
- political and economic uncertainty and socio-political unrest;
- the level of worldwide oil exploration, development and production activity;
- the availability and prices of alternative energy sources;
- advances in exploration, development and production technology; and
- weather and other natural conditions.

The occurrence of any of the above-listed factors, among others, could result in future substantial and extended declines in the level of activity in the oil and gas industry. This reduction of activity could lead to a decline in the demand for our services and therefore either a reduction in our utilization or downward price pressure on day rates, or both, which may in turn result in us offering our services at reduced prices, securing fewer and less profitable new contracts and securing fewer extensions or renewals of existing contracts, among other consequences. In addition, we occasionally do not have client contracts in place for new vessels prior to acquisition, but rather invest in new vessels based on perceived market opportunities, particularly in the MENA region. In the event of reduced activity and expenditures by the oil and gas exploration and production industry, we may not be able to generate the revenue anticipated from such vessels and may be required to sell them in order to repay debts or generate cash flows to fund other parts of our business. The occurrence of any of the events discussed above may have a material adverse effect on our business, results of operations, financial condition and prospects.

Our future business performance depends on our ability to win new contracts, and to renew and extend existing contracts.

We participate in a tender process to win new contracts and, in certain circumstances, to renew certain existing contracts. It is generally difficult to predict whether we will be awarded such contracts. The tenders are affected by a number of factors beyond our control, such as market conditions, financing arrangements, and governmental and

co-venturer approvals required of our clients. Often, we must pre-qualify to participate in such tenders. If we are not selected or if the contracts we enter into are delayed and we are unable to execute the work that we are contracted to perform within the time frame we had agreed, our work flow may be interrupted, our contracts may not be renewed, and our business, results of operations, financial condition and prospects may be adversely affected.

Additionally, some of the tenders in which we participate may be open for longer than is typical. Our continued participation in such tenders necessarily uses some of our internal resources which may constitute an indirect cost for us because those resources may be more efficiently allocated elsewhere.

In any given period, we may rely on a small number of key clients or contracts for a significant proportion of our revenue.

We generate a significant portion of our revenue from certain key clients. For the twelve months ended June 30, 2013, our top ten clients by revenue represented approximately 88.6% of our revenue. In addition, our operations within specific countries in the Caspian region are exposed to high levels of client concentration. For example, in the twelve months ended June 30, 2013, 34.7% of our revenue was generated from contracts with BP and AIOC, including two that may expire in 2014. While we have long-term relationships with many of our key clients, there can be no assurance that our clients will enter into future contracts or renew existing contracts with us or that any future contracts they enter into will be on equally favorable terms. If demand for our services or products by any of our key clients declines, a key contract is terminated, or a key client or contract proves less profitable than we expected, it may have a material adverse effect on our results of operations, financial condition or prospects.

We may experience delays in providing services to our clients.

Our ability to deliver services to our clients may be subject to delays due to a shortage of skilled labor, work stoppages, delays by third parties, weather interference, transportation disruptions, the inability to obtain necessary certifications and approvals, and the seizure or nationalization of the vessel, among other factors. In some instances, our contracts with clients require us to provide replacement vessels or pay liquidated damages or allow our clients to terminate the relevant contract in the event of such delays, rights which some of our clients have availed themselves in the past. In addition to any contractually specified remedies, delays may result in litigation, lost revenue and reputational damage. Such delays may also result in our backlog not being fully realized, being realized later than anticipated or not at all. Delays in the provision of our services to our clients may have a material adverse effect on our business, results of operations, financial condition and prospects.

We may experience increases in the costs of fulfilling our contractual obligations.

We may suffer cost increases as a result of increases in crew wages or the cost of maintenance services, including as a result of inflation, increases in the amount of maintenance or the number of crew required for our vessels, and, where the vessels we charter are leased from third parties, increases in the costs of the vessels themselves. The majority of our revenue comes from contracts with terms of over one year, which increases the challenges we faced in accurately estimating the future costs associated with these contracts. We negotiate approximately half of our client contracts on the basis of a fixed daily rate, which means that we usually bear the increases in the costs of operating a vessel over the length of a contract. While we seek to match the lease terms on any leased vessels we charter to the length of the relevant charter contracts, it may not always be feasible to do so. The actual costs over the life of a contract, particularly costs relating to staffing crew on board (50% of our total costs in the year ended December 31, 2012), technical maintenance (9.5% of our total costs in the year ended December 31, 2012) and operational maintenance (4.8% of our total costs in the year ended December 31, 2012), may be higher than the estimated costs that we used in negotiating our contracts. If actual costs on a project exceed those anticipated at the time of contracting, the contract may be less profitable than expected or cause us to incur losses, which may have a material adverse effect on our business, results of operations, financial condition and prospects.

A number of events may impact our ability to realize our backlog, and backlog may not be an accurate indicator of our future results.

As of June 30, 2013, our backlog under our contracts was \$621.1 million and our backlog in respect of extension options totaled \$414.4 million, together totaling \$1,035.5 million. Our backlog consists of the total estimated revenue attributable to the uncompleted portion of all of our vessel charter contracts, based on our expectations of the revenue to be generated from the remaining contract period on the basis of the day rates specified in each contract, and the extension of those contracts at the option of our clients per the terms of the contracts. Clients may

choose to not extend their contracts or terminate their contracts even if they have exercised their option to extend the term of the contract. For example, in September 2013, one of our clients terminated the contract relating to one of our PSVs in Saudi Arabia, which was in its last option extension period due to the cancellation of the client's underlying contract. The PSV was originally operated under a 20-month contract with four extension periods of six months each and there were four months remaining under the option at the time of termination. The amount of our backlog does not necessarily indicate future earnings because the backlog may be adjusted down depending on any early cancellations of contracts or failures to exercise contract options. In addition, the actual costs over the life of a contract, particularly costs relating to staffing crew on board (50% of our total costs in the year ended December 31, 2012), technical maintenance (9.5% of our total costs in the year ended December 31, 2012) and operational maintenance (4.8% of our total costs in the year ended December 31, 2012), may be higher than the estimated costs that we used in negotiating our contracts. We also may not be able to perform under contracts in our backlog for several reasons, including if we suffer more breakdown days than are permitted under a particular contract. All of our contracts provide the client with a right to early termination within the contractual notice period and not all of our contracts provide us with the right to receive compensation in respect of such early termination. If a client terminates a contract, such termination would reduce our backlog. If we fail to fully realize our backlog, our business, results of operations, financial condition and prospects may be adversely affected.

You should exercise caution in comparing backlog as reported by us to backlog of other companies as it is a measure that is not required by, or presented in accordance with, IFRS. Other companies may calculate backlog differently than we do because backlog and similar measures are used by different companies for differing purposes and on the basis of differing assumptions, and are often calculated in ways that reflect the circumstances of those companies.

We may be unable to execute our growth strategy effectively.

As part of our growth strategy, we are targeting and may target new geographic markets, such as West Africa and Australia, which present challenges different from those in the markets in which we currently operate or have a significant presence. The considerations associated with entering new geographic markets, particularly with respect to emerging markets, include, among others, a lack of familiarity with local client requirements and pricing expectations, difficulties establishing relationships with local clients, a lack of familiarity with the regulatory and political environment, differing geographic and climatic conditions, and the challenge of hiring crew of appropriate quality and experience. In addition, new markets may involve competition with entities that have large, established market presence, government support or aid, or other competitive advantages.

In entering these new markets, as well as markets in which we currently operate, we may pursue acquisitions of, or investments in, other companies or assets, including exercising our options to purchase chartered-in vessels pursuant to the terms of the relevant charter contracts, which may expose us to further risks. There can be no assurance that we will successfully enter into agreements for such transactions, realize the anticipated benefits from our acquisitions or investments or successfully exercise our existing options to purchase chartered-in vessels. For example, we may not be able to integrate other companies or assets that we may acquire effectively or implement appropriate operational, financial and management systems and controls in relation to such companies or assets. Any acquisitions of, or investments in, other companies or assets, may be adversely affected by regulatory developments, general economic conditions or increased competition. In addition, such acquisitions or investments could disrupt, or divert management's attention from, our existing businesses. We currently plan to exercise our options to purchase the Caspian Challenger and Caspian Endeavour, and we expect to be able to do so in advance of the February 2014 option exercise date. However, the exercise of purchase options, in all instances, remains subject to the application of relevant laws and regulations, including those relating to bankruptcy and insolvency, which may impede or prevent our ability to exercise such options. As a result, we can provide no assurance that we will be able to exercise our options to purchase these vessels prior to February 2014 or at all.

We may seek to enter new markets, or strengthen our position in markets in which we currently operate, by entering into joint ventures or strategic alliances with local partners. Such joint ventures and strategic alliances may be important to our efforts to improve our understanding of the local market and increase the number of local nationals we employ, to help finance capital expenditures, and to strengthen and maintain our relationships with clients and regulatory authorities. However, there can be no assurance that we will be able to identify suitable local partner candidates, successfully enter into agreements with those candidates, or realize the anticipated benefits from any such joint ventures or strategic alliances. In addition, when conducting due diligence and making assessments regarding proposed new projects, acquisitions or investments, we may have limited information and may rely on information provided by third parties that cannot be verified. There can be no assurance that any due diligence or assessments that we carry out with respect to any proposed new projects, acquisitions or investments will reveal all

of the relevant facts that may be necessary for evaluating the opportunity properly. Failure to identify all of the facts relevant to such opportunities may result in misinformed decision-making, which could in turn result in failure to execute our growth strategy effectively. If we are unable to execute our growth strategy effectively, our business, results of operations, financial condition and prospects may be materially adversely affected.

We may be adversely affected by economic, political and other conditions in the countries in which we operate, or may operate in the future.

We have historically generated most of our revenue from operations in the Caspian region (57.6% of our revenue for the twelve months ended June 30, 2013) and the MENA (25.7% of our revenue for the twelve months ended June 30, 2013) regions, and, in particular, from Azerbaijan (46.5% of our revenue for the twelve months ended June 30, 2013), Kazakhstan (9.6% of our revenue for the twelve months ended June 30, 2013), Qatar (10.7% of our revenue for the twelve months ended June 30, 2013) and Saudi Arabia (12.3% of our revenue for the twelve months ended June 30, 2013). Economic, political and social conditions in these regions, as well as other regions in which we operate, can be volatile and may deteriorate in the future. In particular, since January 2011, many countries in the MENA region have experienced heightened levels of political instability, civil disturbances, labor unrest and violence that have resulted in the resignation or removal of national leaders in Tunisia and Egypt, armed conflict in Libya, and the involvement of Saudi Arabia and the UAE in efforts to maintain stability in Bahrain, among other adverse consequences. Conditions in the MENA region may deteriorate further in the future, and political instability may spread to additional countries in which the Group operates. Additionally, the Caspian region has been historically characterized by disputes relating to the maritime borders among five states that border the Caspian Sea. The current disputes along Azerbaijan's maritime borders with Turkmenistan and Iran could potentially impact future development plans.

Some of the conditions that may arise in the regions in which we operate include:

- economic contraction or volatility;
- currency collapse, devaluation or appreciation and the introduction of price controls;
- increased interest rates or the reduced availability of credit;
- the introduction or tightening of currency control restrictions or other restrictions on the movement of funds;
- the nationalization or expropriation of privately owned assets, or other political interference;
- the cancellation or unenforceability of contractual rights or title to real property;
- theft and fraud;
- changes in trade laws, sanctions or embargos;
- the introduction or tightening of foreign ownership restrictions;
- changes in immigration laws or the availability of work permits;
- social and political instability, including civil disturbances;
- disruptions in operations due to strikes or other labor unrest;
- outbreaks of war, rebellion, terrorism or other acts of violence; and
- natural disasters or outbreaks of disease.

We also plan to expand our business in other emerging markets, including West Africa and South America, which may present similar, and potentially greater, risks.

In addition, a number of countries in which we operate, or may operate in the future, are perceived to have relatively high corruption levels, including countries in the Caspian region, MENA and West Africa regions (Source: Transparency International Corruption Perceptions Index 2010). We may not always be able to prevent or detect corrupt or unethical practices by third parties, such as subcontractors, fellow consortium members or joint venture partners, which may result in substantial fines and penalties, in addition to reputational damage to us. The economic, political and other conditions in the countries in which we operate, or may operate in the future, could result in disruptions to our business and have a material adverse effect on our results of operations, financial condition and prospects.

Our client contracts are subject to early termination, non-renewal, variation, alternative interpretation or renegotiation.

Our client contracts provide for early termination by the client upon a default or non-performance by us or, in many cases, upon the payment of a specified amount or following a specified notice period. Occasionally in the past, we have provided a vessel to a client that met the client's specifications, but that the client later determined was not suited to the operational demands of the project. In such cases, those clients have exercised their early termination with notice rights and we were able to redeploy such vessels without incurring any costs. We cannot assure you that clients will not contract with us for services provided by our vessels that they later decide are not sufficient for their purposes or that we will be able to redeploy such vessels without incurring any costs. Many of our contracts also allow for renewal at the option of the client following the initial term. When calculating our backlog, we assume that none of the relevant contracts will be terminated prior to their stated termination dates and that all such options will be exercised, although clients are under no obligation to do so. As a result, the amount of revenue realized by us from the relevant contracts may be less than is reflected in the backlog figures included herein.

A small proportion of our client contracts also provide for variation under limited circumstances. While the amount charged by us for such variations is usually negotiated at the time of variation, in some circumstances, the amount or the basis for determining the amount may be specified in the initial contract, which may result in us realizing reduced profits or losses in relation to such variations. Additionally, certain of our long-term contracts may contain provisions that allow for downward revisions of the charter day rates. Our clients may also seek to renegotiate contract terms, particularly during periods when economic or industry conditions deteriorate. We may agree to renegotiations in order to avoid contract terminations or legal costs or to maintain client relationships.

Contract terminations, non-renewals, variations, alternative interpretations and renegotiations may result in anticipated revenue, including amounts reflected in our backlog, being realized later than anticipated or not at all, and may also result in unanticipated costs, such as the costs associated with refitting or transporting vessels for redeployment, being borne by us. The occurrence of any of these events may have a material adverse effect on our results of operations, financial condition and prospects.

Additionally, certain of the long-term contracts we have entered into provide our clients with call options to purchase our vessels at a value that may be less than the fair market value or the book value of the vessels in question. Any exercise of these call options could result in a decreased valuation of our vessel fleet and could have an adverse effect on our results of operation.

An inability to raise capital on favorable terms or at all could have a negative impact on our and our clients' business.

Our business requires a significant amount of capital to purchase vessels, in addition to paying crew and other operational and administrative costs, and depends on the level of expenditure by the oil and gas industry. Disruptions in the capital and credit markets, such as those experienced during the recent global economic crisis, could adversely affect our and our clients' ability to access needed liquidity for working capital and growth. Sustained weakness in general economic conditions and/or financial markets could adversely affect our and our clients' ability to raise capital on favorable terms or at all, including with respect to refinancing existing debt, which could result in a general decline in the level of activity in the oil and gas industry which could adversely impact our ability to sustain our businesses and would likely increase our capital costs, which could materially and adversely affect our financial condition and results of operations.

We conduct our business within a strict environmental regime and we may be exposed to potential liabilities and increased compliance costs.

We are subject to increasingly stringent laws and regulations relating to environmental protection in conducting the majority of our operations, including laws and regulations governing emissions into the air, discharges into waterways, and the generation, storage, handling treatment and disposal of waste materials. We incur, and expect to continue to incur, capital and operating costs to comply with environmental laws and regulations. The technical requirements of environmental laws and regulations are becoming increasingly expensive, complex and stringent. Although clients take complete responsibility for oilfield-related environmental pollution under our contracts, we remain responsible for vessel-related pollution. Additionally, clients may attempt to pass increasing liability on to contractors such as us over time as part of their risk management policies, and there can be no guarantee that we will successfully resist such changes. Furthermore, natural or other disasters may result in an increase in environmental regulations and restrictions. These laws may provide for strict liability for damage to natural resources or threats to public health and safety. Strict liability can render a party liable for environmental damage whether or not negligence or fault on the part of that party can be shown and, if imposed by way of fine or penalty, is generally not something for which insurance can be procured. Certain environmental laws provide for joint and several strict liability for the remediation of spills and releases of hazardous substances.

On April 20, 2010, the Deepwater Horizon, a deepwater drilling rig operating for BP, suffered a blow-out, caught fire and subsequently sank in the Gulf of Mexico, killing several people. Shortly thereafter, a presidential commission was established to investigate the resulting oil spill, and subsequently the U.S. administration announced a six-month moratorium on new deepwater drilling permits. The repercussions of the incident have caused and may continue to cause an increase in industry regulation and/or operating costs with respect to oil and gas exploration, development and production activities. While we do not expect to experience any material impact on our operations as a result of these events in the short term, we cannot guarantee that our operations will not be adversely affected by future developments in the industry or its regulation.

In addition, the governments of certain countries have been increasingly active in regulating and controlling the exploration for, and production of, oil and gas and other aspects of the oil and gas industries in their countries. Many governments favor or effectively require international contractors to employ local citizens or purchase supplies locally. These practices may result in inefficiencies or put us at a disadvantage when we bid for contracts against local competitors.

An increase in the supply of OSVs would likely have a negative effect on charter rates for our vessels, which could reduce our earnings, and on the valuation of our vessels.

Charter rates for offshore supply vessels depend in part on the supply of the vessels. We could experience a reduction in demand as a result of an increased supply of vessels. Excess vessel capacity in the industry or a particular offshore market may result from:

- constructing new vessels;
- moving vessels from one offshore market area to another;
- converting vessels formerly dedicated to services other than offshore marine services; or
- declining offshore oil and gas drilling production activities.

In the last ten years, the construction of vessels of the types we operate has increased. The addition of new capacity of various types to the worldwide offshore marine fleet or declining offshore oil and gas drilling and production activities are likely to increase competition in those markets in which we presently operate, which could reduce day rates, utilization rates and operating margins, and which, in turn, could adversely affect our results of operations and prospects.

Furthermore, an increase in the number of vessels able to compete with our vessels in the provision of OSV services could reduce the market valuation of our vessels, which could negatively affect our ability to dispose of our vessels in the future and otherwise adversely affect our financial condition.

The Group has grown, and may continue to grow, through acquisitions that give rise to risks and challenges that could adversely affect the Company's future financial results.

We regularly consider possible acquisitions that complement our existing operations and enable us to grow our business. Acquisitions may involve a number of risks and challenges, including, but not limited to:

- the diversion of management time and attention from existing business and business opportunities;
- unanticipated negative impact of liabilities relating to acquired businesses;
- the assumption of debt or other liabilities of acquired businesses, including litigation related to acquired businesses;
- the loss or termination of employees, including costs associated with the termination or replacement of those employees;
- challenges in developing an understanding of, and new technical skills with respect to, any new products offered by acquired businesses;
- the expansion into new geographical markets, which may require us to find and cooperate with local partners with whom we have not previously done business; and
- possible substantial accounting charges for restructuring and related expenses, the impairment of goodwill, the amortization of assets and stock-based expense.

Even if we consummate an acquisition, the process of integrating acquired operations into our own operations may result in unforeseen operating difficulties and costs, and may require unanticipated and significant levels of management attention and financial resources. In addition, integrating acquired businesses may impact the effectiveness of our internal controls over financial reporting. Any of the foregoing or other factors could harm our ability to achieve anticipated profitability from acquired businesses or to realize other anticipated benefits of acquisitions, which could have a material adverse effect on our business, operating results and financial condition.

The nature of our business involves substantial risks that are beyond our control.

We perform a significant portion of our operations offshore, which exposes us to a number of risks such as adverse weather and sea conditions, mechanical failures, navigational errors, collisions, sabotage and hazardous substance spills. Our current and planned future offshore operations may also be subject to the risk of piracy, particularly with respect to vessels passing through the Gulf of Aden or operating in West Africa. In addition, a significant portion of our operations relate to the oil and gas industry, for which incidents, both onshore and offshore, can have significant negative consequences, including liability for environmental damage caused by events such as uncontrollable flows of oil.

Although we strive for an incident-free workplace, employees and third parties in the vicinity of our operations have in the past suffered work-related injuries and fatalities and could in the future suffer injury, illness or death as a result of incidents or accidents or exposure to hazardous materials that we use or may discharge into the environment. Additionally, we have a limited degree of control over working conditions in those third-party sites and facilities which may apply HSE standards that are different from, and less stringent than, those maintained by us. Any HSE accident in which we are involved could result in significant reputational damage and costs, among other consequences.

We may also be liable for, and suffer reputational damage as a result of, acts and omissions of subcontractors, fellow bid consortium members or joint venture partners that cause loss or damage. We generally seek to agree back-to-back terms with such parties in order to limit our liability for such loss or damage. However, certain unanticipated acts or omissions may not be covered by such agreements and related indemnities may not be enforceable, particularly if the relevant party does not have adequate resources. Any loss or damage caused by a subcontractor, fellow bid consortium member or joint venture partner could have a material adverse effect on our business, results of operations, financial condition and prospects.

We may be unable to attract and retain qualified personnel and senior management.

Our ability to maintain and grow our business depends, in part, on our ability to attract and retain personnel with relevant technical and industry expertise. To execute our growth strategy, we will need to hire a significant number of additional vessel crew and onshore personnel, including engineers. However, we may face challenges in hiring such qualified personnel in a timely fashion. Additionally, in a number of the countries where we operate, we are legally required to hire some of our personnel locally. However, there may be shortages in qualified local personnel in certain regions in which we operate, such as the Caspian and MENA regions, particularly if demand for such personnel increases. In Saudi Arabia, we have paid and expect to continue to have to pay fines relating to “Saudization” requirements for the non-employment of a certain number of Saudi nationals. Such fines have, to date, not been material to our operations but we cannot assure you that they will continue to be immaterial in the future. In addition, we may face delays and other obstacles, such as minimum education requirements, in securing work permits for foreign workers. If we are unable to hire sufficient qualified personnel in a timely fashion and in compliance with relevant laws, this may result in fines, service delays, reputational damage and lost revenue, which could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our ability to maintain and grow our business also depends, in part, on the leadership and performance of our senior management, which we rely on for the running of our daily operations as well as for the planning and execution of our strategy. Our key clients place an emphasis on the industry and business experience of our senior management. A loss of any members of senior management without timely and adequate replacements could have a material adverse effect on our business, results of operations, financial condition and prospects.

We may be unable to maintain our competitive position.

The industries in which we operate are highly competitive, with competition principally based on the technical sophistication, durability, range, timeliness and price of the services and products offered; relationships with clients and intermediaries; the proportion of employees who are nationals of the relevant jurisdiction; compliance with HSE standards; and reputational strength. We may face increasing competition as a result of new market entrants, consolidation in the oil and gas industry, the deployment of additional OSVs in the regions in which we operate, or other factors. We believe that our competitors in the Caspian Sea include Seacor, Caspian Offshore Construction, GAC Marine, SMIT and Wagenborg. In particular, our MENA operations are subject to intense competition due to the fragmented nature of the markets in that region. We believe our main competitors in the MENA region include Bourbon Offshore, Swire Pacific, Tidewater, Halul Offshore, Zakher Marine and Zamil. The global market is also subject to intense competition, although our Global operations do not directly compete with large, global operators, because we undertake global contracts where we encounter suitable opportunities, rather than contending for global contracts. Any failure by us to maintain our competitive position could result in us offering our services and products at reduced prices and securing fewer new contracts or fewer renewals and extensions of existing contracts, any of which could have a material adverse effect on our results of operations, financial condition and prospects.

We rely on local partners in the operation of our business.

We rely on local partners to gain access to local crew, help finance capital expenditures, and strengthen and maintain our relationships with clients and regulatory authorities. For example, we have entered into a number of joint ventures with local partners in order to finance the acquisition of new vessels and other investments and to meet certain clients’ or potential clients’ expectations with regard to local participation and to facilitate and promote our operations locally, particularly in relation to local governmental and regulatory authorities. In the future, we may enter into other arrangements with local sponsors who facilitate and promote our operations, particularly in relation to local governmental and regulatory authorities. Any such arrangements may not be effective, may result in losses for us or may be terminated in a manner that is harmful to us. In the event that any of these arrangements becomes less effective or is terminated, we may not be able to put in place alternative arrangements and there can be no assurance that any alternative arrangements put in place would be as beneficial to us as our current arrangements.

We may be adversely affected by risks associated with our joint venture arrangements.

One of our strategies is to establish joint ventures with strategic local players in connection with our entry into new markets. Additionally, we rely on joint ventures in our operations in Azerbaijan. The success of our joint ventures is subject to risks including our inability to maintain a good relationship with current and future business partners, the reliance on the local expertise of our joint venture partner, and divergent economic and commercial interests between

us and our business partners. We cannot assure you that our current and future joint ventures will be successful and obtain the expected results.

We currently participate in 14 joint ventures and we expect this number to increase to 20 joint ventures by December 31, 2013, in connection with our acquisition of two new vessels, which will be deployed in the Caspian Sea, and the exercise of our option to buy two vessels, which we had previously chartered-in and the termination of KMNF's (the vessel-owning division of the State Oil Company of Azerbaijan) option to purchase two vessels. The two KMNF vessels are currently in operation and on bareboat charter with us. Under the terms of our current joint venture arrangements, we guarantee 100% of the debt incurred by each joint venture while benefiting from only 50% of the EBITDA and net assets from these joint ventures. Our joint ventures generated revenues of \$50.9 million in the last twelve months ended June 30, 2013. As of June 30, 2013, our joint ventures had \$193.7 million of debt outstanding, respectively.

Our joint ventures are concentrated with one partner, Transmarine. Transmarine participates in the ownership of all 14 of our current joint ventures (which 14 vessels account for 15.1% of our fleet) and upon the termination of the KMNF purchase options and the addition of new vessels to our fleet, Transmarine will be our partner in all 20 of our joint ventures. If our working relationship with Transmarine were to deteriorate, the value of the joint ventures could diminish or result in the termination of some or all such partnerships. The reduced effectiveness or termination of these joint ventures with Transmarine may have a material adverse effect on our operations in Azerbaijan and on our business, results of operations, financial condition and prospects.

Additionally, many of our joint venture agreements are subject to "change of control" provisions. In the event of a change of control of the Company, these clauses would be triggered and could result in the termination or rescission of these agreements, which could have a material adverse effect on our business. Such risks may adversely affect our results or financial condition or cause a loss of investments in such partnerships. If such partnerships and joint ventures are not successful, our business, financial condition and expected results of operations may be adversely affected.

We may be unable to dispose of assets in the future on attractive terms.

We regularly review our asset base to assess our requirements in the light of our current and future business plans, with a view to optimizing deployed capital. We currently maintain, and plan to continue to maintain and operate, a fleet of vessels with an average age that is currently significantly less than that prevalent in the industry and which is in line with our strategy. As part of our effort at maintaining an optimal fleet of vessels, we dispose of certain of our vessels from time to time when such vessels no longer fit our strategic objectives. Our ability to dispose of these non-strategic vessel assets could be affected by various factors, including the availability of purchasers willing to purchase such assets at prices acceptable to us, and a delay or failure to dispose of our non-strategic vessel assets could impair the quality of our vessel fleet and could have an adverse effect on our results of operation.

Our operating and maintenance costs may not necessarily fluctuate in proportion to changes in operating revenues.

Our revenues may fluctuate as a function of changes in the market supply of OSVs and demand for offshore support services for the oil and gas industry. However, our operating costs are generally related to the number of our vessels in operation and the cost level in each region or country in which our vessels are located. For example, we have in the past maintained, and may in the future maintain, a core crew on our vessels when they are off-hire so that they can be mobilized quickly and at a lower cost when they are contracted. This results in the incurrence of crew costs even when a vessel is off-hire. In the year ended December 31, 2012, crew costs accounted for 50% of our operating costs. In addition, when a vessel is idle for a long period of time, reductions in costs may not be immediate, because maintenance of the vessel may be required.

We may be affected by the actions of third-party suppliers.

We rely on third-party equipment suppliers in the completion of our projects. The failure of a supplier to deliver its services, equipment or materials according to agreed terms could have a material adverse effect on our business, results of operations, financial condition and prospects. To the extent that we may not acquire equipment or materials according to our plans, our ability to complete a project in a timely fashion may be impaired. In addition, if a supplier is unable to deliver its services, equipment or materials according to the agreed terms, we may be required to purchase such services, equipment or materials from another source at a higher price. We may not be able to

recover all of these costs in all circumstances, which may reduce the profit to be realized or result in a loss on a project for which the services, equipment or materials were needed. Moreover, if we must purchase services, equipment or materials from a third party that is not our normal provider, there is a risk that we may fail to deliver at the standard to which our clients have become accustomed, which could be detrimental to our reputation.

The markets in which we operate, or may operate in the future, may not offer the predictability of legal systems in more mature markets.

The legal systems in the Caspian and MENA regions and other markets in which we operate, or may operate in the future, including West Africa and South America, are still developing and have undergone significant changes in recent years. The interpretation of, and procedural safeguards relating to, these legal systems are still developing, creating the risk of inconsistency in their application and uncertainty as to the actions necessary to guarantee compliance with those laws. We may not be able to obtain the legal remedies provided for in these jurisdictions in a timely manner or at all and may not be able to enforce our rights, including our contractual rights and any judgments we obtain in our favor, effectively. A lack of legal certainty or an inability to obtain predictable legal remedies may have a material adverse effect on our results of operations, financial condition and prospects.

Delay or inability to obtain appropriate certifications for our OSVs may result in us being unable to win new contracts and fulfill our obligations under our existing contracts.

Our clients require that our OSVs are inspected and certified by a recognized independent third party in order for us to be able to participate in tenders for their projects. In addition, we are required under our contracts with our clients to maintain such certifications. Each of our OSVs is certified by Classification Society and Flag Authorities. The certification process generally involves two major types of inspections, in addition to other minor inspections. An intermediate survey occurs every two to three years, usually undertaken while the vessel is in dry-dock, and is more detailed than the annual inspection, and a special survey takes place every five years and is a more detailed inspection of all of the major components of the OSV, usually undertaken while the vessel is in dry-dock. If we are unable to maintain or obtain these certifications, we may be unable to service our clients under our existing contracts and may not be eligible to participate in future tenders, which could have an adverse effect on our business, financial condition or results of operations.

We are subject to various laws, regulations and standards.

Our operations are extensively regulated by international, national and local authorities in the countries in which we operate, including with respect to labor, HSE and licensing requirements.

Additional requirements may also be imposed on us in connection with new or existing operations, including as a result of different or more stringent interpretations or enforcement of existing laws and regulations. These additional requirements may not be anticipated by us and we may need to change our operations significantly or incur increased costs in order to comply with such requirements. Compliance with any additional environmental requirements may be particularly costly and time-consuming. Additional requirements may also be imposed on our clients, which may impact the nature or profitability of their businesses and may in turn reduce demand for our services and products.

In addition, violations of any new or existing requirements could result in us suffering substantial fines or liabilities; delays in securing, or the inability to secure and maintain, permits, authorizations or licenses necessary for our business; injunctions; reputational damage; and other negative consequences. For example, if one of our vessels were to discharge waste materials into the Caspian Sea in violation of national or international laws, the vessel may be detained in port or seized by local authorities and we may be subject to substantial fines. In addition, any such violations may result in suspension of the vessel's insurance. If we are unable to conduct our business in compliance with the various laws, regulations and standards to which we are subject, or if we are not able to remain compliant as they change or if such changes negatively impact the businesses of our clients, our business, results of operations, financial condition and prospects may be materially adversely affected.

We could be adversely affected by violations of applicable anti- corruption laws.

We are an international business with operations in emerging markets and in countries that are high on the Corruption Perceptions Index published by Transparency International. We are committed to doing business in accordance with our own codes of ethics and with all applicable laws, including the U.S. Foreign Corrupt Practices Act (the "FCPA"), the United Kingdom Bribery Act 2010 (the "Bribery Act") and similar worldwide anti-

corruption laws that generally prohibit companies and their intermediaries from making, offering or authorizing improper payments to government officials, private individuals or companies for the purpose of obtaining or retaining business. We operate in several countries where compliance with anti-corruption laws may conflict with local customs and practices and are subject to the risk that we, our affiliated entities or our or their respective officers, directors, employees and agents may take actions determined to be in violation of such anti-corruption laws. Some of these countries lack a developed legal system and have high levels of corruption. Even though some of our local agents, joint ventures with local partners or strategic partners may not themselves be subject to the FCPA, the Bribery Act or other anti-corruption laws to which we are subject, if our agents or joint venture partners make improper payments in connection with our work, we could be found liable for violation of such anti-corruption laws and could incur civil and criminal penalties and other sanctions, and such costs could have a material adverse effect on our business, financial position, results of operations and cash flows.

Violations of anti-corruption laws (either due to our acts or our omissions) may result in criminal and civil sanctions and could subject us to other liabilities in the United States, the United Kingdom and elsewhere. Even allegations of such violations could disrupt our business, negatively affect our reputation and result in a material adverse effect on our business and operations. We have policies and procedures designed to assist our compliance with applicable laws and regulations and have trained our employees to comply with such laws and regulations, and to consider the policies, procedures and behavior of third parties before entering into contracts with them. There can be no assurance, however, that our policies and procedures will be followed at all times or effectively detect and prevent violations of the applicable laws by one or more of our employees, consultants, agents or partners and, as a result, we could be subject to penalties and material adverse consequences for our business, results of operations, financial condition and prospects if we fail to prevent any such violations. Finally, we may be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence or using other methods that U.S., UK and foreign laws and regulations and our own policies prohibit us from using.

Complaints or litigation from clients and other third parties could adversely affect us.

We may in the future become involved in legal complaints or proceedings initiated by our clients, employees and other third parties. These current or potential future proceedings, whether individually or in the aggregate, could involve substantial claims for damages or other payments and, even if successfully disposed of without direct adverse financial effect, they could have a material adverse effect on our reputation and divert our financial and management resources from more-beneficial uses. If we were to be found liable under any such claims, our results of operations could be adversely affected.

Providing OSV services involves the risk of contractual and professional errors, omissions, warranty claims and other liability claims, as well as negative publicity which may adversely affect our business, results of operations, financial condition and prospects. We may not be able to maintain or obtain adequate insurance coverage at rates we consider reasonable or we may decide not to insure such risks. Even in the event coverage is obtained, claims may exceed such insurance coverage. We undertake all reasonable steps to defend ourselves in such lawsuits; however, there can be no assurance as to the ultimate outcome of such lawsuits, for which we could suffer material adverse consequences.

During 2011, we implemented a new code of business conduct. While implementing this code, we uncovered potential financial and ethical misconduct in an overseas operation and we immediately undertook an investigation into such misconduct. The investigation identified certain unacceptable financial and ethical practices that had taken place in the business concerned over a number of years.

Intellectual property infringement may adversely affect us.

In addition, if any of our activities are found to infringe the intellectual property rights of third parties, the continuation of such activities may be significantly restricted or prohibited, or we could be required to pay substantial damages or licensing fees. Intellectual property infringement of or by us could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our insurance policies do not fully cover every potential loss to which we are exposed.

Although we have comprehensive insurance in place for our OSVs, our insurance policies do not fully cover every potential loss to which we are exposed. For example, if any of our vessels are damaged, our insurance may not cover

the losses that may be incurred as a result of any interruption in the vessel's operations. There may also be delays in receiving reimbursements for claims from our insurers and any claims made are likely to cause our premiums to increase. Moreover, the cost of maintaining this level of insurance may increase in the future and become uneconomical to maintain. The occurrence of a loss that is not fully covered by insurance may have a material adverse effect on our results of operations, financial condition and prospects.

We are exposed to interest and exchange rate fluctuations.

Our revenue and costs are largely denominated in U.S. dollars. However, we receive some revenue and, to a greater extent, pay some operating and administrative costs in other currencies in the regions in which we operate, including the Caspian and MENA regions, and our exposure to non-U.S. dollar currencies may increase in the future.

A number of currencies in the MENA region, including the UAE dirham, are pegged to the U.S. dollar at a fixed rate. There has in the past been speculation on the possibility of removing the UAE dirham peg and allowing a floating exchange regime or pegging the UAE dirham to a basket of currencies instead, which could result in increased exchange rate exposure and greater hedging requirements for us, particularly as a portion of our financing arrangements are denominated in UAE dirham. In the event that the UAE dirham, or other currencies in which we operate, are de-pegged from, or experience volatility in their value relative to, the U.S. dollar, there may be a material adverse effect on our results of operations and financial condition, particularly given that we report our results in U.S. dollars.

From time to time, we also make significant payments, such as vessel purchases or vessel charter payments, in other currencies, such as Norwegian kroner, Singapore dollars and Euro. We normally purchase forward contracts to hedge our exchange rate exposure on such purchases, but these arrangements may not provide coverage against every adverse exchange rate fluctuation that may affect such purchases.

A majority of our financing arrangements are provided on the basis of a floating interest rate linked to LIBOR or another interbank rate. We often enter into hedging arrangements in relation to potential increases in applicable interest rates but these arrangements may not provide coverage in the event of an increase in the interest rates applicable to us. Any failure by a counterparty to perform its obligations under any such hedging arrangements or any adverse movement in exchange rates or interest rates to which we are exposed may have an adverse effect on our results of operations.

We are exposed to client credit risk.

We provide our services to a variety of clients and are subject to the risk of nonpayment for services we have rendered and non-reimbursement of costs we have incurred. These risks are heightened when conditions in the industries in which our clients operate, or general economic conditions, deteriorate. In addition, our client contracts often require significant expenditures by us in advance of the relevant payments from the client becoming due, which can result in significant exposure to a particular client at a given time.

As of June 30, 2013, our trade accounts receivable balance was \$80.3 million, of which approximately 7.6% was more than 60 days past due. While we have procedures in place to monitor credit risk on our receivables, there can be no assurance that such procedures will prevent the occurrence of credit losses that could have a material adverse effect on our cash flows, results of operations and financial condition.

We may be adversely affected by changes in fiscal regimes.

Our profitability is impacted by the levels of direct and indirect taxation levied on our profits and services. We are subject to taxation in Azerbaijan, Kazakhstan, Qatar, Saudi Arabia and other jurisdictions and may in the future be subject to further taxation as a result of our geographic expansion.

Any increases in the taxes levied on us may adversely affect our results of operations, financial condition and prospects, and could be applied retroactively. In addition, any change in the tax guidelines, interpretations, rules or legislation relevant to us may lead us to adjust aspects of our operations and any change in taxation affecting our clients may affect the demand for our services and products, either of which may also have a material adverse effect on our business, results of operations, financial condition and prospects.

The complexity of transfer pricing regulations across countries may result in additional tax liabilities that may adversely affect the tax position of the Group.

Certain territories in which we operate have transfer pricing regulations that require transactions involving associated enterprises to be at an arm's-length price. We have financial controls in place to ensure that transactions between Group companies are on arm's-length terms. However, it is possible that a tax authority's assessment of an arm's-length price differs from that applied by us. If, as a result, the tax authority sought to adjust our tax returns of the relevant Group companies involved, those Group companies could face penalties and tax charges, in respect of current and previous years, that could have a material adverse effect on our tax position.

The interests of the Principal Shareholder may conflict with your interests.

The Company are wholly owned subsidiaries of the Principal Shareholder. The interests of the Principal Shareholder may not be entirely consistent with your interests, and the Principal Shareholder may take actions in relation to our business that are not entirely in your interest. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the Principal Shareholder may choose to take actions that conflict with your interests. In addition, the Principal Shareholder may determine that there is value in pursuing acquisitions, divestitures, financings or other transactions which, in its judgment, could enhance its equity investments, even though such transactions might involve risks to you.

Furthermore, we have not historically had an independent board of directors administering our management and operations, but have been managed by the board of directors of our Principal Shareholder. We are currently in the process of constituting an independent board of directors at the level of our Parent, but until this independent board has been fully constituted, the board of directors of our Principal Shareholder will continue to oversee our management and operations.

4. Selected Consolidated Financial and Other Information

The selected financial data presented below as of and for the years ended December 31, 2010 and 2011 have been derived from audited combined financial statements of the Company and its subsidiaries, which were prepared in accordance with IFRS. The audited combined financial statements have been prepared to exclude our engineering division to ensure the comparability of the financial statements of the Company and its subsidiaries for the years ended December 31, 2010 and 2011 with the financial statements of the Company and its subsidiaries for the year ended December 31, 2012. The selected financial data presented below as of and for the year ended December 31, 2012 have been derived from the audited consolidated financial statements of the Company and its subsidiaries, which were prepared in accordance with IFRS. The selected financial data presented below as of and for the six months ended June 30, 2012 with comparative data for the six months ended June 30, 2012 have been derived from the unaudited condensed consolidated interim financial information of the Company and its subsidiaries, which were prepared in accordance with IAS 34.

The selected financial data presented below for the twelve months ended June 30, 2013 have been derived by taking, without adjustments, the results of the year ended December 31, 2012 and subtracting the results for the six months ended June 30, 2012 and then adding the results for the six months ended June 30, 2013. Results of operations for the twelve months ended June 30, 2013, interim periods or prior years are not necessarily indicative of the results to be expected for the full year or any future period.

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2010	2011	2012	2012	2013	2013
	(\$ in thousands, except where otherwise indicated)					
	(Unaudited)					
Statement of comprehensive income data:						
Revenue	243,799	293,436	309,490	142,301	185,399	352,588
Direct costs	(134,874)	(176,952)	(192,738)	(89,102)	(116,252)	(219,888)
Gross profit	108,925	116,484	116,752	53,199	69,147	132,700
Administrative expenses	(22,503)	(27,287)	(30,013)	(13,490)	(17,444)	(33,967)
Other expenses	(803)	(218)	(3,935)	(532)	(731)	(4,134)
Other income.....	5,347	349	587	337	1,848	2,098
Other non-operating expenses	—	(13,579)	—	—	—	—
Profit before finance costs and income tax	90,966	75,749	83,391	39,514	52,820	96,697
Finance costs.....	(17,123)	(32,362)	(37,400)	(18,372)	(20,528)	(39,556)
Finance income	800	2,462	1,000	1,179	898	719
Profit before income tax	74,643	45,849	46,991	22,321	33,190	57,860
Income tax expense	(10,160)	(14,332)	(12,546)	(7,300)	(9,276)	(14,522)
Profit for the year	64,483	31,517	34,445	15,021	23,914	43,338
Other comprehensive income/(loss) for the year	(330)	(4,232)	2,715	(96)	1,015	3,826
Total comprehensive income/(loss) for the year	64,153	27,285	37,160	14,925	24,929	47,164
Statement of financial position data:						
Property, plant and equipment.....	811,399	914,848	980,193	948,005	967,034	967,034
Inventories	5,553	5,298	8,045	4,856	3,869	3,869

Accounts receivable and prepayments	105,352	84,647	98,321	105,765	123,999	123,999
Bank balances and cash	16,611	32,938	32,942	34,345	63,149	63,149
Total assets	1,005,836	1,152,389	1,184,921	1,204,773	1,218,097	1,218,097
Total equity	460,684	451,503	493,851	466,811	518,780	518,780
Total liabilities	545,152	700,886	691,070	805,203	699,317	699,317
Statement of cash flows data:						
Net cash flows generated from operating activities	73,836	39,440	88,665	35,938	40,815	93,542
Net cash flows used in investing activities	(294,058)	(134,120)	(121,407)	(61,327)	(22,308)	(82,388)
Net cash flows generated from financing activities	209,517	100,722	25,180	26,990	15,516	13,706
Increase/(decrease) in cash and cash equivalents	(10,705)	6,042	(7,562)	1,601	34,023	24,860
Effect of exchange rate changes on cash held	42	-	-	-	-	-
Cash and cash equivalents at the start of the period, less cash and cash equivalents relating to related party	27,274	16,611	22,658 ⁽¹⁾	22,659	15,096	24,259
Cash and cash equivalents at the end of the period	16,611	22,653	15,096	24,259	49,119	49,119

(1) Includes a decrease in cash and cash equivalents of \$10,108 thousand in connection with the disposal of our engineering business effective January 1, 2012.

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2010	2011	2012	2012	2013	2013
(\$ in thousands, except where otherwise indicated)						
Other financial data:						
EBITDA ⁽²⁾	127,362	121,284 ⁽³⁾	139,536	65,557	81,366	155,345
EBITDA margin ⁽²⁾	52.2%	41.3%	45.1%	46.1%	43.9%	44.1%
Gross debt ⁽⁵⁾	450,736	589,142	607,379	614,844	619,178	619,178
Net debt ⁽⁶⁾	434,125	556,204	574,437	581,589	556,029	556,029
(\$ in millions, except where otherwise indicated)*						
Pro Forma Revenue ⁽⁸⁾						387.7
Pro Forma Adjusted EBITDA ⁽⁸⁾						192.1
Pro Forma Adjusted EBITDA margin ⁽⁸⁾						49.5%

* The following debt amounts are shown on a face value basis. Except where otherwise stated, IFRS values are used elsewhere in this document. The difference consists principally of unamortized financing costs.

(2) EBITDA represents profit before income tax plus any depreciation and amortization and finance costs less any finance income. EBITDA margin is EBITDA divided by revenue.

EBITDA and EBITDA Margin are intended to provide additional information to investors and analysts, do not have any standardized meaning prescribed by IFRS and should not be considered in isolation or as substitutes for measures of performance prepared in accordance with IFRS. EBITDA and EBITDA Margin exclude the impact of cash costs of financing activities and taxes, and the effects of changes in working capital balances, and therefore are not necessarily indicative of operating profit or cash flows from operations as determined under IFRS. Other companies may calculate EBITDA and EBITDA Margin on a different basis.

The following table reconciles profit before income tax to EBITDA for the periods indicated:

	Year ended December 31,			Six months ended June 30,		Twelve months ended June 30,
	2010	2011	2012	2012	2013	2013
	(\$ in thousands, except where otherwise indicated)					
Profit before income tax ...	74,64	45,84	46,99	22,3	33,1	
	3	9	1	21	90	57,860
Finance income	(800)	(2,462)	(1,000)	(1,1	(898	
	17,12	)	)	79)	)	(719)
Finance costs	3	32,36	37,40	18,3	20,5	
	36,39	2	0	72	28	39,556
Depreciation and amortization	6	45,53	53,94	26,0	28,5	
	—	5	5	43	46	56,448
Impairment ^(a)	—	—	2,200	—	—	2,200
EBITDA	127,3	121,2	139,5	65,5	81,3	
	62	84	36	57	66	155,345

(a) Impairment charges of \$2.2 million relate to impairment charges on one of our vessels.

(3) Our Adjusted EBITDA for the year ended December 31, 2011 is \$134.8 million. Adjusted EBITDA represents EBITDA excluding extraordinary and nonrecurring items. The following table provides a reconciliation of EBITDA to Adjusted EBITDA for the year ended December 31, 2011:

	Year ended December 31, 2011 (\$ in millions)
EBITDA	121.2
Nonrecurring costs:	
IPO Costs	8.1
Unamortized arrangement fee	1.8
Provision against BP tax claim	1.9
Impairment of receivables (Agip claim)	1.8
Adjusted EBITDA	134.8

(5) Gross debt represents total current and non-current liabilities less accounts payable and accruals, due to related parties (including shareholder loans), income tax payable, provision for fair value of derivatives and employees' end of service benefits. Net debt represents gross debt less cash and cash equivalents.

(6) Net debt represents gross borrowings (inclusive of shareholder loans) less cash and cash equivalents.

(8) Pro Forma Revenue represents revenue adjusted to give pro forma effect to the expected acquisition of two additional vessels (the Caspian Supplier and the BP Vessel) for our fleet, totaling approximately \$20.4 million and the full-year impact of recently acquired vessels, totaling approximately \$14.7 million. Pro Forma Revenue for the Caspian Supplier, the BP Vessel and the Triumph is calculated by reference to the contractually agreed charter day rate specified in footnotes (h), (i) and (b) below, and the full-year impact of recently acquired vessels (other than the Triumph) is calculated by annualizing the revenue based on historical results during the period of the vessel's deployment using the average monthly revenue based on the revenue generated during the period of development and extrapolating it for the twelve months ended June 30, 2013.

The following table provides a reconciliation of Revenue to Pro Forma Revenue for the twelve months ended June 30, 2013:

	Twelve months ended June 30, 2013 (\$ in millions)
Revenue	352.6
Vessels deployed within twelve months ended June 30, 2013	
Triumph	7.2
Reliance	0.6
Dignity	4.2
Shaheen	0.4
Rayyan	2.3
Subtotal 1	14.7
Vessel acquisitions	
Caspian Supplier	10.0
BP Vessel	10.4
Subtotal 1	20.4
Pro Forma Revenue	387.7

Pro Forma Adjusted EBITDA represents EBITDA adjusted to give pro forma effect to the expected acquisition of additional vessels for our fleet, totaling approximately \$27.9 million, for the full-year impact of recently acquired vessels, totaling approximately \$7.7 million and estimated cost savings relating to changes in our crew rotations and other operational efficiencies, totaling \$1.1 million. Pro Forma Adjusted EBITDA Margin is Pro Forma Adjusted EBITDA divided by Pro Forma Revenue.

You should carefully consider the risks and limitations of the financial measures Pro Forma Revenue and Pro Forma Adjusted EBITDA, because they are based in part on management's assumptions regarding the future impact of actions that have recently been implemented or are in the process of being implemented. There is a risk that the revenue and EBITDA generated from newly acquired vessels, the full-year impact of recently acquired vessels and that the magnitude of cost savings may be less than anticipated.

The following table provides a reconciliation of EBITDA to Pro Forma Adjusted EBITDA for the twelve months ended June 30, 2013:

	Twelve months ended June 30, 2013
	(\$ in millions)
EBITDA.....	155.3
Vessels deployed during the twelve months ended June 30, 2013^(a)	
Triumph ^{(b)(g)}	4.6
Reliance ^(c)	0.1
Dignity ^(d)	1.6
Shaheen ^(e)	0.3
Rayyan ^(f)	1.0
Subtotal 1.....	7.7
Vessel acquisitions^(g)	
Caspian Supplier ^(h)	5.0
BP Vessel ⁽ⁱ⁾	5.7
Caspian Endeavour ^(j)	8.6
Caspian Challenger ^(j)	8.6
Subtotal 1.....	27.9
Cost Savings	
Cost savings ^(k)	1.1
Subtotal 3.....	1.1
Pro Forma Adjusted EBITDA.....	192.1

(a) Except for Triumph (which is described under footnotes (b) and (g) below), Pro Forma Adjusted EBITDA for vessels deployed during the twelve months ended June 30, 2013 is annualized based on historical performance during the period of the vessel's deployment using an average monthly EBITDA based on the EBITDA generated during the period of deployment and extrapolating it for the twelve months ended June 30, 2013.

(b) We acquired the Triumph on January 29, 2013 for a purchase price of \$25.2 million. The Triumph is a newly built vessel commissioned by us in January 2013. We deployed the Triumph on June 15, 2013. Due to the fact that the Triumph was deployed only for a 15-day period in the last twelve months ended June 30, 2013, Pro Forma Adjusted EBITDA for the Triumph is calculated based on the contractually agreed charter day rate for the vessel of \$20,500, a utilization rate of 100%, the estimated operating expense rate and administrative rate for the vessel. The utilization rate of 100% is based on the allowance of twelve non-available days per year in the contract and is in line with the performance of the Triumph from the date of its deployment through to September 30, 2013. New vessels, such as the Triumph, typically do not require maintenance in the first few years of deployment. Additionally, the next dry-dock maintenance for the Triumph is an intermediate survey scheduled for 2016. We have assumed an operating expense rate of 7.2 (at a rate of a thousand U.S. dollars per day) using management estimates based on historical operating expense rates of similar type of vessels operating in similar geographies. We have used an administrative expense rate of 1.0 (at a rate of a thousand U.S. dollars per day) based on the marginal cost over our existing cost base of operating an additional vessel.

(c) We acquired the Reliance in July 2012 for a purchase price of \$19.9 million. We deployed the Reliance on August 1, 2012 under the AIOC contract. During the period of deployment, the Reliance generated EBITDA of \$15,000 per month. Pro Forma Adjusted EBITDA for the Reliance is calculated by annualizing the EBITDA generated by the Reliance during the period from August 1, 2012 to June 30, 2013 using the average EBITDA generated during that period and extrapolating it for the twelve months ended June 30, 2013. Pursuant to the terms of the Reliance contract, the Reliance has a charter day rate of \$19,510. During the period of deployment, the Reliance had a utilization rate of 90%, an operating expense rate of 7.1 (at a rate of a thousand U.S. dollars per day) and an administration expense rate of 1.0 (at a rate of a thousand U.S. dollars per day). The 90% utilization rate was due to problems with the fuel supplier and engine and we expect that the utilization rate for the Reliance will be 100% in future periods due to the nonrecurring nature of the problems experienced with the fuel supplier and engine.

(d) We contracted for the design and construction of the Dignity in January 2011 for a purchase price of \$24.5 million. We deployed the Dignity on December 21, 2012. During the period of deployment, the Dignity generated EBITDA of \$29,000 per month. Pro Forma Adjusted EBITDA for the Dignity is calculated by annualizing the EBITDA generated by the Dignity during the period from December 21, 2012 to June 30, 2013 using the average EBITDA generated during that period and extrapolating it for the twelve months ended June 30, 2013. Pursuant to the terms of the Dignity contract, the Dignity has a charter day rate of \$19,510. During the period of deployment, the Dignity had a utilization rate of 100%, an operating expense rate of 11.0 (at a rate of a thousand U.S. dollars per day) and an administration expense rate of 1.0 (at a rate of a thousand U.S. dollars per day).

(e) We acquired the Shaheen, which we had previously chartered-in, in August 2012 for a purchase price of \$10.5 million. On November 30, 2010, we entered into a five-year contract with five one-year options with Maersk Oil Qatar in relation to the deployment of the Shaheen in Qatar. Upon its acquisition, we continued to deploy the Shaheen on August 1, 2012 under its existing contract with Maersk Oil Qatar. During the period of deployment, the Shaheen generated EBITDA of \$15,000 per month. Pro Forma Adjusted EBITDA for the Shaheen is calculated by

annualizing the EBITDA generated by the Shaheen during the period from August 1, 2012 to June 30, 2013 using the average EBITDA generated during that period and extrapolating it for the twelve months ended June 30, 2013 and adding the cost savings related to the nonpayment of rental fees of \$0.1 million. Pursuant to the terms of the Shaheen contract, the Shaheen has a charter day rate of \$12,700. During the period of deployment, the Shaheen had a utilization rate of 100%, an operating expense rate of 6.4 (at a rate of a thousand U.S. dollars per day) and an administration expense rate of 1.0 (at a rate of a thousand U.S. dollars per day).

(f) We acquired the Rayyan in October 2012 for a purchase price of \$17.8 million. We entered into a seven-year contract with Occidental Petroleum of Qatar in relation to the deployment of the Rayyan in Qatar and deployed the Rayyan on October 8, 2012. During the period of deployment, the Rayyan generated EBITDA of \$32,000 per month. Pro Forma Adjusted EBITDA for the Rayyan is calculated by annualizing the EBITDA generated by the Rayyan during the period from December 21, 2012 to June 30, 2013 using the average EBITDA generated during that period and extrapolating it for the twelve months ended June 30, 2013. Pursuant to the terms of the Rayyan contract, the Rayyan has a charter day rate of \$19,750. During the period of deployment, the Rayyan had a utilization rate of 100%, an operating expense rate of 9.1 (at a rate of a thousand U.S. dollars per day) and an administration expense rate of 1.0 (at a rate of a thousand U.S. dollars per day).

(g) Pro Forma Adjusted EBITDA for newly acquired vessels is calculated as the product of the vessel's charter day rate as specified in the applicable contract relating to the vessel, utilization rate (based on the number of non-available days, the condition and age of the vessel, and the Company's experience with the vessel type) and 365 days divided minus the sum of the vessel's operating expense rate (based on historical operating expense rates of similar types of vessel operating in similar geographic areas) and administrative expense rate (based on historical administrative expense rates) multiplied by 365 days.

(h) We acquired the Caspian Supplier in September 2013 for a purchase price of \$30.0 million and entered into a two-year contract with a three-year option with BP relating to the deployment of the Caspian Supplier in the Azerbaijani sector of the Caspian Sea. We expect to deploy our Caspian Supplier vessel in Azerbaijan on November 2013. Pro Forma Adjusted EBITDA for the Caspian Supplier is calculated based on the contractually agreed charter day rate for the vessel of \$27,500, a utilization rate of 100%, the estimated operating expense rate and administrative rate for the vessel. The utilization rate of 100% is based on the allowance of twelve non-available days in the contract and the young age and good condition of the vessel. Additionally, the next dry-dock maintenance for the Caspian Supplier is an intermediate survey scheduled for 2016. We have assumed an operating expense rate of 12.8 (at a rate of a thousand U.S. dollars per day) using management estimates based on historical operating expense rates of similar types of vessels operating in similar geographies. We have used an administrative expense rate of 1.0 (at a rate of a thousand U.S. dollars per day) based on the marginal cost over our existing cost base of operating an additional vessel. Both the charter day rate and operating expense rate of the Caspian Supplier are higher in comparison to those of Triumph due to the larger size of the Caspian Supplier in comparison to Triumph.

(i) We signed the Memorandum of Agreement to acquire the BP Vessel on October 9, 2013 for a purchase price of approximately \$35.0 million. On October 4, 2013, we entered into a two-year contract with three one-year options with BP relating to the deployment of the BP Vessel in Azerbaijan. The contract start date is June 1, 2014. As a result, we expect to deploy our BP Vessel in Azerbaijan on June 1, 2014. Pro Forma Adjusted EBITDA for the BP Vessel is calculated based on the operational day rate for the vessel of \$28,500, a utilization rate of 100% and the estimated operating expense rate and administrative rate for the vessel. The utilization rate of 100% is based on the allowance of twelve non-available days in the contract and the age and condition of this newly built vessel. We have assumed an operating expense rate of 12.0 (at a rate of a thousand U.S. dollars per day) using management estimates based on historical operating expense rates of similar type of vessels operating in similar geographic areas. We have used an administrative expense rate of 1.0 (at a rate of a thousand U.S. dollars per day) based on the marginal cost over our existing cost base of operating an additional vessel.

(j) We intend to acquire the Caspian Endeavour and Caspian Challenger, which we had previously chartered-in. Pro Forma Adjusted EBITDA on the Caspian Endeavour and Caspian Challenger is based on cost savings realized due to the nonpayment of rental fees of \$23,600 per vessel per day. We expect these cost savings to be realized as a result of our intended purchase of these vessels pursuant to the purchase options available to us under the terms of the charter contracts with Caspian. Although the relevant charter contracts restrict the exercise of these options until February 2014, we are currently in negotiations with a view to being able to exercise these options as early as possible to take ownership of the vessels prior to February 2014. However, we can provide no assurance that the acquisition of these will occur as we intend. The Caspian Endeavour and Caspian Challenger were deployed in October 2012 and, under their existing contracts, have a firm period that expires in September 2014. Pursuant to the terms of their existing contracts, the Caspian Endeavour has a charter day rate of \$36,840 and the Caspian Challenger has a charter day rate of \$40,530. During the period of their deployment, the Caspian Endeavour had a utilization rate of 93%, an operating expense rate of 8.4 (at a rate of a thousand U.S. dollars per day) and an administration expense rate of 1.0 (at a rate of a thousand U.S. dollars per day) and the Caspian Challenger had a utilization rate of 93%, an operating expense rate of 8.3 (at a rate of a thousand U.S. dollars per day) and an administration expense rate of 1.0 (at a rate of a thousand U.S. dollars per day).

(k) In the six months ended June 30, 2013, we achieved cost savings of \$1.1 million, which exclude cost savings of \$1.3 million related to the nonpayment of rental fees on the Shaheen. Cost savings consist of a reduction in our variable costs due to a decrease in travel costs and other expenses relating to crew rotations. In April 2013, as part of our monthly detailed financial and operational reviews with senior and regional management, we identified cost savings related to crew rotations and other operational efficiencies which we expect to be recurring in nature. We changed our vessel crew rotations on all our vessels from four crews every quarter to two crews every six months and eliminated certain travel expenses involved in flying replacement crews out to locations and hosting them prior to deployment. Pro Forma cost savings are calculated using the cost savings achieved in the six months ended June 30, 2013 and extrapolating them for the twelve months ended June 30, 2013.

5. Capitalization

The following table sets forth certain information on the our consolidated capitalization of the Company as of June 30, 2013.

Sources	Actual as of June 30, 2013 (\$ in millions) (Unaudited)
Cash and cash equivalents⁽¹⁾	(63.1)
Senior Secured Outstanding Credit Facilities.....	360.8
Refinanced Credit Facilities	139.2
Revolving Credit Facility	—
Shareholder Loans.....	134.0
Total debt	634.0
Total net debt	570.9
Total shareholders' equity	439.3
Non-controlling interest	79.5
Total equity	518.8
Total capitalization	1,089.7

(1) Cash and cash equivalents includes \$14.0 million of cash deposits that are required under our existing loan facilities to be maintained as collateral.

6. Primary Economic and Financial Information

Factors Affecting Our Results of Operations

We believe that the following factors have had, and will continue to have, a material effect on our business, financial condition and results of operations. As many of these factors are beyond our control and certain of these factors have historically been volatile, past performance will not necessarily be indicative of future performance, and it is difficult to predict future performance with any degree of certainty. In addition, important factors that could cause our actual operations or financial conditions to differ materially from those expressed or implied below include, but are not limited to, factors indicated in this document under “Risk Factors.”

Trends in the oil and gas industry

Level of expenditure

We primarily offer offshore services to the oil and gas industry. As a result, trends in that industry have a direct impact on our results of operations. In particular, demand for our services and products is affected by the level of both capital and operating expenditure on oil and gas exploration, development and production, which is significantly influenced by current and anticipated oil and gas prices, as well as the costs of exploration, development and production, the availability of financing and governmental policies.

According to the IHS Report, total global offshore capital and operating expenditure on oil and gas exploration, development and production, including both capital expenditure and operating expenditure, increased from \$289.0 billion in the year ended December 31, 2010 to \$359.0 billion in the year ended December 31, 2012 at a CAGR of 11.5%. Offshore capital expenditure increased from \$130.0 billion in the year ended December 31, 2010 to \$182.0 billion in the year ended December 31, 2012 at a CAGR 18.3%, and offshore operating expenditure increased from \$159.0 billion in the year ended December 31, 2010 to \$177.0 billion in the year ended December 31, 2012 at a CAGR of 5.5%.

Oil and gas prices

While oil and gas production, exploration and development activity is correlated to oil price levels, historically we have experienced limited impact from oil price fluctuations because our clients’ decisions to undertake such activity are typically subject to a time lag, as a result of the long-term nature and complexity of the oil field developments. Sustained high oil prices typically lead to increased activity and production across our clients, generating higher demand for our vessels and we expect the opposite to be true of sustained periods of low oil prices, which would negatively affect our time charter day rates and our fleet utilization rates.

Moreover, we derive most of our revenue from projects relating to supply, logistics, maintenance and repair work on installations during the development and production phases, which are often essential to maintaining production and therefore less dependent on oil price. We do not believe that our clients will significantly reduce those operating and capital expenditures on installations during their production and development phases, because of the relatively high value derived during the production and development phases as well as the long tenor of the associated contracts and other sunk costs which lead to clients carrying through with projects unless extreme circumstances prove prohibitive. For example, during the challenging economic conditions in 2008-2010, our revenues increased from \$192.7 to \$243.8 million at a CAGR of 12.5% and our EBITDA increased from \$91.5 million to \$127.4 million at a CAGR of 18.0%, respectively. We believe that sustained growth in worldwide demand for oil and gas will lead to long-term capital expenditure growth in the future.

Investment in offshore projects

Demand for our services and products may also be affected by the distribution of oil and gas exploration, development and production expenditures between offshore and onshore projects. Over the three-year period ended December 31, 2012, we generated all of our revenue from offshore oil and gas projects. According to the IHS Report, capital expenditure on offshore oil and gas projects increased at a CAGR of 13% from \$130.0 billion in the year

ended December 31, 2010 to \$182.0 billion in the year ended December 31, 2012, which we believe contributed to an increase in our charter and other revenue from vessels in the year ended December 31, 2012. In addition, between 2010 and 2012, the percentage of global upstream capital expenditures related to offshore projects increased from approximately 22.5% in the year ended December 31, 2010 to 23.2% in the year ended December 31, 2012, and it is expected to increase to approximately 26.3% by 2017.

New developments in the offshore market tend to be located further offshore and are typically larger than previous offshore projects. Our recent vessel acquisitions have been for larger, more sophisticated, younger and more versatile vessels and therefore we believe we have the capacity to adjust to market demands in servicing client contracts that meet our IRR requirements.

Regional distribution of investment

Demand for our services and products may be further affected by the geographic distribution of oil and gas exploration, development and production expenditures. We believe that expenditures by the oil and gas industry in the Caspian Sea and MENA regions will remain at or above the current levels over the next several years and that we will continue to generate a significant portion of our revenue from these regions. By 2017, the MENA region is expected to produce approximately 28.1 MMbpd, a 8.9% increase over 2010 production levels, and the Caspian Sea is expected to produce approximately 14.5 MMbpd, a 8.2% increase over 2010 production levels.

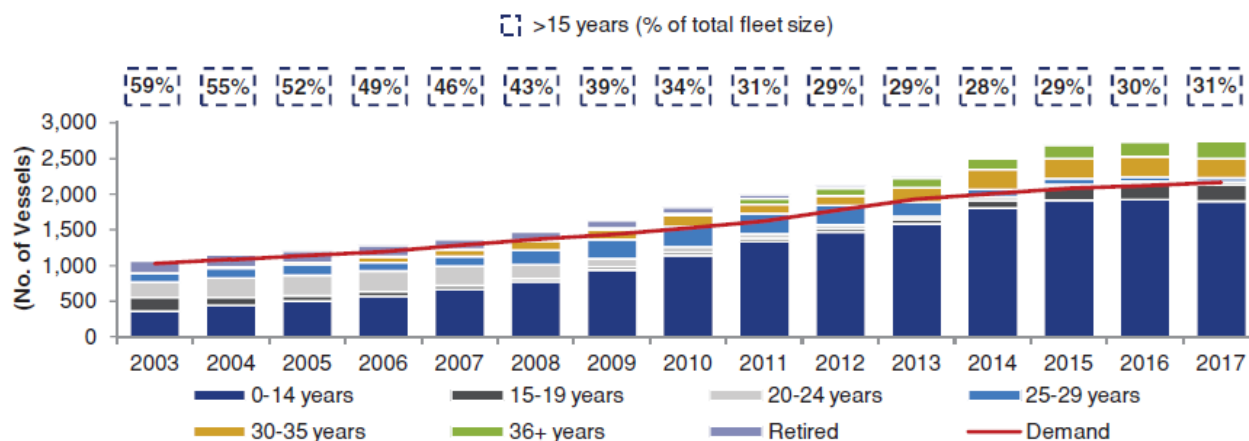
Management also believes that expenditures by the oil and gas industry in other regions are likely to increase over the next several years. As a result, we plan to take advantage of such opportunities, in particular in West Africa, Australia and Brazil. By 2017, the West Africa region is expected to produce approximately 5.2 MMbpd, an approximately 16% increase over 2012 production levels, Australia is expected to produce 0.5 MMbpd, an approximately 4% increase over 2012 production levels and Brazil is expected to produce approximately 3.3 MMbpd by 2017, an approximately 50% increase over 2012 production levels (Source: U.S. Energy Information Administration International Energy Outlook Report 2013).

Supply of Vessels

The total supply of OSVs in a given market is one of the critical factors in the pricing for OSV services in that market, which will in turn impact our revenue going forward. The supply of OSVs in a market is affected by factors including (i) the size and age profile of the existing fleet combined with client requirements related to the age of OSVs deployed, (ii) the rate of delivery of new vessels, (iii) the rate of decommissioning of existing vessels, (iv) the number of vessels undergoing repair or upgrade work, and (v) the number of idle vessels that are available for deployment after a period of recommissioning or refurbishment.

Global OSV supply grew at a CAGR of 8.3% from 2010 to 2012 from 1,523 vessels to 1,785 vessels. In the year ended December 31, 2012, approximately 29% of that supply is estimated to be older than 15 years. According to the IHS Report, global OSV supply will grow at a CAGR of 2.9% from 2013 to 2017. In 2013, approximately 29% of that supply is estimated to be older than 15 years and is expected to increase to 31% by 2017. More frequently clients require vessels which will be younger than 15 years by the end of the contract. This makes a large portion of the global OSV supply effectively inoperable to the discerning international and national oil companies and increases the attractiveness of our younger fleet to our clients.

The chart below shows the global supply vessel demand and fleet age:



Source: IHS Report

Average utilization and day rates

Our revenue is significantly affected by the average utilization rates of vessels within our fleet and the average day rates earned by those vessels. The “average utilization rate” of a vessel in a given period is calculated retrospectively by reference to the number of days in that period the vessel was deployed as a percentage of days in the period on which the vessel was available for deployment, being 365 days less days required for dry-docking, repair and maintenance and, in Kazakhstan, for non-ice class vessels, days on which the relevant vessel was unable to operate due to adverse weather conditions. The average day rate for a vessel in a given period is calculated as the total revenue generated by that vessel in that period divided by the number of days on which that vessel was deployed during that period (whether under one or more contracts and/or for one or more clients). We had an average utilization rates for our core assets (AHTSVs, PSVs, MPSVs, ERRVs and specialized barges) of 93.7% in the six months ended June 30, 2013 and 91.1%, 86.3% and 85.2% in the years ended December 31, 2012, 2011 and 2010, respectively, and an average day rate for our core assets of \$15,744 in the six months ended June 30, 2013 and \$15,485 in the year ended December 31, 2012, as compared to \$13,873 in the year ended December 31, 2011 and \$14,085 in the year ended December 31, 2010. For our other non-core assets we had an average day rate of \$3,354 in the six months ended June 30, 2013 and \$3,294 in the year ended December 31, 2012, as compared to \$2,148 in the year ended December 31, 2011 and \$2,882 in the year ended December 31, 2010.

Since 2007, we have pursued a strategy of retiring older, lower specification vessels and replacing them with newer, higher specification vessels, which management believes has helped to limit declines in our average utilization rates and to increase our average day rates. As of June 30, 2013, the vessels within our fleet (excluding those under construction or contract for delivery) had an average age of 7.3 years for our total fleet.

Contract size and length

Any increase in the number or size of large contracts that the Group enters into may have a significant impact on our utilization and day rates and increase the volatility of the Group’s revenue and profitability over time. Therefore our ability to secure repeat business with our existing clients and win new clients impacts our results. In 2011, we were awarded contracts with a new client in MENA, Saudi Aramco. In the years ended December 31, 2011 and 2012, our contracts with Saudi Aramco contributed revenues of \$1.8 million, or 0.6%, \$21.5 million, or 6.9%, respectively. In March 2013, we entered the Russian sector of the Caspian region in March 2013, through securing multi-year charters with Saipem, one of our existing clients. In the six months ended June 30, 2013, our contracts in the Russian sector of the Caspian Sea contributed \$2.9 million or 1.6% of our revenues.

Our contract lengths vary depending on the nature of the markets in which we operate. Our contracts in the Caspian Sea tend to be long-term (three to ten years) due to the high mobilization and demobilization costs associated with operating in the unique geography of the Caspian Sea. The fragmented nature of the market in MENA has

resulted in our contracts there being generally of a shorter tenor than in the Caspian Sea with terms ranging from one year to three years (medium-term). Finally, our contracts in our Global operations tend to be a mix of short-term (three months to a year) and medium-term contracts, which allow us to take advantage of short-term fluctuations in day rates across different geographies in growth markets. Most of our contracts have extension options, which vary depending on the terms of the specific contract with certain of our medium- and long-term contracts having two or three extension options of up to a year and others having a one-time extension option of up to five years.

Historically, we have had a relatively high proportion of medium- and long-term contracts. While client contracts are typically subject to termination or variation in certain circumstances, we believe that having a high proportion of long-term contracts provides greater certainty as to our future revenue and reduces sensitivity to oil prices and supply and demand dynamics, which in turn allows for more efficient resource management and more accurate budgeting, and we plan to maintain a relatively high proportion of long-term contracts for the foreseeable future. Our short- and medium- term contracts provide us with flexibility to capitalize on current market conditions with opportunistic work at potentially higher day rates. We have a strong record of contract renewal in the Caspian Sea as demonstrated by the fact that none of our core assets have been removed from the Caspian Sea in the past 15 years.

Backlog

We consider backlog to be a key performance indicator of our business because it gives an indication of our future revenue. As of June 30, 2013, we had a strong revenue backlog of \$1,035.5 million. This consists of backlog under fixed term contracts of \$621.1 million and backlog in respect of client extension options of \$414.4 million. Of our fixed term contract backlog as of June 30, 2013, \$100.8 million is contracted for 2013, \$174.0 million is contracted for 2014, \$108.0 million is contracted for 2015 and \$77.2 million is contracted for 2016. Of our client extension option backlog as of June 30, 2013, \$15.8 million, \$64.9 million, \$74.6 million and \$57.4 million relate to client extension options that, if exercised, will be serviced in 2013, 2014, 2015 and 2016, respectively. The amount of the backlog does not provide a firm guarantee of our future revenue or earnings. Although backlog reflects business that is considered by us to be firm, cancellations, non-extensions of options or scope adjustments in our contracts may occur. We have experienced limited instances of cancellations, non-extensions or scope adjustments, with no contracts being cancelled in the year ended December 31, 2012 and the six months ended June 30, 2013 and all options to extend contracts relating to large OSVs and long-term contracts were exercised by our clients during the year ended December 31, 2012 and the six months ended June 30, 2013.

Fleet size and mix

Our revenue and direct costs are significantly affected by the number of vessels that we own or operate. Over the three-year period ended December 31, 2012, the size of our fleet remained relatively stable, with 88 vessels as of the year ended December 31, 2010, 96 vessels as of the year ended December 31, 2011 and 98 vessels as of the year ended December 31, 2012. In the year ended December 31, 2012, we added 6 vessels to our fleet. In the year ended December 31, 2012 and the six months ended June 30, 2013, we also returned and disposed of four vessels and three vessels, respectively.

Certain types of contracts and vessels within our operations tend to generate higher gross margins than other types. For example, some of our larger more versatile vessels generate higher gross margins than smaller vessels such as crew boats and barges due to their ability to provide more valuable services to our clients.

Management plans to continue to add to the existing fleet organically and through opportune purchases. This plan also includes strategic divestments of aging and non-strategic vessels in order to realign the fleet to focus on medium-sized AHTSVs and medium-sized PSVs that are younger in age in order to meet the industry demand and client specification. We intend to acquire two of the vessels that we have previously chartered-in. Additionally, we currently have nine vessels under construction or acquisition (five of which are KCM vessels and two of which are ERRVs, and each of these seven are newly constructed with staggered delivery times in the fourth quarter of 2013 and early 2014) and estimate that our total fleet size (including vessels under construction) will increase post these acquisitions to 102 vessels. Five of our nine planned vessel purchases will be deployed in the MENA region, two will be deployed in West Africa and two will be deployed in the Caspian Sea.

Caspian Sea deployment

We currently deploy 61 vessels, accounting for approximately 66% of our global fleet, in the Caspian Sea. In the three years ended December 31, 2010, 2011 and 2012, our operations in the Caspian Sea generated 64.1%, 56.4% and 55.3% of our revenue, respectively. As a result of our established presence in the Caspian Sea, we have developed an understanding of the logistical challenges inherent in operating in the Caspian Sea, such as mobilizing vessels and equipment, as well as a deep understanding of client and regulatory requirements such as localization of crew and staff. Geographical and logistical constraint relating to operating in the Caspian Sea, can result in high mobilization and demobilization costs for vessel operators. The high mobilization and demobilization costs in the Caspian region are typically paid for by the client once a contract is signed. Therefore it is expensive for new entrants to enter the Caspian region market without having secured contracts. The size of our existing fleet in the Caspian Sea allows us to achieve economies of scale by leveraging our cost base across our Caspian Sea fleet. This has allowed us to keep our costs of operating in the Caspian Sea competitive. These advantages, as well as our niche positioning in the Caspian Sea as a result of high costs to entry into that market, allow our operations in the Caspian Sea to generate higher gross margins than other operating units

Unanticipated cost fluctuations

Most of our client contracts are negotiated on the basis of a fixed daily rate, which means that we receive a set fee per day regardless of the actual costs of operating a vessel over the term of the contract. Our clients usually are responsible for providing the fuel for the operation of a vessel. We typically price our contracts taking into account inflation/potential cost escalation, which can mitigate our exposure to cost fluctuations. In addition, certain of our contracts contain inflation adjustment provisions.

Our profitability is therefore affected by the amount by which our actual contract costs exceed our budgeted costs. Our actual contract costs may vary as a result of changes in crew salaries (which accounted for 38% of our total costs in the year ended December 31, 2012), repair and maintenance costs (which accounted for 14% of our total costs in the year ended December 31, 2012), or other factors. Both crew costs and maintenance and repair costs tend to be predictable. Unanticipated cost fluctuations, such as those incurred in connection with our entry into new geographies and major equipment breakdowns, may result in actual gross margins on contracts being significantly above or below what were originally anticipated and may have a material impact on profitability. For example, we incurred \$425,000 in unanticipated costs in connection with our entry into the Saudi market in the year ended December 31, 2012 primarily as a result of penalties imposed on us by local authorities relating to the localization of our crew. Additionally, we witnessed exceptionally high crew salaries in the year ended December 31, 2012 due to unforeseen regulatory changes after our entry into Brazil, which amounted to 61% of the total operating cost for the year.

Factors Affecting Comparability of Our Results of Operations

Prior to 2012, we provided services and products to clients through two geographical based divisions: Topaz Marine Caspian and Topaz Marine MENA. In 2012, we formed Topaz Marine Global as a new geographical division for our operations outside the Caspian and MENA regions. Therefore our results of operations for the years ended December 31, 2010 and 2011 do not include Topaz Marine Global as a separate business unit and include a number of vessels managed within Topaz Marine MENA but deployed globally.

Description of Key Line Items

Revenue

Revenue from Topaz Marine comprises revenue from Topaz Marine Caspian, Topaz Marine MENA and Topaz Marine Global, all of which primarily derive the majority of their revenue from the charter of vessels and the provision of onboard accommodation and catering services and the sale of fuel and other consumables in connection with the charter of vessels. A small amount of revenue is also derived from the sale of vessels. In addition, Topaz Marine Caspian derives a small amount of its revenue from mobilization and de-mobilization fees paid by clients for the transporting of vessels into and within the Caspian region.

Other income

Other income primarily includes profits on the disposal of property, plant or equipment; releases of provisions and unclaimed balances; the settlement of derivative instruments; and miscellaneous income from the sale of scrap materials.

Direct costs

Direct costs incurred by Topaz Marine primarily include the costs of crew (50% and 45% of our direct costs in the year ended December 31, 2012 and six months ended June 30, 2013, respectively); external charter hire (15% and 20% of our direct costs in the year ended December 31, 2012 and six months ended June 30, 2013, respectively); mobilization costs (4% and 7% of our direct costs in the year ended December 31, 2012 and six months ended June 30, 2013, respectively); utilities; vessel maintenance; dry-docking vessels for inspection and certification purposes; quality and HSE compliance; communications; radio communication subscriptions; dynamic positioning fees; port dues and anchorage charges; vessel registration and classification; vessel survey costs; commissions paid to brokers for securing contracts; insurance and depreciation costs for vessels.

Administrative expenses

Administrative expenses primarily include office rental expenses; non-vessel insurance premiums; professional and advisory fees; travel expenses; information technology expenses; corporate and administrative wages and salaries; advertising and publicity costs; and head office and equipment depreciation.

Finance costs

Finance costs primarily include interest expense on borrowings and losses on hedging instruments.

Income tax expense

Income tax expense primarily includes income taxes paid as well as any deferred tax income or expense.

Results of Operations

Six months ended June 30, 2013 compared to six months ended June 30, 2012

Our results of operations for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 were as follows:

	Consolidated June 30,	
	2012	2013
	(in \$ '000)	
Revenue.....	142,301	185,399
Direct costs.....	(89,102)	(116,252)
Gross profit	53,199	69,147
Administrative expenses	(13,490)	(17,444)
Impairment losses	(532)	(731)
Other income	337	1,848
Results from operating activities.....	39,514	52,820
Finance costs	(18,372)	(20,528)
Finance income	1,179	898
Profit before income tax.....	22,321	33,190
Income tax expense	(7,300)	(9,276)
Profit for the year	15,021	23,914
Other comprehensive income for the year	(96)	1,015
Total comprehensive income for the year	14,925	24,929

Revenue

Revenue increased by \$43.1 million, or 30.3%, from \$142.3 million for the six months ended June 30, 2012 to \$185.4 million for the six months ended June 30, 2013. This increase was primarily due to the addition of five new vessels which contributed \$28.2 million in revenue in the six months ended June 30, 2013, better utilization rates and increase in the day rate of vessels in the six months ended June 30, 2013 which resulted in an increase in revenue of \$11.1 million, an increase in revenue of \$2.0 million due to the deployment of vessels in the Russian sector of the Caspian Sea in March 2013 and revenue of \$6.0 million relating to the sale of one of our vessels in the six months ended June 30, 2013. The increase in revenue was partially offset by loss of hire due to sale of one of our vessels in 2012 (\$1.9 million) and loss of revenue due to vessel off-hire or revised day rates on two of our vessels (\$1.4 million and \$1.2 million, respectively).

The following table sets forth the breakdown of our revenue by operating division for the six month periods ended June 30, 2013 and June 30, 2012:

	Six months ended June 30,		Increase/ (decrease)	
	2012	2013 (in \$ '000)		
Topaz Marine Caspian	78,535	110,405	31,870	40.6%
Topaz Marine MENA	36,237	46,669	10,432	28.8%
Topaz Marine Global	28,349	28,960	611	2.21%
Adjustment ⁽¹⁾	(820)	(635)	185	(22.6)%
Topaz Marine Total.....	<u>142,301</u>	<u>185,399</u>	<u>43,098</u>	<u>30.3%</u>

(1) Adjustments relate to vessels deployed in a region which are owned by another region's operating division

In the Caspian region, revenue increased by \$31.9 million for the six months ended June 30, 2013. This increase was primarily driven by the addition of four new vessels in the Caspian Sea which contributed \$24.2 million in the six months ended June 30, 2013, better utilization of vessels in the six months ended June 30, 2013 which resulted in increased revenue of \$3.7 million, an increase in revenue of \$6.0 million relating to the disposal of one of our vessels and an increase of \$2.0 million as a result of the deployment of loss making vessels in Russia from Kazakhstan. This was partially offset by a \$1.9 million loss of hire due to the sale of one of our vessels in 2012 and loss of revenue due to contractually downward day rate revision with respect to one of our vessels which resulted in a loss of revenue of \$1.4 million.

In the MENA region, revenue increased primarily as a result of the addition of a new vessel in the MENA region which contributed \$4.0 million in revenue in the six months ended June 30, 2013 and better utilization and increase in the day rate of vessels deployed in the region of \$6.9 million. This increase was partially offset by loss of revenue of \$1.7 million due to vessel off-hire for the six months ended June 30, 2013.

In our Global operations, revenue increased by \$2.7 million due to better utilization in the six months ended June 30, 2013. Revenue was significantly impacted by the off-hire of various vessels in our Global operations which resulted in loss of \$2.2 million for the six months ended June 30, 2013.

Direct costs

Direct costs increased by \$27.2 million, or 30.5%, from \$89.1 million for the six months ended June 30, 2012 to \$116.3 million for the six months ended June 30, 2013. This was primarily due to the addition of six new vessels.

In the Caspian region, direct costs increased by \$21.5 million for the six months ended June 30, 2013, primarily due to addition of four new vessels which has resulted in an increase in direct costs of \$20.4 million.

In the MENA region, direct costs increased by \$3.0 million for the six months ended June 30, 2013. This increase was primarily due to addition of a new vessel which has resulted in an increase in costs of \$1.7 million and the better utilization of vessels resulting in an increase of \$1.2 million.

In our Global operations, direct costs increased by \$3.1 million for the six months ended June 30, 2013. This increase was a result of the increase in utilization of various vessels amounting to \$3.1 million for the six months ended June 30, 2013.

Other income

Other income increased by \$1.5 million, or 448.4%, from \$0.3 million for the six months ended June 30, 2012 to \$1.8 million for the six months ended June 30, 2013. This increase was primarily attributable to a \$1.3 million increase in claims received. The increase in claims received related to a settlement with an agent in Brazil in connection with prior years' charges amounting to \$1.0 million and an insurance claim received for one of our vessels (Chu) in the amount of \$0.3 million.

Administrative expenses

Administrative expenses increased by \$4.0 million, or 29.3%, from \$13.5 million for the six months ended June 30, 2012 to \$17.4 million for the six months ended June 30, 2013. This increase was primarily driven by the addition of new vessels in the Caspian Sea and MENA region, the opening of our office in Astrakhan, Russia, costs related to the appointment of our CEO in August 2012 and costs related to management appointments.

Finance costs

Finance costs increased by \$2.2 million, or 11.7%, from \$18.4 million for the six months ended June 30, 2012 to \$20.5 million for the six months ended June 30, 2013. This increase was primarily due to an increase in interest expense of \$2.3 million, which was partially offset by a slight decrease in exchange losses of \$0.1 million. The increase in interest expense was primarily due to an increase in secured debt as a result of the acquisition of new vessels and refinancing of existing debt at higher rates than the debt being refinanced. As of June 30, 2013, we had \$619.2 million outstanding under our term loans, including \$134.0 million of Shareholder Loans, as compared to \$614.8 million outstanding as of June 30, 2012.

Income tax expense

Income tax expense increased by \$2.0 million, or 27.4%, from \$7.3 million for the six months ended June 30, 2012 to \$9.3 million for the six months ended June 30, 2013. This increase was primarily attributable to addition of new vessels.

Year ended December 31, 2012 compared to year ended December 31, 2011

Our results of operations for the year ended December 31, 2012 compared to the year ended December 31, 2011 were as follows:

	Consolidated December 31,	
	2011	2012
	(in \$ '000)	
Revenue.....	293,436	309,490
Direct costs.....	(176,952)	(192,738)
Gross profit	116,484	116,752
Administrative expenses	(27,287)	(30,013)
Impairment losses	—	(3,935)
Other income	349	587
Other expenses	(218)	—
Results from operating activities.....	89,328	83,391
Other non-operating expenses.....	(13,579)	—
Finance costs	(32,362)	(37,400)
Finance income	2,462	1,000
Profit before income tax.....	45,849	46,991
Income tax expense	(14,332)	(12,546)
Profit for the year	31,517	34,445
Effective portion of changes in fair value of cash flow hedges.....	(4,232)	2,715
Other comprehensive income for the year	(4,232)	2,715
Total comprehensive income for the year	27,285	37,160

Revenue

Revenue increased by \$16.0 million, or 5.5%, from \$293.4 million in 2011 to \$309.5 million in 2012. This was primarily due to the realization in 2012 of the full year impact of nine new vessels acquired in 2011, the addition of five new vessels in 2012 and higher vessel utilization of the majority of our vessels. This increase was partially offset by off-hire and lower utilization of certain vessels.

The following table sets forth the breakdown of our revenue by operating division in 2012 and 2011:

	Year ended December 31,		Increase/(decrease)	
	2011	2012		
	(in \$ '000)			(%)
Topaz Marine Caspian	165,634	171,150	5,516	3.33%
Topaz Marine MENA	68,971	81,500	12,529	18.16%
Topaz Marine Global	58,831	56,840	(1,991)	(3.38)%
Topaz Marine Total.....	293,436	309,490	16,054	5.47%

In the Caspian region, revenue increased by \$5.5 million in the year ended December 31, 2012. This increase was primarily driven by a \$14.8 million increase in revenue due to the full year impact of four vessels acquired in 2011 and an increase in revenue of \$11.2 million due to addition of four new vessels. The increase in revenue was partially offset by a \$5.2 million decrease relating to the underperformance of two vessels in Turkmenistan, a \$6.5 million decrease relating to various non-performing vessels in Kazakhstan and a \$9.2 million decrease in revenue derived from the mobilization of vessels in the Caspian Sea as compared with revenue from mobilization in the year ended December 31, 2011.

In the MENA region, revenue increased by \$12.5 million in the year ended December 31, 2012. This increase was primarily driven by a \$2.4 million increase in revenue due to the addition of one new vessel in the region, \$9.0 million due to reflection in 2012 of the full year impact of five vessels acquired in 2011, a \$2.8 million increase due to better vessels utilization and a \$1.0 million increase in revenue from the sale of vessels. This was partially offset a \$2.7 million decrease in revenue from the mobilization of vessels in the Caspian Sea as compared with revenue from mobilization in the year ended December 31, 2011.

In our Global operations, revenue decreased by \$2.0 million in the year ended December 31, 2012. This decrease was primarily driven by off-hire of major vessels.

Direct costs

Direct costs increased by \$15.8 million, or 8.9%, from \$176.9 million in the year ended December 31, 2011 to \$192.7 million in the year ended December 31, 2012. This was primarily due to an increase in vessels and the reflection in 2012 of the full year impact of new vessels acquired in 2011 in the Caspian Sea and MENA region. This increase was lower than the percentage increase in revenue, resulting in an increase in gross margin in the year ended December 31, 2012.

In the Caspian Sea, direct costs increased by \$13.7 million in the year ended December 31, 2012. This increase was primarily due to a \$9.2 million increase in direct costs attributable to the addition of four new vessels and a \$4.5 million increase reflecting the full year impact in 2012 of four vessels acquired in 2011.

In the MENA region, direct costs increased by \$7.1 million in the year ended December 31, 2012. This increase was primarily due to a \$1.5 million increase in direct costs attributable to the addition of one new vessel and a \$3.5 million increase due to the full year impact of 6 K-class vessels acquired in 2011 and \$1.5 million of costs attributable to vessels sold in 2012.

In our Global operations, direct costs decreased by \$5.0 million in 2012. This decrease was primarily due to off-hire of major vessels in the year ended December 31, 2012.

Other income

Other income increased by \$0.3 million, or 50.0%, from \$0.3 million in the year ended December 31, 2011 to \$0.6 million in the year ended December 31, 2012. This increase was primarily attributable to a \$0.2 million increase in gain on disposal of property, plant and equipment.

Administrative expenses

Administrative expenses increased by \$2.7 million, or 10%, from \$27.3 million in the year ended December 31, 2011 to \$30.0 million in the year ended December 31, 2012. This increase was primarily attributable to a bonus provision and an increase in number of staff and in staff costs.

Finance costs

Finance costs increased by \$5.1 million, or 15.8%, from \$32.4 million in the year ended December 31, 2011 to \$37.4 million in the year ended December 31, 2012. This increase was primarily due to an increase in interest expense relating to refinancing of term loans, which was partially offset by a slight decrease in exchange losses. The decrease in finance income is due to negative impact of change in fair value of derivatives.

Income tax expense

Income tax expense decreased by \$1.8 million, or 12.6%, from \$14.3 million in the year ended December 31, 2011 to \$12.5 million in the year ended December 31, 2012. This decrease was primarily attributable to a \$1.5 million decrease in current tax and also due to \$0.3 million decrease in deferred tax. The decrease in current tax for the year ended December 31, 2012 was primarily due to efficient tax planning and also due to closure of our branch in Turkmenistan. The decrease in deferred tax was primarily due to tax losses in Group UK entities. Our effective tax rate increased from approximately 31.3% in 2011 to 35.0% in 2012.

Year ended December 31, 2011 compared to year ended December 31, 2010

Our results of operations for the year ended December 31, 2011 compared to the year ended December 31, 2010 were as follows:

Consolidated December 31,	
2010	2011

	(in \$ '000)	
Revenue.....	243,799	293,436
Direct costs.....	<u>(134,874)</u>	<u>(176,952)</u>
Gross profit	108,925	116,484
Administrative expenses	(22,503)	(27,287)
Other income	5,347	349
Other expenses	<u>(803)</u>	<u>(218)</u>
Results from operating activities.....	90,966	89,328
Other non-operating expenses	—	(13,579)
Finance costs	(17,123)	(32,362)
Finance income	<u>800</u>	<u>2,462</u>
Profit before income tax.....	74,643	45,849
Income tax expense	<u>(10,160)</u>	<u>(14,332)</u>
Profit for the year	64,483	31,517
Foreign currency translation differences	42	—
Effective portion of changes in fair value of cash flow hedges.....	(372)	(4,232)
Other comprehensive income for the year	<u>(330)</u>	<u>(4,232)</u>
Total comprehensive income for the year	<u>64,153</u>	<u>27,285</u>

Revenue

Revenue increased by \$49.6 million, or 20.4%, from \$243.8 million in the year ended December 31, 2010 to \$293.4 million in the year ended December 31, 2011. This increase was primarily due to the full year impact in 2011 of vessels acquired in 2010 and the addition of nine new vessels in 2011. This was offset by a decrease in revenue relating to three vessels that were transferred to joint ventures and four vessels performing below expectations.

The following table sets forth the breakdown of revenue by operating division in 2011 and 2010:

	Year ended December 31,		Increase/(decrease)	
	2010	2011		(%)
		(in \$ '000)		
Topaz Marine Caspian	156,248	165,634	9,386	6.01
Topaz Marine MENA	<u>87,551</u>	<u>127,802</u>	<u>40,251</u>	45.97
Topaz Marine Total.....	<u>243,799</u>	<u>293,436</u>	<u>49,637</u>	20.36

In the Caspian Sea, revenue increased by \$9.4 million in the year ended December 31, 2011 from \$156.3 million in the year ended December 31, 2010 to \$165.6 million in the year ended December 31, 2011. This increase was primarily driven by an \$11.4 million increase due to the addition of two new vessels, a \$10.6 million increase due to the realization of the full year impact in 2011 of two vessels acquired in 2010 and a \$5.0 million increase pertaining to better vessel utilization of COM barges in Kazakhstan. This increase in revenue is, however, offset by an \$2.6 million decrease in revenue relating to one vessel which was transferred back to a joint venture partner and a \$5.2 million decrease relating to four vessels performing below expectations.

In the MENA region, revenue increased by \$40.3 million in the year ended December 31, 2011 from \$87.6 million in the year ended December 31, 2010 to \$127.8 million in the year ended December 31, 2011. This increase was primarily driven by a \$4.1 million increase due to the addition of three new vessels and a \$35.1 million increase due to the full year impact in 2011 of eight out of nine vessels acquired in 2010.

Direct costs

Direct costs increased by \$42.1 million, or 31.2%, from \$134.9 million in 2010 to \$177.0 million in 2011.

In the Caspian Sea, direct costs increased by \$10.1 million in the year ended December 31, 2011. This increase was primarily due to a \$6.1 million increase in direct costs in connection with the addition of two new vessels and a \$4.5 million increase related to recognition of the full year impact in 2011 of two vessels acquired in 2010.

In the MENA region, direct costs increased by \$32.0 million in the year ended December 31, 2011. This increase was primarily due to a \$2.7 million increase relating to the addition of three new vessels and a \$26.0 million increase relating to the full year impact in 2011 of nine vessels added in the year 2010.

Other income

Other income decreased by \$5.0 million, or 93.4%, from \$5.3 million in 2010 to \$0.3 million in 2011. This decrease was primarily attributable to a lack of excess provision written back in the amount of \$3.4 million and unclaimed balances written back in the amount of \$1.0 million in the year ended December 31, 2011 which occurred in the year ended December 31, 2010. This decrease was reinforced by a decrease of \$0.2 million on disposal of property, plant and equipment and a decrease of \$0.3 million in miscellaneous income.

Administrative expenses

Administrative expenses increased by \$4.8 million, or 21.3%, from \$22.5 million in the year ended December 31, 2010 to \$27.3 million in the year ended December 31, 2011. This increase was primarily due to an increase in staff cost, as compensation paid to staff made redundant, as well as a \$3.5 million one-off provision reversed in 2010.

Finance costs

Finance costs increased by \$15.3 million, or 89.0%, from \$17.1 million in 2010 to \$32.4 million in 2011. This was primarily attributable to a \$14.8 million increase in interest expense and a \$0.5 million increase in exchange losses. The increase in interest expense was primarily due to a subordinated loan from our Parent of \$104.0 million (\$52.0 million was received under this loan in the year ended December 31, 2010) and new term loans pertaining to vessels added in 2011. As of December 31, 2011, we had \$425.7 million outstanding of term loans, as compared to \$380.4 million outstanding as of December 31, 2010.

Income tax expense

Income tax expense increased by \$4.2 million, or 41.1%, from \$10.2 million in 2010 to \$14.3 million in 2011. This increase was primarily due to an increase of \$7.8 million in current tax, which was partially offset by a \$3.6 million decrease in deferred tax. The increase in current tax for 2011 was primarily due to the addition of new vessels to the fleet. The decrease in deferred tax was primarily due to higher profit in UK entities. Our effective tax rate increased from 13.6% in 2010 to approximately 31.3% in 2011.

Liquidity and Capital Resources

Historically, our principal sources of liquidity have been net cash from operating activities, existing cash and cash equivalents, short- and long-term committed and uncommitted loan facilities, overdraft facilities that are repayable on demand, gains from sales of vessels, and equity and financing provided by our Principal Shareholder and Parent. Our facilities enable us to have access to letters of credit, performance bonds and similar credit support in the ordinary course. Our principal uses of cash have been to fund capital expenditures, operating expenditures, loan repayments and interest payments.

Our treasury function is centralized across our operations and we observe a minimum liquidity policy. We believe that our operating cash flows, together with borrowings under our financing arrangements will be sufficient to fund our anticipated capital expenditures, working capital requirements and payments of interest as they become due for the foreseeable future, although we cannot provide assurance that this will be the case. We believe that the potential risk to our liquidity is a reduction in operating cash flows due to a reduction in our fleet utilization rate and day rates, which could result from downturns in our performance or that of the industry as a whole, or from unforeseen delays.

Our existing loan facilities require us to maintain cash deposits with our existing lenders as collateral for our borrowings under our existing facilities. As of June 30, 2013, such deposits amounted to \$14.0 million. We expect the amount of such deposits to increase to approximately \$16.0 million in connection with our drawdown of our \$125.0 million facility with Barwa Bank in relation to the refinancing of two of our vessels.

Historical Cash Flows

The following table summarizes the changes to our cash from operating, investing and financing activities in the years ended December 31, 2012, 2011 and 2010 and six-months ended June 30, 2013 and 2012.

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	(in \$ '000)				
Net cash from/(used in):					
Operating activities	73,836	39,440	88,665	37,214	40,815
Investing activities	(294,058)	(134,120)	(121,407)	(61,327)	(22,308)
Financing activities	209,517	100,722	25,180	25,714	15,516
Net increase/(decrease) in cash and cash equivalents of continuing operations	<u>(10,705)</u>	<u>6,042</u>	<u>(7,562)</u>	<u>1,601</u>	<u>34,023</u>

The summary cash flow statement below sets forth how our cash and cash equivalents changed over the relevant periods indicated by cash inflows and outflows:

	Year ended December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
			(in \$ '000)		
Profit before income tax from continuing operations.....	74,643	45,849	46,991	22,231	33,190
Adjustments to reconcile profit (loss) before tax to net cash flows:					
Charge on discontinuance of hedge accounting	—	—	2,508	—	—
Fair value changes of derivative financial instruments	—	—	(2,772)	(1,179)	(758)
Impairment, losses on property, plant and equipment	—	—	2,200	—	—
Impairment loss on trade accounts receivables	803	218	1,735	532	731
Provisions for slow moving inventory	—	—	436	—	—
Provision for employees end of service benefits	602	386	1,401	336	610
Profit on sale of property, plant and equipment	(216)	(7)	(234)	—	—
Finance income	(800)	(2,462)	(736)	—	(140)
Finance costs	17,123	32,362	37,400	18,372	20,528
Depreciation	36,361	45,447	53,945	26,043	28,546
Amortization of Mobilization costs	—	—	—	—	5,548
Amortization of intangible assets	35	88	—	—	—
Working capital adjustments:					
Inventories	(4,112)	255	(202)	442	3,616
Accounts receivables, prepayments and other assets	(1,552)	1,549	(4,452)	(27,076)	(19,706)
Accounts payable, accruals and other liabilities	(13,666)	(793)	16,093	30,832	(1,719)
Due from related parties	(20,735)	(50,220)	(18,319)	—	(3,470)
Due to related parties	13,517	3,465	3,100	(16,651)	—
Net cash from operations	102,003	76,137	139,094	53,972	66,976
OPERATING ACTIVITIES					
Income tax paid	(9,334)	(7,300)	(11,297)	(5,965)	(6,091)
Interest paid	(18,795)	(29,011)	(38,724)	(10,571)	(19,884)
End of service benefits paid	(38)	(386)	(408)	(222)	(186)
Net cash flows generated from operating activities	73,836	39,440	88,665	37,214	40,815
INVESTING ACTIVITIES					
Purchase of property, plant and equipment	(290,717)	(121,847)	(98,256)	(57,250)	(10,163)
Advance paid for vessels	(6,535)	(3,200)	(1,714)	(4,043)	(10,115)
Payments for intangible assets	(389)	(128)	(248)	—	—
Proceeds from disposal of property, plant and equipment ...	5,263	7	801	221	—
Change in long-term receivable	(2,001)	(6)	(18,990)	(255)	—
Cash on acquisition of a subsidiary	—	54	—	—	—
Interest received	321	—	—	—	—
Net movement in restricted cash	—	(9,000)	(3,000)	—	(2,030)
Net cash flows used in investing activities	(294,058)	(134,120)	(121,407)	(61,327)	(22,308)
FINANCING ACTIVITIES					
Loans borrowed	75,434	45,302	266,582	62,087	130,633
Loans paid	—	—	(257,502)	(58,773)	(82,333)
Loan due to Holding Company	60,813	91,819	49,600	22,400	—
Repayment of loan due to Holding Company	—	—	(30,000)	—	(32,784)
Dividend paid to Owner	(24,402)	(36,399)	—	—	—
Dividend paid to non-controlling interests	(7,250)	—	(3,500)	—	—
Proceeds from issue of share capital	100,000	—	—	—	—
Funds introduced by non-controlling shareholders	4,922	—	—	—	—
Net cash flows generated from financing activities	209,517	100,722	25,180	25,714	15,516
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(10,705)	6,042	(7,562)	1,601	34,023
Cash and cash equivalents at period start	27,274	16,611	32,766	22,658	15,096
Effect of exchange rate changes on cash held	42	—	—	—	—
Less cash and cash equivalent at period start relating to related party	—	—	(10,108)	—	—
CASH AND CASH EQUIVALENTS AT PERIOD END	16,611	22,653	15,096	24,259	49,119

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

At June 30, 2013, we had \$49.1 million of net cash and cash equivalents, an increase of \$24.9 million, or 102.9%, from \$24.2 million as of June 30, 2012. This increase was primarily attributable to a decrease in net cash used in investing activities and an increase in net cash generated from operating activities, partially offset by a decrease in net cash generated from financing activities. The following discussion summarizes the changes to our cash from operating, investing and financing activities in the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

Operating activities

Net cash generated from operating activities increased by \$3.6 million, or 9.7%, from \$37.2 million in the six months ended June 30, 2012 to \$40.8 million in the six months ended June 30, 2013. This increase was primarily attributable to a \$13.0 million increase in cash generated from operating activities, partially offset by a \$9.3 million increase in interest paid. The increase in cash generated from operating activities was due to higher profit related to new vessels added to our fleet.

Investing activities

Net cash used by investing activities decreased by \$39.0 million, or 63.6%, from \$61.3 million in the six months ended June 30, 2012 to \$22.3 million in the six months ended June 30, 2013. This decrease was primarily attributable to a \$47.1 million decrease in net cash used for the purchase of property, plant and equipment, which was partially offset by a \$6.1 million increase relating to advances paid for new vessels. The decrease in net cash used for the purchase of property, plant and equipment is due to the fact that no new vessels were ordered compared to June 2012. The increase in advances paid for new vessels is related to the proposed addition of five new vessels in Saudi Arabia.

Financing activities

Net cash generated from financing activities decreased by \$11.2 million, or 43.6%, from \$25.7 million in the six months ended June 30, 2012 to \$15.5 million in the six months ended June 30, 2013. This decrease was primarily attributable to the repayment of \$32.8 million to our Parent under the Shareholder Loans and no new drawdown under the Shareholder Loans compared to a drawdown of \$22.4 million in the six months ended June 30, 2012. These factors were partially offset by a \$44.9 million increase in loans borrowed.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

At December 31, 2012, the Group had \$15.1 million of net cash and cash equivalents, a decrease of \$7.6 million, or 33.9%, from \$22.7 million as of December 31, 2011. This decrease was primarily attributable to a decrease in net cash from financing activities, which was partially offset by an increase in net cash from operating activities and a reduction in net cash used in investing activities. The following discussion summarizes the changes to the Group's cash from operating, investing and financing activities in 2012 compared to 2011.

Operating activities

Net cash generated from operating activities increased by \$49.3 million, or 125%, from \$39.4 million in the year ended December 31, 2011 to \$88.7 million in the year ended December 31, 2012. This increase was primarily attributable to a \$62.9 million increase in cash generated from operating activities, partially offset by a \$9.7 million increase in interest paid. The increase in cash generated from operating activities was due to a decrease in related-party balances because two vessels under construction were capitalized.

Investing activities

Net cash used by investing activities decreased by \$12.7 million, or 9.5%, from \$134.1 million in the year ended December 31, 2011 to \$121.4 million in the year ended December 31, 2012. This decrease was primarily attributable to a \$23.6 million decrease in net cash used for the purchase of property, plant and equipment, which was partially offset by a \$19.0 million increase in changes in long-term receivables. The decrease in net cash used for the purchase of property, plant and equipment was due to a lower number of vessels added in the year ended

December 31, 2012. The increase in changes in long-term receivables was primarily due to mobilization costs relating to two new bareboat vessels in the Caspian Sea.

Financing activities

Net cash generated from financing activities decreased by \$75.5 million, or 75.0%, from \$100.7 million in the year ended December 31, 2011 to \$25.2 million in the year ended December 31, 2012. This decrease was attributable to a decrease of \$42.2 million in loans obtained from our Parent. Although there was a \$221.3 million increase in loans borrowed in the year ended December 31, 2012 compared to the year ended December 31, 2011, this was largely offset by loan payments of \$257.5 million.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

At December 31, 2011, the Group had \$22.7 million of net cash and cash equivalents, an increase of \$6.0 million, or 36.4%, from \$16.6 million as of December 31, 2010. This increase was primarily attributable to a \$160.0 million decrease in net cash used in investing activities, partially offset by reduced net cash generated from operating activities and financing activities. The following discussion summarizes the changes to the Group's cash from operating, investing and financing activities in 2011 compared to 2010.

Operating activities

Net cash from operating activities decreased by \$34.4 million, or 46.6%, from \$73.8 million in the year ended December 31, 2010 to \$39.4 million in the year ended December 31, 2011. This decrease was primarily attributable to a \$25.9 million decrease in cash generated from operating activities and a \$10.2 million increase in interest paid. The decrease in cash generated from operating activities was due primarily to payments to related parties relating to two vessels under construction. The increase in interest paid reflected increases in term loans.

Investing activities

Net cash used by investing activities decreased by \$160 million, or 54.4%, from \$(294.1) million in the year ended December 31, 2010 to \$(134.1) million in the year ended December 31, 2011. This decrease was primarily attributable to a \$168.9 million decrease in cash used for the acquisition of property, plant and equipment, and was further bolstered by decreases in cash used for advances paid for vessels, changes in long-term receivables and acquisition of intangible assets of \$3.3 million, \$2.0 million and \$0.3 million, respectively. The decrease in cash used for the acquisition of property, plant and equipment was due to a lower number of vessels capitalized in the year ended December 31, 2011.

Financing activities

Net cash from financing activities decreased by \$108.8 million, or 51.9%, from \$209.5 million in the year ended December 31, 2010 to \$100.7 million in the year ended December 31, 2011. This decrease was primarily attributable due to an equity injection of \$100.0 million by our Principal Shareholder in the year ended December 31, 2010, an increase of \$12.0 million in dividends paid to our Principal Shareholder and a decrease of \$30.1 million in external borrowings obtained. These factors were partially offset by a \$31.0 million increase in loans obtained from our Parent.

Net Working Capital Requirements

The following table sets for the principal components of our net working capital as of the end of the periods indicated.

	<u>Year ended December 31,</u>			<u>Six months ended</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>June 30, 2013</u>
Current assets				
Inventories.....	5,553	5,298	8,045	3,869
Trade receivables	56,432	57,858	61,199	80,304
Advance to suppliers	20,741	3,602	5,642	14,662
Other receivables.....	28,179	23,187	31,480	29,033

Current liabilities

Trade payables	15,210	15,191	23,462	12,592
Other payables.....	23,580	25,593	30,733	39,952
Income tax payable	<u>2,264</u>	<u>9,793</u>	<u>12,313</u>	<u>15,081</u>
Net working capital	<u>69,851</u>	<u>39,368</u>	<u>39,858</u>	<u>60,243</u>

Our trade receivables consist of amounts to be received against goods or services billed to our customers in the ordinary course of business. Advances to suppliers are mainly capital expenditures related advances that are paid for the acquisition of marine vessels, and other receivables mainly relates to prepaid expenses, deferred mobilization cost and value-added tax (VAT) recoverable. Our trade payables consist of amounts to be paid in the future for goods or services received, and other payables mainly relates to accrued expenses and deferred mobilization income.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Our net working capital decreased by \$0.5 million, from \$39.4 million in the year ended December 31, 2011 to \$39.9 million in the year ended December 31, 2012. This decrease is primarily due to an increase in trade payables in line with an increase in the number of vessels, additional provision for expenses and an increase in deferred income due to new vessels mobilized in the Caspian region.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Our net working capital decreased by \$30.5 million, from \$69.9 million in the year ended December 31, 2010 to \$39.4 million in the year ended December 31, 2011. This decrease is primarily due to a reduction in advance to suppliers because capital expenditure-related advances amounting to \$21.0 million were transferred to fixed assets because vessels were available for use and tax expenses increased due to new exposure in Turkmenistan and West Africa.

Financing Arrangements

Over the period under review, our principal sources of financing were cash provided by operating activities, uncommitted and committed term loans provided by banks, equity and loans provided by the Principal Shareholder and Parent, and equity provided by our joint venture partners in connection with the purchase of vessels owned by the joint ventures. As of June 30, 2013, we had \$619.2 million in gross debt, compared to \$601.5 million as of December 31, 2012, \$589.1 million as of December 31, 2011 and \$450.7 million as of December 31, 2010.

Term Loans

As of June 30, 2013, we had \$485.2 million in term loans outstanding (excluding loans due to the Parent of \$134.0 million) compared to \$434.7 million in term loans outstanding (excluding loans due to the Parent of \$166.8 million) as of December 31, 2012, \$425.7 million as of December 31, 2011 and \$380.4 million as of December 31, 2010.

On May 16, 2012, we entered into an agreement with a syndicate of banks for a financing facility of \$330.0 million, of which \$176.1 million was outstanding as of June 30, 2013, to restructure existing liabilities under various facilities. Additionally, in May 2013, we signed a bilateral term loan facility agreement for \$125.0 million, which we intend to refinance certain term loan facilities and to finance vessels under construction. As of June 30, 2013, \$56.0 million was drawn under this facility. In June 2013, we entered into a \$58.5 million term loan facility to refinance existing indebtedness. As of June 30, 2013, this facility was fully drawn.

Our term loans (except Shareholder Loans) are usually secured by pledges and charges over substantially all of the assets to which the loans relate. In addition, these loans usually include covenants that require us to maintain certain financial ratios above or below specified thresholds. In particular, we are required to maintain minimum ratios of EBITDA to interest expense and current assets to current liabilities, and to limit our ratio of net debt to EBITDA and Total Debt to Total Tangible net worth. Most term loans provide for the relevant financial ratios to be tested at the Group level, though some impose requirements at the operating company level. Many of our term loans also include covenants that require us to obtain prior consent before taking certain actions, such as changing the ownership or control of Group companies.

As of December 31, 2012, approximately \$423.8 million, or 70.5%, of our term loans related to vessel finance. Topaz Marine usually finances vessel purchases with approximately 70% debt. This vessel finance has historically been provided by a number of different banks, with some of the loans further syndicated to additional banks. Term loans used for vessel finance are usually secured by a first preferred mortgage over the relevant vessel, the assignment of the vessel's charter revenue and insurance policies, and corporate guarantees. These loans are typically repayable quarterly over a term of five to seven years.

Financing Provided by the Principal Shareholder

We have historically received loans from our Principal Shareholder and through our Parent to fund both capital expenditures and working capital. As of June 30, 2013, an aggregate amount of \$134.0 million in two Shareholder Loans, subordinated to the other outstanding indebtedness of the Company, was owed by the Company to our Parent. Shareholder Loan A is in the amount of \$30.0 million bearing interest at 7.0% per annum, payable on the last day of each calendar month. It is a back-to-back shareholder loan from the Principal Shareholder to the Parent. Shareholder Loan A (together with all accrued interest) shall be repaid in installments of \$2.0 million on November 30 in each of 2014, 2015, 2016, 2017 and 2018 with a bullet payment of \$20.0 million in 2019. Shareholder Loan B is in the amount of \$104.0 million bearing interest at 8.5% per annum. It is a back-to-back shareholder loan from the Principal Shareholder to the Parent, which itself is back-to-back with a subordinated loan from Bank Muscat et al. to the Principal Shareholder. Shareholder Loan B was made available to the Parent in two tranches of \$52.0 million each. It is repayable annually in four equal installments of \$26.0 million, on November 30, 2014, 2015 and 2016 and on September 30, 2017.

We have historically also received equity investments from our Principal Shareholder, which have been used to fund capital expenditures. The Principal Shareholder invested \$15.0 million of equity into the Group in the year ended December 31, 2012, compared to nil in the year ended December 31, 2011 and \$100 million in the year ended December 31, 2010.

Equity Provided by Joint Venture Partners

We have entered into joint venture arrangements pursuant to which joint venture partners, such as Transmarine, a company ultimately owned by an Azerbaijani national, have invested equity in 14 entities that are consolidated in the Group's financial statements in connection with the purchase of vessels by such entities.

Financial Obligations

Contractual Obligations

The following table summarizes our future contractual obligations as of June 30, 2013, after giving effect to the Transactions:

	Payment due in the year ended December 31,						Total
	2013	2014	2015	2016	2017	Thereafter	
	(in \$ millions)						
Term loans ⁽¹⁾	40.9	77.0	73.8	73.3	155.8	78.6	499.5
Shareholder Loans	—	28.0	28.0	28.0	28.0	22.0	134.0
Due to related parties	0.5	0.5	—	—	—	—	1.0
Total	<u>41.4</u>	<u>105.5</u>	<u>101.8</u>	<u>101.3</u>	<u>183.8</u>	<u>100.6</u>	<u>634.5</u>

(1) Amounts of the term loans are shown on a face value basis.

Contingent Liabilities

The following table summarizes our contingent liabilities as of December 31, 2012, 2011 and 2010 and as of June 30, 2013:

	As of December 31,			As of June 30, 2013
	2010	2011	2012	
	(in \$ millions)			
Letters of credit	—	1.6	1.0	1.1
Letter of guarantee	6.6	16.8	12.7	14.9
Total	<u>6.6</u>	<u>18.4</u>	<u>13.7</u>	<u>16.0</u>

Performance bonds are issued to clients to assure due execution of contracts, and retention guarantees issued to clients to assure the fulfillment of post- completion warranty or maintenance obligations.

Committed and Anticipated Capital Expenditures

As of June 30, 2013, we had \$140.0 million in commitments to purchase property, plant and equipment compared to nil as of June 30, 2012. Our commitments to purchase property, plant and equipment as of June 30, 2013 primarily relate to seven vessels that were under construction or contract for delivery and the termination of the KMNF option to purchase two vessels (Islay and Jura). We usually make an initial or advance payment for new-build vessels prior to the start of construction and commit to either pay the remainder upon delivery of the vessel or to not take delivery of the vessel and forfeit our initial payment. These initial payments are typically around 10% to 30% of the total purchase price and are reflected on our balance sheet as part of long-term advances and prepayments. We expect to take delivery of three of the vessels underlying our June 30, 2013 commitments in 2013 and four in 2014. As of June 30, 2013, we had arranged term loans and other alternative sources of financing to fund the purchases of nine of these vessels.

Management currently expects total growth capital expenditures from 2013 to 2014 to be between \$300 million and \$330 million. We plan to direct most of our capital expenditures over this period towards expanding our fleet. In particular, we plan to acquire, subject to availability and market conditions, approximately 11 vessels between 2013 and 2014 (including seven vessels that were under construction or contract for delivery as of June 30, 2013 and the termination of the KMNF option to purchase two vessels (Islay and Jura) and not including any vessel sales that may take place between 2013 and 2014) through acquisitions of vessels and/or vessel operators. We plan to finance these capital expenditures primarily with term loans, other alternative sources of financing and cash provided by operating activities. In addition, we may fund certain capital expenditures relating to new vessels acquired by one of our joint ventures using equity provided by joint venture partners and existing cash balances of the joint venture entities.

The following table sets forth the breakdown of our capital expenditure in respect of acquisition and maintenance for the periods indicated.

	As of December 31,			Six months ended June 30,	
	2010	2011	2012	2012	2013
	(in \$ 'million)				
Acquisition	282.4	112.8	85.1	47.1	5.0
Maintenance.....	8.3	9.0	13.2	10.1	5.1
Total.....	<u>290.7</u>	<u>121.8</u>	<u>98.3</u>	<u>57.2</u>	<u>10.1</u>

Pensions

We do not operate any pension schemes. As of June 30, 2013, we have no provision relation to pensions, because there is no statutory requirement to maintain such a provision in the jurisdictions in which we operate.

Qualitative and Quantitative Disclosure about Market and Credit Risks

Market risk represents the potential for loss due to adverse changes in the fair value of financial instruments. We are exposed to market risks related to currency exchange rates and interest rates. We are also exposed to credit risk in connection with our trade accounts receivable. These exposures may change over time as our business practices evolve and could have a material adverse impact on our financial results.

Currency Risk

Our exposure to currency risk tends to be hedged naturally, because most of our revenues are derived in U.S. dollars. We use forward contracts for sales and purchases denominated in currencies other than U.S. dollars to hedge our currency risk, with a maturity of less than one year from the reporting date.

Interest Rate Risk

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations with floating interest rates.

Our policy is to manage our interest rate exposure through using a mix of fixed and floating interest rate debts. Our policy is to maintain at least 30–40% of our borrowings at fixed rates of interest. To manage this, we enter into interest rate swaps, in which we agree 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 designated to hedge underlying floating rate debt obligations. At June 30, 2013, after taking into account the effect of interest rate swaps, approximately 37% of our borrowings are at a fixed rate of interest (2012: 67%) of which 12% (2012: 8%) are linked to hedging instruments designated as such in accordance with IFRS. The proportion of our borrowings that we hedged in the year ended December 31, 2012 decreased due to the refinancing of certain of our outstanding debt at a lower rate of interest.

Credit Risk

Trade Accounts and Other Receivables

Our exposure to credit risk is influenced mainly by the individual characteristics of each client. However, we also consider the demographics of our client base, including the default risk of the industry and country to which the clients operate, because these factors may have an influence on credit risk. Approximately 35.4% (2011: 26.9%) of our revenue is attributable to sales transactions with a single client (AIOC and BP combined together). Our ten largest clients account for 80.2% (2011: 76.7%) of the outstanding trade accounts receivable as of December 31, 2012. Geographically the credit risk is significantly concentrated in the Caspian region and the MENA region. Typically, our contracts allow us to terminate on the basis of default or non-performance by the client.

The majority of our clients are companies with high credit ratings and therefore we are exposed to limited counterparty credit risk. Over 80% of our top ten clients have investment grade ratings, 60% of which are rated A or better by S&P. This demonstrates a significant proportion of counterparties that are high quality. Additionally, we have long-standing relationships with most of our key clients. More than 61% (2011: 30%) of our clients have been transacting with the Group for over four years, and losses have occurred infrequently. Such clients have accounted for 87.4% of revenue in the year ended December 31, 2012 (2011: 68%).

We establish an allowance for impairment that represents our 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.

Balances with Banks

We limit our exposure to credit risk by only placing balances with reputable financial institutions. Given the profile of our bankers, we do not expect any counterparty to fail to meet its obligations.

Guarantees

Our policy is to facilitate bank guarantees only on behalf of wholly owned subsidiaries and Group entities over which we have financial and management control or joint control.

Critical Accounting Policies

In presenting the Group's financial information in conformity with IFRS as adopted for use in the European Union, the Group is required to make estimates and assumptions that affect the amounts reported and related disclosures. Several of the estimates and assumptions the Group is required to make are related to matters that are

inherently uncertain because they pertain to future events. If there is a significant unfavorable change to current conditions, it could have a material adverse effect on the Group's consolidated results of operations and financial condition. Management believes that the estimates and assumptions used when preparing the Group's consolidated financial information included in the notes to the financial statements were the most appropriate at that time.

Presented below are those accounting policies that management believes require subjective and complex judgments that could potentially affect reported results. For further information on the Group's accounting policies, see the notes to the financial statements on pages F-9 F-47, F- 88 and F-135.

Revenue Recognition

Marine Charter

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

Lease rent income is recognized on a straight-line basis over the period of the lease. Revenue from provision of onboard accommodation and catering services is recognized over the period of hire of such accommodation while revenue from sale of fuel and other consumables is recognized when delivered. Income generated from mobilization or demobilization of the vessel to or from the location of charter under the vessel charter agreement is recognized over the life of the contract.

Sale of Vessels

Revenue from sale of vessels is recognized in consolidated income statement when pervasive evidence exists, usually in the form of an executed sales agreement, that significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated reliably, there is no continuing management involvement with the vessels and the amount of revenue can be measured reliably.

Property, Plant and Equipment

Items of property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment in value. Cost of marine vessels includes purchase price paid to a third party, including registration and legal documentation costs, all directly attributable costs incurred to bring the vessel into working condition at the area of planned use, mobilization 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 mobilization is significant and the customer pays a mobilization fee, certain mobilization costs are charged to profit or loss. 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.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

Dry-docking Costs

The expenditure incurred on vessel dry-docking, a component of property, plant and equipment, is amortized over the period from the date of dry- docking, to the date on which the management estimates that the next dry-docking is due.

Vessel Refurbishment Costs

Cost incurred to refurbish owned assets are capitalized 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

Other Intangible Assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognized in profit or loss as incurred.

Amortization is charged on a straight-line basis over the estimated useful life of five years, from the date they are available for use. Amortization method, useful lives and residual values are reviewed at each reporting date.

Impairment

Vessels

The Group determines whether its vessels are impaired when there are indicators of impairment as defined in IAS 36. 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 of December 31, 2012 was \$945.0 million, compared to \$878.9 million as of December 31, 2011 and \$757.2 million as of December 31, 2010.

Accounts Receivable

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

As of December 31, 2012, gross trade accounts receivable were \$65.9 million, compared to \$61.0 million as of December 31, 2011 and \$59.8 million as of December 31, 2010, and the provision for doubtful debts was \$4.7 million, compared to \$3.1 million as of December 31, 2011 and \$3.4 million as of December 31, 2010.

Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in the consolidated statement of comprehensive income.

Inventories

Inventories are measured at lower of cost and net realizable value after making due allowance for any obsolete or slow-moving items. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Employees' End of Service Benefits

Pursuant to IAS 19 "Employee Benefits," end of service benefit obligations are measured using the projected unit credit method. The objective of the method is to spread the cost of each employee's benefits over the period that

the employee is expected to work for the Group. The allocation of the cost of benefits to each year of service is achieved indirectly by allocating projected benefits to years of service. The cost allocated to each year of service is then the value of the projected benefit allocated to that year.

7. Regulation

Our operations are extensively regulated by national, state and local authorities in the countries in which we operate, including, in particular, in the areas of labor, HSE, cabotage and local company ownership.

Labor Laws and Regulations

We are subject to laws, regulations and policies relating to workforce nationalization in certain of the countries in which it operates. Certain labor-related laws, regulations and restrictions which we believe are relevant to our operations are set forth below.

Caspian Region

In Azerbaijan, our operations are not affected to any material extent by laws or regulations relating to the employment of minimum numbers of Azerbaijani nationals. However, restrictions do apply to the engagement of non-Azerbaijani nationals in certain positions. For example, the captain, first officers, chief engineers and radio officers of each vessel are required to be Azerbaijani nationals. In addition, under the terms of certain charter party agreements entered into with BP, Topaz Marine has agreed to employ local employees, subject to availability and suitability of qualifications and experience. However, there are no set quotas or percentages for the employment of Azerbaijani nationals under Azerbaijani law.

In Kazakhstan, our operations are not affected to any material extent by laws or regulations relating to the employment of minimum numbers or proportions of Kazakhstani nationals. However, restrictions do apply to the engagement of non-Kazakhstani nationals in certain positions. For example, the captain of each vessel is required to be a Kazakhstani national.

In Russia, our operations are not affected to any material extent by laws or regulations relating to the employment of minimum numbers of Russian nationals. However, restrictions do apply to the engagement of non-Russian nationals in certain positions. For example, the captain of a ship, the captain's first mate, the senior ship's engineer and the radio officers of each vessel are required to be Russian nationals. To become a crew member of a ship sailing under the Russian flag, a foreign citizen has to meet several requirements as to his professional competence, Russian language skills, health and physical condition in addition to meeting the International Labor Organization regulations.

Ships operating in Russia have to be classified and certified by certain Russian organizations appointed by the Government of the Russian Federation. Our contracts with the time charterer Saipem require us to register our vessels in the Russian bareboat charter register in order to meet local regulation requirements. Our fleet operating in Russia is in the process of being registered in the State Ships Register/Bareboat Charter Register.

In order to have an efficient bareboat structure and to comply with the Russian regulations for allowing a foreign-flagged vessel to sail in Russian territorial waters, we have incorporated a company in Russia as a subsidiary of Topaz.

As of the date of October 20, 2013, we are not aware of any material breaches by the Group of these laws, regulations or requirements.

MENA

In Saudi Arabia, our operations are not affected to any material extent by laws or regulations relating to the employment of minimum numbers of Saudi nationals. However, we are required to abide by certain government and contractually mandated employment and reporting requirements.

The Kingdom of Saudi Arabia has implemented a Saudi localization national policy to encourage private-sector employment of Saudi nationals. This national policy requires that private firms be categorized in certain zones or bands based on the number of employees employed by the firm and their compliance with minimum employee

requirements. Upon renewal of our localization certificate, we are required to report the number of Saudi nationals we employ in our Saudi operations as a ratio to the number of non-Saudi nationals we employ. Currently, we are classified as a “platinum” company due to our noncompliance with minimum employee requirements.

Additionally, under the terms of certain charter agreements entered into with Saudi Aramco, we are required to staff a certain minimum number of Saudi employees on board our vessels. We are progressively working towards full compliance with the charter terms relating to minimum employee requirements.

In the year ended December 31, 2012, we paid penalties and fines of \$425,000 relating to our noncompliance with governmental and contractual requirements for Saudi localization. We anticipate continuing to pay similar fines in the future relating to Saudi localization. As of the date of October 20, 2013, we are not aware of any material breaches by the Group of these laws, regulations or requirements.

In the UAE, we comply with the local regulations as they relate to our operations in this region. Regarding the employment of an expatriate crew, local law requires that certain positions, such as the captain and chief engineer, have ship operation experience in the UAE. There is no mandatory requirement to employ UAE nationals on our vessels operating in the UAE.

We comply with local regulations as they relate to our operations in Qatar. Vessels operating in Qatari waters must be managed by a company having a Qatari document of compliance. We are in compliance with this requirement. Furthermore, there is no requirement to employ Qatari nationals on our vessels operating in Qatari waters.

Global

There is also a requirement to comply with local regulations relating to the employment of a minimum number of Nigerian nationals as stipulated in the Nigerian Oil And Gas Content Development Act 2010. We employ Nigerian crew from time to time in order to comply with the relevant local content regulations.

HSE Laws and Regulations

We are subject to HSE-related laws, regulations and standards in each of the regions in which we operate. We place significant emphasis on compliance with these conventions, which form the basis for our HSE policies and performance.

Noncompliance with any of these regulations, codes or standards could result in the detention of a vessel in port, the suspension of insurance cover and, in some circumstances, the seizure of a vessel.

As of the date of October 20, 2013, we are not aware of any material breaches of any of these laws, regulations or standards and believe that the regulatory environment does not present a material constraint on our ability to operate the business of the Group as it is currently operated.

Cabotage and Vessel Licensing Laws and Regulations

OSV operators conduct their operations in a highly regulated industry and are subject to various regulatory regimes imposed by national, state and local authorities in the countries in which they operate and by international conventions. Each country must maintain registers of vessels which carry its nationality or flag, pursuant to the United Nations Convention on the Law of the Sea 1982. Each flag state applies its own regulatory requirements (based on the conventions adopted by the United Nations’ International Maritime Organization), in addition to specific classification requirements for vessels. These include minimum safety, construction and equipment standards and are subject to periodic survey and inspection requirements, pursuant to the adoption and implementation of international conventions.

Certain cabotage and licensing laws and regulations which Topaz believes have a material impact on Topaz Marine’s current and expected operations are set forth below. As of the date of October 20, 2013, Topaz is not aware of any material breach by the Group of these laws and regulations.

Azerbaijan

The registration of vessels operating in Azerbaijan is overseen by the State Maritime Administration. In accordance with The Republic of Azerbaijan Merchant Code, any vessel built or flagged outside Azerbaijan is required to re-flag under the Azerbaijan flag on a temporary basis in order to be able to operate in Azerbaijan. Temporary re-flagging is granted only where an Azerbaijani national person or legal entity is the bareboat charterer of the vessel and is typically granted for up to two years on a renewable basis.

Kazakhstan

Only vessels which are flagged in Kazakhstan or in one of the other Caspian littoral states (Azerbaijan, Iran, Russia and Turkmenistan) are permitted to operate in Kazakhstan. Any vessel built or flagged outside Kazakhstan (including in the other littoral states) is required to re-flag under the Kazakhstan flag on a temporary basis in order to be able to operate in Kazakhstan, except in the case of those vessels flagged in littoral states for which a cabotage approval has been granted by the Ministry of Transportation. Temporary re-flagging is granted only to vessels operated pursuant to a bareboat charter by a Kazakhstani national charterer registered in Kazakhstan. Re-flagging is typically granted for up to two years on a renewable basis.

West Africa

OSV operators in West Africa are subject to cabotage laws and regulations which regulate the number of foreign entities and non-nationals operating or employed in providing OSV services.

In Nigeria, the Coastal and Inland Shipping (Cabotage) Act of 2010 (the “**Cabotage Act**”) requires that vessels used to provide services to the domestic oil and gas industry to be registered in a special register of vessels. The Cabotage Act prohibits a vessel not wholly owned and manned by a Nigerian national, built and registered in Nigeria from engaging in domestic coastal carriage or cargo and passengers within coastal, territorial or inland waters or any point within the waters of the Exclusive Economic Zone of Nigeria. A vessel seeking to operate within Nigerian waters can be registered for use in domestic trade only if the controlling interest in the company is held by Nigerian national. Specifically, conditions of registration stipulate that vessels must be either wholly and beneficially owned or controlled and managed by Nigerian nationals (or a company wholly and beneficially owned by Nigerian nationals), or be owned by a company registered in Nigeria the shares of which are owned as to 60% by Nigerian nationals.

In January 2011, Topaz entered into an agreement with a local representative in Nigeria in order to support its entry into the West African market and facilitate compliance with applicable cabotage laws and regulations. In order to have a more efficient charter structure, Topaz is in the process of identifying a Nigerian joint venture partner through which we can operate our vessels in Nigeria.

8. Management

Company

The Company is currently controlled by the Board of Directors of our Principal Shareholder. However, once we complete the contemplated corporate governance changes described under “Business—Corporate Governance,” we will be controlled by the Board of Directors of the Parent.

Principal Shareholder—Board of Directors

The following table sets forth the name, age and position of the members of our Principal Shareholder’s Board of Directors, followed by a short description of each director’s business experience, education and activities.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Samir J. Fancy	57	Chairman
Ali Bin Hassan Sulaiman		Deputy
	51	Chairman
Tarik bin Shabib bin Taimur Al Said	45	Director
Sunder George.....	66	Director
Yeshwant C Desai	76	Director
Colin Rutherford	54	Director
Saleh Al-Habsi	47	Director

Samir J. Fancy has also been the Chairman of the Board of Directors for our Principal Shareholder since 1996. He has also been Chairman of our Parent since 1996 and Chairman of Tawoos Group since 1983, as well as the Vice Chairman of SAMENA Capital. He was nominated for Ernst & Young’s Middle East Entrepreneur of the Year award in 2007. Mr. Fancy holds a degree in accounting from the Institute of Chartered Accountants England and Wales.

Ali Bin Hassan Sulaiman has been a Non-executive Director of our Principal Shareholder since it was founded in 1996. Mr. Sulaiman has also been a Director of our Parent since 1996 and was appointed Deputy Chairman in 2010. He is also a Director of the Oman-based companies National Hospitality Institute SAOG and Majan Glass Manufacturing Co SAOG. He has over 25 years of experience in managing FMCG, a manufacturing and services companies with global operations. Mr. Sulaiman holds a business degree from Alliant International University, California.

Tarik bin Shabib bin Taimur Al Said has been a Director of our Principal Shareholder since 1996. He founded Tawoos Group in 1983 and still serves as a Director. He was the Chairman of Marina Bander Al Rowdha SAOG for six years until its takeover by the Government of the Sultanate of Oman in April 2003. He has been the Chairman of National Hospitality Institute SAOG since 1995 and was a Director of our Parent since 1996. He holds a bachelor’s degree in political science.

Sunder George has been a Director of our Principal Shareholder since 2001. Mr. George has also been a Non-executive Director of our Parent. He is the Chief Advisor to the Board of BankMuscat SAOG and sits on the Board of Directors of several other companies in Oman. Mr. George has over 35 years of international banking and finance experience. He is a Fellow of the Chartered Institute of Bankers London and an Associate of the Indian Institute of Bankers. Mr. George holds a B.Sc. from Madras University and an M.B.A. from International Institute for Management Development.

Yeshwant C. Desai has been a Director of our Principal Shareholder since 2001 and is the Chairman of the Audit Committee. He has extensive experience in the banking and finance and has held senior executive positions in Oman and abroad. He was the CEO of Bank Muscat SAOG and a Director of Topaz Energy & Marine SAOG for several years up to its acquisition by our Principal Shareholder in May 2005. He was also a Director of our Parent from 2002 to 2013. Mr. Desai passed the Bankers’ Exam in 1961.

Colin Rutherford has been a Director of our Principal Shareholder since 2005 and was formerly the Chairman of BUE Marine Holdings Limited prior to its acquisition by Renaissance Group SAOG. He has diverse experience with public and private companies, having served as a director for many international corporations. He is a chartered accountant and former corporate financier. He has been the Chairman of Brookgate Limited, the Chairman of European Healthcare Group Limited, the Chairman of Teachers Media International Limited and a Director of De Vere Group Plc. He holds additional positions in retail and specialist building products and was a Director of our Parent. Mr. Rutherford is a Chartered Accountant.

Saleh Al-Habsi has been a Director of our Principal Shareholder since 2013. He has over 20 years of experience in the financial sector and has been a Director of the Ministry of Defense Pension Fund. He has been a Director of National Bank of Oman (“NBO”) and is the Chairman of the Risk Committee and a member of the Credit Committee of the Board of NBO. He holds directorships in various joint stock companies. He has been the Deputy Chairman of Gulf Custody Company Oman and a member of the Board of Growth Gate Corp, a regional private equity company. He holds an M.B.A. and an M.Sc. in Finance, both from University of Maryland of College Park, and a B.S.B.A. and a B.A. from Boston University.

Senior Management

The following table sets forth the name, age and position of senior management of the Company, followed by a short description of each individual’s business experience, education and activities.

Name	Age	Position
Rene Kofod-Olsen	40	Chief Executive Officer
Roy Donaldson	60	Chief Operating Officer
Pernille Fabricius	46	Chief Financial Officer
Jay Daga	45	Finance Director
Paul Jarkiewicz	50	Area Manager–Caspian region
Richard Ayling	53	Area Manager–Middle East and North Africa
Rune Zeuthen	40	Area Manager–Global
Thomas Sorensen	41	Head of Commercial
Ealbra Moradkhan	39	Head of Human Resources

Rene Kofod-Olsen has been the Chief Executive Officer of the Company since 2012. He has 18 years of experience in the marine industry with the AP Moller-Maersk Group and previously served as CEO of SVITZER Asia, Middle East & Africa. Mr. Kofod-Olsen has significant leadership experience in several multicultural organizations and countries. He pursued an advanced management program at Harvard Business School.

Roy Donaldson serves as Chief Operating Officer and has been with the Company since 2005. He previously managed the Azerbaijan-based ship- owning business unit of our Parent. Mr. Donaldson has 44 years in the OSV sector and was Managing Director of Seabulk Offshore Operations Nigeria Limited and Vice President of Operations at Seabulk International.

Pernille Fabricius joins the Company as Chief Financial Officer effective January 2014. Ms. Fabricius has 25 years of experience. Ms. Fabricius previously served as Chief Financial Officer at Damco (one of the seven business units of the AP Møller Mærsk Group) and has held several senior management positions including Chief Executive Officer of TryghedsGruppen smba, Group Chief Financial Officer and Board member of TMF Group, and Chief Financial Officer and Management Board member of TNS Group. She is also External Board Member and Head of the Audit Committee of Royal Greenland. She attended the Copenhagen Business School where she received a Cand.Merc.Aud and has subsequently received an M.B.A., an M.Sc. in finance and an LL.M. in European Union law.

Jay Daga has served as the Finance Director since 2011 and has been with the Company since 1999, holding a number of finance positions. Beginning in January 2014, Mr. Daga will serve as Deputy Chief Financial Officer. Prior to joining the Company, Mr. Daga worked with M/s. Hindustan Gas & Industries Limited and M/s. Mohsin Haider Darwish LLC. He is a Certified Public Accountant (U.S.), a Chartered Accountant, a Cost Accountant, a member of the Institute of Chartered Accountants of India and a Company Secretary. He has 20 years of experience as a finance professional. Mr. Daga is a Certified Public Accountant and an Associate Chartered Accountant.

Paul Jarkiewicz has served as Area Manager–Caspian region since 2012. Prior to this, Mr. Jarkiewicz worked as Manager of Fleet & Client Services at ESNAAD-ADNOC Group, Offshore Services Division, where he managed a marine fleet of 57 owned and chartered vessels. He has 21 years of experience in the marine industry. Mr. Jarkiewicz holds an MBA in Shipping and Logistics from Middlesex University Business School–London.

Richard Ayling serves as Area Manager–Middle East and North Africa and has been with the Company since 2009. Previously, Mr. Ayling worked as West Africa Regional Operations Manager for Lamnalco for nine years. He has 37 years of extensive industry experience and has worked in senior management positions with many marine offshore services companies, such as Seabulk, Sea Trucks Group and Oil Limited. Mr. Ayling holds a degree in AC&G Marine from Poplar Technical College.

Rune Zeuthen has recently been appointed to Area Manager–Global. Prior to this, Mr. Zeuthen was Head of Chartering and Operation and Head of Chartering Middle East for Gulf Navigation and VL8 Pool (Navig8). He began his career in the shipping industry through the Maersk International Shipping Education program at the A.P. Moller-Maersk Group and has accumulated 20 years of experience in the shipping industry. Mr. Zeuthen holds a diploma in Accounting from Niels Brock Business School, Copenhagen and graduated from AP Moller Maersk International Shipping Education, Copenhagen.

Thomas Sorensen has been Head of Commercial of the Company since his appointment in January 2013. Previously, Mr. Sorensen was the Chief Commercial Officer for Svitzer Asia, Middle East & Africa. Prior to this, Mr. Sorensen had worked at A.P. Moller-Maersk Group in a number of general commercial management positions in Eastern Europe, West Africa and the Middle East. He graduated from Maersk International Shipping Education in 1998.

Ealbra Moradkhan serves as Head of Human Relations and has been with the Company since 2007. Prior to this, Ms. Moradkhan worked as Quality and HR Manager at the ABB Group and as a third-party auditor of quality and safety management systems at RW-TUV. She has more than 13 years of management experience and holds a master’s degree in Human Resource Management.

Executive Compensation

Total compensation paid to the members of our Board of Directors and senior management in the year ended December 31, 2012 amounted to \$2.3 million.

Shares Held by Directors and Senior Management

As of June 30, 2013, none of the Company’s directors or officers beneficially owned, directly or indirectly, or exercised control or direction over, any of the Company’s limited liability company interests, 100% of which are owned by Renaissance, through the Principal Shareholder.

9. Principal Shareholders

The Company is a wholly owned subsidiary of our Parent, which is itself a wholly owned subsidiary of the Principal Shareholder.

Renaissance is an Omani multinational company with the primary aim of providing safe, efficient and quality services to the oil and gas industry. Its business activities include the maintenance and operation of a fleet of offshore support vessels; the construction and maintenance of offshore rigs and oil and gas transport ships; the provision of catering, property and facilities management; operations and maintenance contract services in a variety of industries; media consultation and communications support; and workforce education and training in a number of areas, including HSE, hospitality, retail and information technology. It has been listed on the Muscat Securities Market in the Sultanate of Oman since 1996 and has a market capitalization of 197.1 million Omani Rials as of October 19, 2013.

As of June 30, 2013, the following individuals and entities held direct and indirect interests in voting rights exceeding 10% of the share capital of the Principal Shareholder.

Name of common shareholders:	Number of	
	shares	%
Tawoos LLC	45,538,025	15.1%

10. Certain Relationships and Related Party Transactions

Shareholder Equity Investments and Loans

The Principal Shareholder has provided capital to the Company, via the Parent, through equity investments and short-term and long-term credit facilities. This includes equity investments of \$100.0 million in 2010 and \$15.0 million in 2012. Additionally, the Principal Shareholder and our Parent have provided guarantees of the Company's obligations under certain of its loan facility agreements.

As of the date of October 20, 2013, an aggregate amount of \$134.0 million is outstanding under two Shareholder Loans, which are subordinated to the other indebtedness of the Company.

Shareholder Loan A is in the amount of \$30.0 million bearing interest at 7.0% per annum, payable on the last day of each calendar month. It is a back-to-back shareholder loan from the Principal Shareholder to the Parent. The Shareholder Loan A (together with all accrued interest) shall be repaid in installments of \$2.0 million on November 30 in each of 2014, 2015, 2016, 2017 and 2018 with a bullet payment of \$20.0 million in November 2019.

Shareholder Loan B is in the amount of \$104.0 million bearing interest at 8.5% per annum. It is a back-to-back shareholder loan from the Principal Shareholder to the Parent, which itself is back-to-back with a subordinated loan from Bank Muscat et al. to the Principal Shareholder. Shareholder Loan B was made available to the Parent in two tranches of \$52.0 million each. It is repayable annually in four equal installments of \$26.0 million, on November 30, 2014, 2015 and 2016 and on September 30, 2017.

Contracts with Topaz Engineering Limited

The Company has certain contracts with Topaz Engineering Limited for the construction of two vessels and the maintenance and repair of 13 vessels. During the year ended December 31, 2012, Topaz Engineering Limited received revenues of \$17.2 million from us.

Other Relationships

From time to time, we may enter into contracts on an arm's-length basis with entities that are indirectly or directly wholly owned by our joint venture partner, Transmarine. For example, we have certain contracts with Caspian Catering for the provision of catering services on some of our vessels in the Caspian Sea. Caspian Catering is indirectly wholly owned by our joint venture partner Transmarine. The contracts with Caspian Catering were entered into on an arm's-length basis.

11. Description of Certain Financing Arrangements

Outstanding Credit Facilities

Syndicated Term Loan Facility

On May 16, 2012, we entered into a syndicated term loan facility (the “**Syndicated Term Loan Facility**”) with Standard Chartered Bank, DVB Group Merchant Bank (Asia) Ltd and First Gulf Bank for an aggregate principal amount of up to \$330.0 million. The proceeds from the Syndicated Term Loan Facility were used to repay certain existing indebtedness of the Group and to finance the purchase of new vessels. The Syndicated Term Loan Facility matures on August 16, 2017. As of June 30, 2013, the aggregate amount principal outstanding under the Syndicated Term Loan Facility was \$176.1 million.

The Syndicated Term Loan Facility is secured by, among other things, charges over certain of our marine vessels which are all owned by separate SPVs, assignments of the relevant marine vessel charters’ lease income, assignments of the relevant marine vessel insurance policies, corporate guarantees, charges over certain bank account deposits and share charges from the Company and, where relevant, Trans Marine United Shipping Limited. Under the \$125.0 million Islamic lease financing arrangement with Barwa Bank, the legal and beneficial title to the vessels financed under the facility is transferred to Barwa Bank or its nominees for the duration of the financing, and such transferee entities in turn lease the vessels back to the relevant Group company so that the vessel can continue to be utilized in the business of the Group. Additionally, Barwa Bank also has security over the charter lease income of the relevant vessels. Upon the repayment of the facility upon maturity, the legal and beneficial title to the vessels will be transferred back to the relevant Group company. In addition, Renaissance has provided a limited guarantee in respect of the Syndicated Term Loan Facility.

The Syndicated Term Loan Facility contains various covenants and undertakings customary to a facility of this type, including those relating to the provision of information as well as corporate, operational, vessel and insurance matters. The Syndicated Term Loan Facility also contains a suite of financial covenants, including maintenance ratios for net interest-bearing debt to EBITDA, tangible net worth, total debt to tangible net worth, EBITDA to interest and free liquidity.

Interest on amounts drawn under the Syndicated Term Loan Facility are payable in quarterly installments at a rate equal to LIBOR plus an applicable margin (4% per annum) and any Mandatory Costs.

The Syndicated Term Loan Facility is governed by English law.

Other Financing Arrangements

We regularly enter into term loan agreements, working capital facilities and lease agreements, including Islamic financial arrangements (*Ijara* and *Murabaha*), with our relationship banks, including HSBC, Standard Chartered Bank, Noor Islamic Bank, Gulf International Bank and Barwa Bank, to finance the purchase of new vessels, refinance existing indebtedness of the Group and meet our working capital needs. Amounts drawn under these arrangements are denominated in either U.S. dollars or UAE dirhams.

These arrangements are typically secured by, among other things, charges over certain of our marine vessels, assignments of the relevant marine vessel charters’ lease income, assignments of the relevant marine vessel insurance policies, corporate guarantees, charges over certain bank account deposits and share charges. In addition, certain of our term loans and working capital facilities are guaranteed by Renaissance.

These arrangements contain various covenants and undertakings customary to facilities of this type, including those relating to the provision of information as well as corporate, operational, vessel and insurance matters. In addition, certain of the facilities also contain a suite of financial covenants, including maintenance ratios for net interest-bearing debt to EBITDA, tangible net worth, total debt to tangible net worth, EBITDA to interest and free liquidity.

The amounts drawn under these facilities are at varying aggregate principal levels, have varying interest rates and maturity dates, and the contractual arrangements that govern them are governed by laws of various jurisdictions, including England and Wales, the Marshall Islands, Cayman Islands, St. Vincent and the Grenadines, United Arab Emirates and the Netherlands. These facilities are primarily governed by English law. The table below provides details of our term loans, working capital facilities and Islamic financing arrangements as of June 30, 2013:

Type	Aggregate principal amount	Base	Applicable margin	Maturity
Secured working capital facility	<i>Standard Chartered Bank—\$10.0 million uncommitted overdraft facility</i>	LIBOR / EIBOR (as relevant)	To be determined by Standard Chartered Bank from time to time (at the time of signing, 3.45% per annum)	On demand
Secured Term loan and working capital facility	<i>Gulf International Bank—\$58.5 million term loan/working capital facility—\$5.0 million</i>	LIBOR	3.5% per annum (term loan) 2.5% per annum (working capital facility)	June 10, 2020 (term loan) June 4, 2014 (working capital facility)
Secured Murabaha financing arrangement	<i>HSBC Bank Middle East facility—\$28.3 million</i>	LIBOR	3.95% per annum	April 30, 2018
Secured Islamic lease financing arrangement	<i>Barwa Bank—\$125.0 million</i>	LIBOR	3.75% per annum	June 2018
Secured Term loan	<i>HSBC Bank plc “CASPIAN PROVIDER”—\$23.5 million</i>	LIBOR	2.65% per annum	July 19, 2022
Secured Term loan	<i>DVB Group Merchant Bank (Asia) Ltd., Standard Chartered Bank and First Gulf Bank PJSC—\$330.0 million</i>	LIBOR	4% per annum	August 16, 2017
Secured Islamic lease financing arrangement	<i>Noor Islamic Bank—AED 76.6 million</i>	Fixed rate	5.75% per annum	October 4, 2017
Unsecured Short-term loan facility	<i>Standard Chartered Bank—uncommitted short term loan facility — \$10.0 million</i>	Standard Chartered Bank Treasury Rate	To be charged at the rate determined by Standard Chartered Bank from time to time. On signing, 3% per annum, subject to variation.	Tenor is one year but facility remains on demand

Shareholder Loans

As of the date of October 20, 2013, an aggregate amount of \$134.0 million is outstanding under two Shareholder Loans, which are subordinated to the other indebtedness of the Company.

Shareholder Loan A is in the amount of \$30.0 million bearing interest at 7.0% per annum, payable on the last day of each calendar month. It is a back-to-back shareholder loan from the Principal Shareholder to the Parent. The Shareholder Loan A (together with all accrued interest) shall be repaid in installments of \$2.0 million on November 30 in each of 2014, 2015, 2016, 2017 and 2018 with a bullet payment of \$20.0 million in 2019.

Shareholder Loan B is in the amount of \$104.0 million bearing interest at 8.5% per annum. It is a back-to-back shareholder loan from the Principal Shareholder to the Parent, which itself is back-to-back with a subordinated loan from Bank Muscat et al. to the Principal Shareholder. Shareholder Loan B was made available to the Parent in two tranches of \$52.0 million each. It is repayable annually in four equal installments of \$26.0 million, on November 30, 2014, 2015 and 2016 and on September 30, 2017.

The Shareholder Loans constitute subordinated unsecured obligations of the Company and are not guaranteed by any subsidiary of the Company

The Shareholder Loans are governed by the laws of the Sultanate of Oman.

12. Presentation of Financial and Other Information

Financial Information

The financial data of the Company and its subsidiaries for the twelve months ended June 30, 2013 has been derived by taking, without adjustments, the results of the year ended December 31, 2012 and subtracting the results for the six months ended June 30, 2012 and then adding the results for the six months ended June 30, 2013. The financial data of the Company and its subsidiaries for the twelve months ended June 30, 2013 has been prepared for illustrative purposes only and is not prepared in the ordinary course of our financial reporting. Such financial data is not necessarily representative of our results of operations for any future period or our financial condition at any future date.

Reorganization

Effective January 1, 2012, our Parent transferred our engineering division, including all assets and liabilities, to Topaz Engineering Limited, another wholly owned subsidiary of our Parent (the “**Reorganization**”). For purposes of this document, our audited combined financial statements for the years ended December 31, 2010 and 2011 have been prepared to exclude the engineering division to ensure that the financial statements for the years ended December 31, 2010 and 2011 are comparable to the financial statements for the year ended December 31, 2012.

Non-IFRS Financial Measures

This document contains certain financial measures and ratios which are not measures or ratios within the scope of IFRS. These measures and ratios include EBITDA, EBITDA Margin, Pro Forma Adjusted EBITDA, gross debt and net debt.

EBITDA, EBITDA Margin, Pro Forma Revenue, Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin

EBITDA, EBITDA Margin, Pro Forma Revenue, Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin are non-IFRS financial measures. “**EBITDA**” represents profit before income tax plus any depreciation and amortization and finance costs less any finance income. “**EBITDA margin**” is EBITDA divided by revenue. “**Pro Forma Revenue**” represents revenue adjusted to give effect to the expected acquisition of additional vessels for our fleet and the full-year impact of recently acquired vessels. “**Pro Forma Adjusted EBITDA**” represents EBITDA adjusted to give pro forma effect to the expected acquisition of additional vessels for our fleet, the full-year impact of recently acquired vessels and estimated cost savings achieved in connection with changes in our crew rotations and other operational efficiencies. “**Pro Forma Adjusted EBITDA Margin**” is Pro Forma Adjusted EBITDA divided by Pro Forma Revenue.

We believe that EBITDA is a valuable indicator of our ability to generate liquidity by producing operating cash flows to fund working capital needs, service debt obligations and fund capital expenditures. EBITDA is also frequently used by investors and analysts for valuation purposes whereby EBITDA is multiplied by a factor or “EBITDA multiple” that is based on the observed or inferred relationship between EBITDA and market values to determine the approximate total enterprise value of a company.

EBITDA, EBITDA Margin, Pro Forma Revenue, Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin are intended to provide additional information to investors and analysts, do not have any standardized meaning prescribed by IFRS and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. EBITDA, EBITDA Margin, Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin exclude the impact of cash costs of financing activities and taxes, and the effects of changes in working capital balances, and therefore are not necessarily indicative of operating profit or cash flows from operations as determined under IFRS. Other companies may calculate EBITDA, EBITDA Margin, Pro Forma Adjusted EBITDA and Pro Forma Adjusted EBITDA Margin on a different basis.

Furthermore, you should carefully consider the risks and limitations of the financial measures Pro Forma Revenue and Pro Forma Adjusted EBITDA, because they are based in part on management's assumptions regarding the future impact of actions that have been recently implemented or that are in the process of being implemented. There is a risk that the revenue and EBITDA generated from newly acquired vessels, the full-year revenue and EBITDA impact of recently acquired vessels and the magnitude of costs savings may be less than anticipated.

Operational Data

This document contains certain measures of operational data, including backlog, average utilization rates and average day rates.

Backlog

We use the measurement of “**backlog**” as a key performance indicator for our business. Backlog and utilization are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS. We consider the amount of our backlog to be an important performance measure and accordingly monitor it on a monthly basis.

Our backlog consists of the total estimated revenue attributable to the uncompleted portion of all of our vessel charter contracts, for both our owned and chartered-in vessels, on the basis of our expectations of the revenue to be generated from the remaining contract period on the basis of the day rates specified in each contract, and the extension of those contracts at the option of our clients as per the terms of such contracts as of a certain date. Our backlog includes, where applicable, withholding taxes varying between 5%–10% depending on the region of the world a vessel is deployed in. We believe that our backlog is conservatively calculated given that it does not include any amounts attributable to the reimbursement of expenses incurred on behalf of a client, any upfront payments, mobilization fees or any other revenue apart from revenue attributable to day rates from the uncompleted portion of vessel charter contracts.

Backlog is calculated as an aggregate of such potential future revenue for each of our business segments over the relevant contracted period for each contract, which in certain cases may be five years or more and is not subject to a present value discount. Furthermore, in most cases the day rates are not subject to inflation indexing which may limit the relative value of future revenue. While backlog is presented for the remainder of 2013 as of June 30, 2013, 2014, 2015, 2016, 2017, 2018 and thereafter, backlog does not provide a precise indication of the time period over which we are contractually entitled to receive such revenue and there is no assurance that such revenue will be actually received by us in the time frames anticipated, or at all.

Based on our operating history and in the course of dealing with our customers, contracts are almost always continued due to the Company's track record of strong operating performance, and in reference to the Caspian region, due to the limited availability of alternative suppliers and the assumption that contracts will be extended for the applicable option period forms a significant assumption in the calculation of our backlog, although option periods are always shown separately. However, the contracts on the basis of which backlog is calculated are subject to termination or variation in certain circumstances and clients may choose to not extend their contracts. In addition, our clients may seek to negotiate the terms of contracts due to changes in market conditions or may have an interpretation of certain terms included in their contracts with us that differs from our interpretation. Any early termination, variation, alternative interpretation or renegotiation of or failure to extend a contract may mean that we may not realize our backlog fully, on schedule or at all. Furthermore, realization of our backlog may be impacted by unanticipated maintenance downtime that exceeds the amount of time that our medium- and long-term contracts provide for or that is greater than our assumptions for required maintenance time between short-term contracts. In addition, we are subject to the risk of nonpayment under the contracts that make up our backlog. There can be no guarantee that counterparties will make payments that are due, either on schedule or at all.

To the extent work advances on these contracts, revenue is recognized in accordance with our revenue-recognition policies and thereafter no longer constitutes backlog. At any particular time, we may have orders from clients in the form of letters of intent or other non-binding commitments. Any such non-binding commitments are not counted in our backlog. Backlog includes only the revenue attributable to signed contracts for which all pre-conditions to entry have been met and does not include any revenue expected to arise from

contracts under which the client has no commitment to draw upon our services. The portion of our backlog attributed to optional charter contract extension periods is indicated as such and such backlog may not be realized in the event that the relevant client does not exercise their extension option.

Expectations expressed in this document that a portion of backlog will be realized in any particular year are based on scheduled payment dates as specified in the relevant contracts. Past performance indicates that clients will meet their payment obligations on the scheduled payment dates as specified in the relevant contracts and that options on such contracts will be exercised; however, there is no guarantee of either event occurring and any deviation from such past performance could have a material adverse effect on the realization of revenue from our backlog in a particular year. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosure about Market and Credit Risks—Credit Risk—Trade Accounts and Other Receivables.”

In addition, a portion of our backlog relates to contracts under which the day rates are denominated in currencies other than U.S. dollars, including Euro, Saudi Riyals and Brazilian Reals. The backlog figure, reported in U.S. dollars, includes the non-U.S. dollar revenue converted into U.S. dollars. The majority of such non-U.S. dollar currencies so included are pegged to the U.S. dollar. In respect of those non-U.S. dollar currencies included that are not pegged to the U.S. dollar, subsequent variations in the exchange rate will cause the U.S. dollar amount of backlog to vary, although the underlying amount of backlog in the stated currencies will remain unchanged. For further information, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Disclosure about Market and Credit Risks—Currency Risk.”

Average Utilization Rates

We use “**average utilization rates**” as a measure of the extent to which our vessels are actively employed by or for our clients. The average utilization rate of a vessel in a given period is calculated retrospectively by reference to the number of days in that period that the vessel was deployed as a percentage of days in the period in which the vessel was available for deployment. We consider the days in a period in which a vessel was available for deployment as being 365 days less days required for dry-docking, repair and maintenance and, in Kazakhstan, for non-ice class vessels, days on which the relevant vessel was unable to operate due to adverse weather conditions. The number of days in each year that vessels are unavailable varies from year to year and between vessels, vessel types and countries. In many of our medium- to long-term contracts, the contract defines full or 100% utilization to include an allowance of twelve non-available days. However, this utilization rate varies based on geographic region of operations.

Average Day Rates

The “**average day rate**” for a vessel in a given period is calculated as the total revenue generated by that vessel in that period divided by the number of days on which that vessel was deployed during that period (whether under one or more contracts and/or for one or more clients), excluding mobilization and demobilization revenue. Day rates account for the rates applicable based on the utilization of our vessels. However, some day rates are calculated based on the assumption that there will be no lay-up time or standby time and that the vessel will be fully utilized for the duration of the contract. While our past history and performance suggest this is probable, any deviation from such performance could have a material adverse effect on the realization of revenue from our backlog.

13. Definitions

The following terms used in this document have the meanings assigned to them below:

“ABB”	ABB AB (High Voltage Cables).
“Agip” or “Agip KCO”	Agip Kazakhstan North Caspian Operating Company N.V.
“AED”	United Arab Emirates dirham.
“AIOC”	Azerbaijan International Operating Company.
“Axxis Petroleum”	Axxis Petroconsultants Ltd.
“BP”	BP Exploration (Caspian Sea) Limited.
“CAGR”	Compound annual growth rate.
“Company”	Nico Middle East Limited.
“core assets”	AHTSVs, PSVs, MPSVs, ERRVs and specialized barges.
“GDP”	Gross Domestic Product.
“HSE”	Health, safety and environmental.
“IAS 34”	International Accounting Standards 34, “Interim Financial Reporting.”
“IFRS”	International Financial Reporting Standards as issued by the International Accounting Standard Board.
“IOC”	International oil company.
“large OSVs”	PSVs, AHTSVs over 5000 bhp and MPSVs over 5000 bhp.
“Maersk Oil Qatar”	Maersk Oil Qatar A/S.
“McDermott”	McDermott Arabia Co. Ltd.
“MENA”	Middle East and North Africa.
“MMbpd”	Million Barrels of Oil per day.
“NOC”	National Oil Company.
“Occidental Petroleum” or “Oxy”	Occidental Petroleum of Qatar Ltd.
“Oman”	The Sultanate of Oman.
“Omani Rial”	The lawful currency of the Sultanate of Oman.
“OSV”	Offshore Support Vessel and, when referring to our fleet, includes AHTSVs, PSVs, MPSVs, ERRVs, specialized barges, crew boats and other vessels.
“Outstanding Credit Facilities”	Currently outstanding credit facilities as described more fully under “Capitalization” and “Description of Certain Financing Arrangements—Outstanding Credit Facilities.”
“Parent”	Topaz Energy and Marine Limited, the parent of the Company.
“Petrobras”	Petróleo Brasileiro S.A.—Petrobras.
“S&P”	Standard & Poor’s Ratings Group and its successors.
“Saipem”	Saipem Asia Branch Office or Saipem Asia SDN BHD.
“Saudi Aramco”	Saudi Arabian Oil Company.
“Shareholder Loan A”	The \$30.0 million subordinated loan from our Parent, pursuant to a facility agreement dated October 2, 2013, as amended on October 10, 2013, which is described in more detail under “Description of Certain Financing Arrangements—Shareholder Loans.”
“Shareholder Loan B”	The \$104.0 million subordinated loan from our Parent, pursuant to a facility agreement dated October 2, 2013, as amended on October 10, 2013, which is described in more detail under “Description of Certain Financing Arrangements—Shareholder Loans.”
“Shareholder Loans”	The Shareholder Loan A together with the Shareholder Loan B.
“Total”	Total E&P Qatar.

“Transmarine”	Trans Marine United Shipping Limited, our joint venture partner in Azerbaijan.
“UAE”	The United Arab Emirates.
“United States” or “U.S.”	The United States of America, its territories and possessions, any state of the United States and the District of Columbia.
“USD,” “U.S. dollar” or “\$”	The lawful currency of the United States.
“we,” “us,” “our,” the “Group” and “our Group”	The Company and its subsidiaries, unless the context otherwise requires.

For a glossary of certain industry-related terms used in this document, see “Technical Glossary.”

14. Technical Glossary

The following technical terms used in this document have the meanings assigned to them below (unless the context requires otherwise):

“AHTs”	means Anchor Handling Tug Vessels;
“AHTSVs”	means Anchor Handling Tug Supply Vessels;
“anchor handling”	means the ability to facilitate positioning of the anchor of a unit or vessel such as an offshore drilling unit or pipe-laying barge;
“bareboat” or “bareboat charter”	means the lease or hire of a vessel under which responsibility for the crew, maintenance, equipment and insurance passes to the lessee;
“barrel(s)”	is a unit of volume measurement used for petroleum and its products;
“bhp”	means brake horsepower;
“Brent Crude Oil”	is a type of crude oil commonly used as an oil price benchmark;
“bulk barge”	means a non-self-powered vessel with the ability to load, carry and discharge bulk products such as cement and barites;
“cabotage”	means the transport of goods or passengers between two points in the same country by a vessel registered in another country;
“crew boat”	means a vessel designed for transferring personnel and limited amounts of cargo from shore to offshore installations and between offshore installations;
“daughter craft”	means a small craft that berths on board a mother ship, often being a high-powered fast-recovery craft designated for safety standby duties;
“deadweight”	means the measure of maximum permissible weight that may safely be carried by a vessel, such that its Plimsoll line is at the point of submersion;
“drilling bulk”	means powder materials used in the exploration of oil and gas, such as dry powders of barites, cement and bentonite;
“drilling fluid”	means liquid materials used in the exploration of oil and gas such as oil-based and synthetic drilling mud, brine, base oil and drill water;
“dry-docking”	means the removal of a vessel from the water for the performance of maintenance or other work on the exterior of the vessel below the waterline;
“dynamic positioning” or “DP”	means the ability of a vessel to remain in a fixed geographical position by use of external propulsion synchronized by computer programming, within which the terms “DP1,” “DP2” and “DP3” denote increasing degrees of system reliability;
“ERRVs”	means emergency recovery and response vessels;
“field”	means a geographical area defined by the boundary of an underlying oil or gas accumulation, usually used in the context of a producing oil field;
“flag state”	means the state under whose laws a commercial vessel is registered or licensed, and whose flag it flies, and who has responsibility for the implementation and enforcement of international maritime regulations;
“FPSOs” or “Floating production, storage and offloading”	means a floating vessel used for the processing of hydrocarbon and the storage of oil;
“gas-condensate”	is a low-density mixture of hydrocarbon liquids that are present as gaseous components in the raw natural gas produced from many natural gas fields;
“hydrocarbon”	means a compound containing the elements hydrogen and carbon and existing as a solid, a liquid or a gas;
“IOC”	means international oil company;
“jackup rig”	means a self-contained drilling rig and floating barge combination fitted with support legs that can be raised or lowered so as to elevate the drilling and barge structure above water;
“lay-up time”	means the period of time when a vessel’s operations are temporarily suspended, the vessel is stored or docked until operations are resumed and operating expenditures of the vessel are greatly reduced;
“LNG”	means liquefied natural gas;

“LTI” or “lost time incident”	means an incident leading to an injury as a result of which the injured party cannot return to work within 24 hours of the incident;
“LTIF” or “lost time incident frequency”	means the number of LTIs occurring per 1,000,000 man hours worked;
“MBOEPD”	Thousand Barrels of oil equivalents per day;
“MMbpd”	means Million Barrels of Oil per day;
“MPSVs”	means multi-purpose support vessels;
“NOC”	means national oil company;
“OSVs”	means offshore support vessels;
“Plimsoll line”	means the load line indicating the legal limit to which a vessel may be loaded for specific water types and temperatures;
“port dues”	means berthage payments owed in respect of a vessel in port;
“PSVs”	means platform supply vessels;
“RRR” or “reserves replacement ratio”	means the measure of proved reserves added relative to production;
“seismic survey vessel”	means a vessel engaged in seismic survey operations;
“semi-submersible”	means a semi-submersible vessel typically designed to be able to ballast up for passage and ballast down for increased stability when on location;
“standby time”	see “lay-up time”;
“tons”	means metric tons; and
“winch capacity”	means the load capacity a winch can accommodate within its safe working limits.

Annex A – Financial Statements

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Nico Middle East Limited and its marine subsidiaries Combined financial statements 31 December 2010

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Nico Middle East Limited and its subsidiaries
Condensed consolidated interim financial information
For the six month period ended 30 June 2013
(Reviewed/unaudited)

Nico Middle East Limited and its subsidiaries
Condensed consolidated interim financial information
For the six month period ended 30 June 2013
(Reviewed/unaudited)

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Report on review of condensed consolidated interim financial information

To the Board of Directors of
Nico Middle East Limited

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Nico Middle East Limited and its subsidiaries (together referred to as “the Group”) as of 30 June 2013 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, “Interim Financial Reporting (“IAS 34”). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Other matter

The accompanying condensed consolidated interim financial information includes comparative information as required by IAS 34. The comparative information for the condensed consolidated interim statement of financial position is based on the audited consolidated financial statements as at 31 December 2012. The comparative information for the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows and related explanatory notes for the period ended 30 June 2012 has not been audited or reviewed.

PricewaterhouseCoopers

PricewaterhouseCoopers
2013
Dubai, United Arab Emirates

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Nico Middle East Limited and its subsidiaries

Condensed consolidated interim statement of comprehensive income

for the six month period ended 30 June 2013

	Note	Six months ended 30 June 2013 USD '000 (Reviewed)	Six months ended 30 June 2012 USD '000 (Unreviewed)
Revenue	7	185,399	142,301
Direct costs		<u>(116,252)</u>	<u>(89,102)</u>
GROSS PROFIT		69,147	53,199
Administrative expenses		(17,444)	(13,490)
Impairment loss on accounts receivable	13	(731)	(532)
Other income		<u>1,848</u>	<u>337</u>
PROFIT BEFORE FINANCE COSTS AND INCOME TAX		52,820	39,514
Finance costs	8	(20,528)	(18,372)
Finance income	8	<u>898</u>	<u>1,179</u>
Finance cost—net		<u>(19,630)</u>	<u>(17,193)</u>
PROFIT BEFORE INCOME TAX		33,190	22,321
Income tax expense	9	(9,276)	(7,300)
PROFIT FOR THE PERIOD		<u>23,914</u>	<u>15,021</u>
OTHER COMPREHENSIVE INCOME			
Changes to cash flow hedges	8	<u>1,015</u>	<u>(96)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		<u>1,015</u>	<u>(96)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>24,929</u>	<u>14,925</u>
Profit attributable to:			
Owners		17,858	9,184
Non-controlling interests		<u>6,056</u>	<u>5,837</u>
PROFIT FOR THE PERIOD		<u>23,914</u>	<u>15,021</u>
Total comprehensive income attributable to:			
Owners		18,873	9,088
Non-controlling interests		<u>6,056</u>	<u>5,837</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>24,929</u>	<u>14,925</u>

The independent auditors' review report is set out on page F-4.

The attached notes on pages F-9 to F-22 form part of these condensed consolidated interim financial information.

Nico Middle East Limited and its subsidiaries

Condensed consolidated interim statement of financial position

as at 30 June 2013

	Note	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	10	967,034	980,193
Intangible assets and goodwill	11	26,808	26,846
Long-term receivables and prepayments	13	10,671	14,464
Deferred tax asset		4,770	4,770
		1,009,283	1,026,273
Current assets			
Inventories	12	3,869	8,045
Accounts receivable and prepayments	13	123,999	98,321
Due from related parties	22	17,797	19,340
Bank balances and cash	14	63,149	32,942
		208,814	158,648
TOTAL ASSETS		1,218,097	1,184,921
EQUITY AND LIABILITIES			
Equity			
Share capital	15	256,818	256,818
Statutory reserve	16	38	38
Hedging reserve	17	(1,103)	(2,118)
Retained earnings		183,522	165,664
Total equity attributable to equity holders of the Company		439,275	420,402
Non-controlling interests		79,505	73,449
Total equity		518,780	493,851
Non-current liabilities			
Term loans	18	410,521	352,545
Loan due to ultimate holding company	19	134,000	161,360
Employees' end of service benefits	20	3,017	2,593
Accounts payable and accruals	21	4,333	5,818
Fair value of derivatives		804	2,102
		552,675	524,418
Current liabilities			
Accounts payable and accruals	21	52,544	54,195
Bank overdraft	14	—	5,846
Term loans	18	74,657	82,204
Loan due to ultimate holding company	19	—	5,424
Due to related parties	22	974	2,795
Income tax payable	9	15,081	12,313
Fair value of derivatives		3,386	3,875
		146,642	166,652
Total liabilities		699,317	691,070
TOTAL EQUITY AND LIABILITIES		1,218,097	1,184,921

The condensed interim financial information was approved in accordance with a resolution of the directors on 2013.

Director

Director

*The independent auditors' review report is set out on page F-4.
The attached notes on pages F-9 to F-22 form part of these condensed consolidated interim financial information.*

Nico Middle East Limited and its subsidiaries

Condensed consolidated interim statement of cash flows

for the six month period ended 30 June 2013

	Note	Six months ended 30 June 2013 USD '000 (Reviewed)	Six months ended 30 June 2012 USD '000 (Unreviewed)
Cash flows from operating activities			
Profit before income tax		33,190	22,321
Adjustments for:			
Depreciation and amortisation	10,11	28,546	26,043
Finance costs	8	20,528	18,372
Amortisation of mobilisation costs		5,548	—
Impairment loss on trade accounts receivables	13	731	532
Provision for employees end of service benefits	20	610	336
Finance income	8	(140)	—
Fair value changes of derivative financial instruments		(758)	(1,179)
Operating cash flows before changes in working capital		88,255	66,425
Changes in working capital:			
Inventories		3,616	442
Accounts receivable, prepayments and other assets		(19,706)	(27,076)
Accounts payable, accruals and other liabilities		(1,719)	30,832
Due from related parties		(3,470)	—
Due to related parties		—	(16,651)
Net cash from operations		66,976	53,972
OPERATING ACTIVITIES			
Income tax paid		(6,091)	(5,965)
Interest paid		(19,884)	(10,571)
End of service benefits paid	20	(186)	(222)
Net cash flows generated from operating activities		40,815	37,214
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(10,163)	(57,250)
Advance paid for vessels		(10,115)	(4,043)
Proceeds from disposal of property, plant and equipment		—	221
Change in long term receivable		—	(255)
Net movement in restricted cash		(2,030)	—
Net cash flows used in investing activities		(22,308)	(61,327)
FINANCING ACTIVITIES			
Loans borrowed		130,633	62,087
Loans paid		(82,333)	(58,773)
Loan due to ultimate holding company		—	22,400
Repayment of loan due to ultimate holding company		(32,784)	—
Net cash flows generated from financing activities		15,516	25,714
INCREASE IN CASH AND CASH EQUIVALENTS		34,023	1,601
Cash and cash equivalents at 1 January		15,096	22,658
CASH AND CASH EQUIVALENTS AT 30 JUNE	14	49,119	24,259

The independent auditors' review report is set out on page F-4.

The attached notes on pages F-9 to F-22 form part of these condensed consolidated interim financial information.

Nico Middle East Limited and its subsidiaries
Condensed consolidated interim statement of changes in equity
for the six month period ended 30 June 2013

	Attributable to equity holders of the Company						Non- controlling interests	Total equity
	Share capital USD' 000	Statutory reserve USD' 000	Hedging reserve USD' 000	Translation reserve USD' 000	Retained earnings USD' 000	Total USD' 000	USD' 000	USD' 000
Balance at 1 January 2012								
(Unreviewed)	241,817	38	(4,832)	895	147,986	385,904	65,599	451,503
Profit for the period	—	—	—	—	9,184	9,184	5,837	15,021
Net changes in fair value of cash flow hedges	—	—	(96)	—	—	(96)	—	(96)
Total comprehensive income for the period.....	—	—	(96)	—	9,184	9,088	5,837	14,925
Balance at 30 June 2012								
(Unreviewed)	<u>241,817</u>	<u>38</u>	<u>(4,928)</u>	<u>895</u>	<u>157,170</u>	<u>394,992</u>	<u>71,436</u>	<u>466,428</u>
Balance at 1 January 2013								
(Audited)	256,818	38	(2,118)	—	165,664	420,402	73,449	493,851
Profit for the period	—	—	—	—	17,858	17,858	6,056	23,914
Net changes in fair value of cash flow hedges	—	—	1,015	—	—	1,015	—	1,015
Total comprehensive income for the period.....	—	—	1,015	—	17,858	18,873	6,056	24,929
Balance at 30 June 2013								
(Reviewed)	<u>256,818</u>	<u>38</u>	<u>(1,103)</u>	<u>—</u>	<u>183,522</u>	<u>439,275</u>	<u>79,505</u>	<u>518,780</u>

The independent auditors' review report is set out on page F-4.

The attached notes on pages F-9 to F-22 form part of these condensed consolidated interim financial information.

Nico Middle East Limited and its subsidiaries

Notes to the condensed consolidated interim financial information

for the six month period ended 30 June 2013

1 GENERAL INFORMATION

Nico Middle East Limited (“the Company”) is a limited liability company incorporated in Bermuda. The Company is a wholly owned subsidiary of Topaz Energy and Marine Limited (“the Holding Company”), an Offshore company registered in the Jebel Ali Free Zone. The address of the registered office of the Company is P.O. Box 1022, Clarendon House, Church Street—West, Hamilton HM DX, Bermuda. The ultimate holding company is Renaissance Services SAOG, (“the Ultimate Holding Company”) a joint stock company incorporated in the Sultanate of Oman.

The condensed consolidated interim financial information for the six month period ended 30 June 2013 (“the interim financial information”) comprises the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The principal activities of the Group are ship management and operations of marine vessels on charter primarily to the oil and gas industry.

The interim financial information has been reviewed, not audited.

2 BASIS OF PREPARATION

The interim financial information has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”).

The interim financial information has been presented in United States Dollars (USD), which is the functional currency of the Company and the presentation currency of the Group. All values are rounded to the nearest thousand (USD ‘000’) except as otherwise indicated.

The interim financial information does not include all information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2012, which have been prepared in accordance with International Financial Reporting Standards (IFRSs).

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted in the preparation of interim financial information are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2012 except for the following revised IFRSs that have been adopted in these interim financial information.

- IAS 19 (revised) ‘Employee benefits’. IAS 19 (revised) amends the accounting for employment benefits;
- IFRS 10, ‘Consolidated financial statements’. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the group has control;
- IFRS 11, ‘Joint arrangements’. Under IFRS 11 Investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement; and
- IFRS 13, ‘Fair value measurement’—IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

4 ESTIMATES

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

In preparing the interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2012.

5 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk) credit risk and liquidity risk.

The interim financial information do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2012.

There have been no changes in the risk management department or any risk management policies since the year end.

5.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities. The main characteristics of the term loans provided to the Group are described in Note 18 and 19.

5.3 Fair value estimation

Financial instruments comprise financial assets and financial liabilities.

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); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Total USD'000	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Cost USD'000
At 30 June 2013 (Reviewed)					
Derivative financial instruments					
Derivative financial instruments	<u>4,190</u>	<u>—</u>	<u>4,190</u>	<u>—</u>	<u>—</u>
At 31 December 2012 (Audited)					
Derivative financial instruments					
Derivative financial instruments	<u>5,977</u>	<u>—</u>	<u>5,977</u>	<u>—</u>	<u>—</u>

There were no transfers between Levels 1 and 2 during the period.

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

5.4 Fair value of financial assets and liabilities measured at amortized costs

The fair value of borrowings are as follows:

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
Non-current.....	410,521	352,545
Current.....	74,657	82,204
	485,178	434,749

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivable
- Cash and cash equivalents (excluding bank overdrafts)
- Trade and other payables

6 SEGMENT INFORMATION

Management has determined the operating segments based on the information reviewed by chief operating decision-maker for the purposes of allocating resources and assessing performance. The Group operates under three primary geographical segments. The geographic segments are organised and managed separately according to the nature of the services provided, with each segment representing a strategic operating unit that offers different services.

Geographic segments

For management purposes, the Group is currently organised into three major geographic segments. These segments are the basis on which the Group reports its primary segmental information. These are:

- MENA
- Global
- Caspian

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 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 geographic segments.

The following table presents segmental information about these businesses:

Six months ended 30 June 2013 (Reviewed)	MENA USD'000	Global USD'000	Caspian USD'000	Corporate USD'000	Eliminations USD'000	Total USD'000
Revenue	46,669	28,960	110,405	—	(635)	185,399
Direct costs	(27,525)	(22,267)	(66,729)	—	269	(116,252)
Gross profit/segment results	19,144	6,693	43,676	—	(366)	69,147
Administrative expenses	(4,419)	(1,714)	(7,173)	(4,138)	—	(17,444)
Impairment loss on accounts receivable .	(731)	—	—	—	—	(731)
Other income	523	1,020	305	—	—	1,848
Finance cost, net	(5,108)	(3,285)	(7,265)	(3,972)	—	(19,630)
Profit before income tax	9,409	2,714	29,543	(8,110)	(366)	33,190
Income tax expense.....	(1,992)	(784)	(6,500)	—	—	(9,276)
Profit for the period.....	7,417	1,930	23,043	(8,110)	(366)	23,914

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

Depreciation and amortisation	7,901	4,588	15,509	163	385	28,546
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At 30 June 2013

Total assets	311,589	146,035	649,646	73,387	37,440	1,218,097
Total liabilities	152,742	105,665	298,559	142,351	—	699,317

Six months ended 30 June 2012 (Unreviewed)	MENA USD'000	Global USD'000	Caspian USD'000	Corporate USD'000	Eliminations USD'000	Total USD'000
Revenue	36,237	28,349	78,535	—	(820)	142,301
Direct costs	(23,761)	(19,133)	(46,594)	—	386	(89,102)
Gross profit/segment results	12,476	9,216	31,941	—	(434)	53,199
Administrative expenses	(2,824)	(2,342)	(5,882)	(2,442)	—	(13,490)
Impairment loss on accounts receivable .	(532)	—	—	—	—	(532)
Other income	275	—	62	—	—	337
Finance cost, net	(4,135)	(1,611)	(6,757)	(4,690)	—	(17,193)
Profit before income tax	5,260	5,263	19,364	(7,132)	(434)	22,321
Income tax expense.....	(1,388)	(695)	(4,242)	(975)	—	(7,300)
Profit for the period.....	3,872	4,568	15,122	(8,107)	(434)	15,021
Depreciation and amortisation	6,562	3,438	15,414	195	434	26,043

At 31 December 2012

Total assets	326,049	163,200	626,955	28,342	40,375	1,184,921
Total liabilities	142,847	95,231	265,953	187,039	—	691,070

7 REVENUE

	Six months ended 30 June 2013 USD '000 (Reviewed)	Six months ended 30 June 2012 USD '000 (Unreviewed)
Charter and other revenues from marine vessels	175,688	140,385
Income from mobilization of marine vessels	3,511	1,616
Sale of marine vessels.....	6,200	300
	185,399	142,301

8 FINANCE INCOME AND COSTS

	Six months ended 30 June 2013 USD '000 (Reviewed)	Six months ended 30 June 2012 USD '000 (Unreviewed)
Recognised in profit or loss		
Interest expense	20,298	18,028
Exchange loss	230	344
Finance cost	20,528	18,372
Exchange gain.....	140	—
Fair value changes of derivative financial instruments	758	1,179
Finance income.....	898	1,179
Recognized in other comprehensive income		
Gain/ (loss) changes in the fair value of cash flow hedges	1,015	(96)

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

9 INCOME TAX

Tax expense relates to corporation tax payable on the profits earned by certain Group entities which operate in taxable jurisdictions, as follows:

	Six months ended 30 June 2013 USD '000 (Reviewed)	Six months ended 30 June 2012 USD '000 (Unreviewed)
Current taxation		
Foreign tax	7,738	6,107
Corporation tax	1,538	1,193
Total current tax	9,276	7,300
Tax expense	9,276	7,300
Income tax payable	15,081	12,313

The Group's consolidated effective tax rate is 28% for 2013 (2012: 33%).

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings USD '000	Plant, machinery furniture, fixtures and office equipment USD '000	Marine vessels USD '000	Jetty and land development USD '000	Motor vehicles USD '000	Capital work in progress USD '000	Total USD '000
Cost:							
At 1 January							
2012	29,608	63,242	1,089,026	5,342	3,950	59,586	1,250,754
Additions	—	971	80,493	—	90	16,703	98,257
Transfers	—	—	44,183	—	—	(44,183)	—
Transfer to related party	(25,848)	(50,566)	(1,204)	(5,342)	(3,062)	(1,098)	(87,120)
Transfer to current assets...	—	—	(18,765)	—	—	(2,934)	(21,699)
Disposals / write offs	—	(451)	(9,531)	—	(28)	(41)	(10,051)
At 31 December 2012							
(Audited)	3,760	13,196	1,184,202	—	950	28,033	1,230,141
Additions	—	34	9,538	—	—	591	10,163
Transfer from related party	323	(191)	6,323	—	—	(1,862)	4,593
Transfer from current assets...	—	—	1,853	—	—	—	1,853
At 30 June 2013							
(Reviewed)	4,083	13,039	1,201,916	—	950	26,762	1,246,750
Depreciation:							
At 1 January							
2012	9,845	37,513	210,234	1,964	3,375	—	262,931
Charge for the year	160	1,844	51,869	—	22	—	53,895
Impairment charge for the year	—	—	2,200	—	—	—	2,200
Transfer to current assets...	—	—	(15,783)	—	—	—	(15,783)

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

Relating to disposals/write offs	—	(445)	(9,012)	—	(27)	—	(9,484)
Transfer to related party	(9,669)	(29,411)	(347)	(1,964)	(2,420)	—	(43,811)
At 31 December 2012							
(Audited)	336	9,501	239,161	—	950	—	249,948
Charge for the year	105	414	27,989	—	—	—	28,508
Mobilisation charge for the year	—	—	1,825	—	—	—	1,825
Transfer to current assets...	—	—	(565)	—	—	—	(565)
At 30 June 2013							
(Reviewed)	441	9,915	268,410	—	950	—	279,716
Net carrying amount							
At 30 June 2013 (Reviewed)	3,642	3,124	933,506	—	—	26,762	967,034
At 31 December 2012							
(Audited)	3,424	3,695	945,041	—	—	28,033	980,193

Marine vessels with a net book value of USD 870,869 thousand (2012: USD 855,093 thousand) are pledged against bank loans obtained. (Note 18)

Capital work in progress includes costs incurred for construction of marine vessels by a related party.

Transfer from current assets represent capitalization of advances given for the acquisition of vessels.

The depreciation charge has been allocated as follows:

	Six months ended 30 June 2013 USD '000 (Reviewed)	Year ended 31 December 2012 USD '000 (Audited)
Direct costs	28,050	52,919
Administrative expenses	458	976
	28,508	53,895

11 INTANGIBLE ASSETS AND GOODWILL

	2013 (Reviewed) Computer software USD '000			2012 (Audited) Computer software USD '000		
	Goodwill USD '000	Computer software USD '000	Total USD '000	Goodwill USD '000	Computer software USD '000	Total USD '000
At 1 January	26,174	672	26,846	26,848	474	27,322
Additions	—	—	—	—	248	248
Amortization	—	(38)	(38)	—	(50)	(50)
Less: transfer to related party	—	—	—	(674)	—	(674)
At 30 June/31 December	26,174	634	26,808	26,174	672	26,846
Cost (gross carrying amount)	26,174	1,947	28,121	26,848	1,947	28,795
Accumulated amortization	—	(1,313)	(1,313)	—	(1,275)	(1,275)
Less: transfer to related party	—	—	—	(674)	—	(674)

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

Net carrying amount.....	26,174	634	26,808	26,174	672	26,846
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Amortization of intangible assets has been allocated to administrative expenses in the condensed interim statement of comprehensive income.

Goodwill comprises of the following:

- goodwill arising from the acquisition of BUE Marine Limited with effect from 1 July 2005.
- goodwill arising from the excess of the cost of acquisition over the fair value of identifiable assets of Marine and Industrial Division of Fujairah Marine Services acquired by the Fujairah Branch of a Group entity with effect from 1 January 2005.
- goodwill arising from the acquisition of Doha Marine Services WLL with effect from 8 May 2008.

Goodwill has been allocated to three individual cash-generating units for impairment testing as follows:

- BUE Marine cash-generating unit;
- Doha Marine Services cash generating unit.

Carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	30 June 2013 USD '000	31 December 2012 USD '000
	(Reviewed)	(Audited)
BUE Marine Limited Unit	18,383	18,383
Doha Marine Services Unit.....	7,791	7,791
	26,174	26,174

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 senior management. The date of the last impairment testing was 31 December 2012.

12 INVENTORIES

	30 June 2013 USD '000	31 December 2012 USD '000
	(Reviewed)	(Audited)
Stores, spares and consumables	4,311	5,613
Marine vessel held for sale	—	2,982
Provision for slow moving inventories	(442)	(550)
	3,869	8,045

Movement in the provision for slow moving inventories were as follows:

At 1 January.....	550	2,356
Charge for the year	—	436
Written off during the period	(108)	(2,242)
At the end of period/year	442	550

13 ACCOUNTS RECEIVABLE AND PREPAYMENTS

30 June 2013 USD '000	31 December 2012 USD '000
(Reviewed)	(Audited)

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

Trade accounts receivable.....	84,810	65,904
Allowance for impairment of receivable	(4,506)	(4,705)
	80,304	61,199
Deferred mobilisation costs	18,879	22,602
Advance to suppliers.....	14,662	5,642
Value added tax (VAT) recoverable	7,235	8,485
Prepaid expenses.....	2,254	2,186
Advance withholding tax	1,431	—
Other receivables	9,905	12,671
	134,670	112,785
Less: Non-current portion of deferred mobilisation costs.....	(10,671)	(14,464)
	123,999	98,321

13 ACCOUNTS RECEIVABLE AND PREPAYMENTS

Advances to suppliers includes an amount of USD 10 million towards the acquisition of marine vessels expected to be finalised within 12 months from the reporting date.

At 30 June 2013, trade receivables with a nominal value of USD 4,506 thousand (31 December 2012: USD 4,705 thousand) were impaired. Movement in the allowance for impairment of receivables were as follows:

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
At 1 January.....	4,705	7,317
Charge for the year	731	1,735
Amounts written off.....	(930)	(161)
Less:transfer to related party.....	—	(4,186)
At the end of the period/year	4,506	4,705

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
MENA	17,451	13,026
Caspian	54,602	23,826
Others.....	8,251	24,347
At the end of the period/year	80,304	61,199

As at 30 June and 31 December, the ageing of unimpaired trade receivables is as follows:

		Neither past due nor impaired USD '000	Past due but not impaired				
			<30 days USD '000	30-60 days USD '000	60-90 days USD '000	90-120 days USD '000	>120 days USD '000
2013	80,304	51,120	21,403	1,673	1,660	695	3,753
2012	61,199	46,001	8,932	2,753	1,905	747	861

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majority are, therefore, unsecured.

14 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the condensed interim statement of cash flows include the following:

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
Cash at bank		
—Deposits under lien (refer (i) below).....	14,030	12,000
—Current accounts	48,939	20,237
	62,969	32,237
Cash in hand	180	705
	63,149	32,942
Bank overdraft (refer to (ii) below)	—	(5,846)
	63,149	27,096
	30 June 2013 USD '000	31 December 2012 USD '000
Cash and bank balances	63,149	27,096
Less: Deposits under lien	(14,030)	(12,000)
Cash and cash equivalents	49,119	15,096

(i) These represent deposits with a commercial bank held under lien against term loans obtained by the Group. (Note 18).

(ii) Undrawn overdraft facilities amounting to USD 10 million is secured by mortgages over certain vessels.

15 SHARE CAPITAL

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
Authorised		
400,000,000 shares of USD 1 each (2012: 400,000,000 shares of USD 1 each).....	400,000	400,000
Issued and fully paid		
256,817,094 shares of USD 1 each (2012: 256,817,094 shares of USD 1 each).....	256,818	256,818

16 STATUTORY RESERVE

As required by the UAE Commercial Companies Law of 1984 (as amended) and the Articles of Association of subsidiaries incorporated in the UAE, 10% of the profit for the year is required to be transferred to statutory reserve. The subsidiaries may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up capital of the individual entities being consolidated.

17 HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet affected the condensed consolidated interim statement of comprehensive income.

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

18 TERM LOANS

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
Term loan, at LIBOR plus 4.00% p.a. repayable by August 2017	176,074	171,816
Term loan at LIBOR plus 3.5% p.a. repayable by June 2020	55,594	—
Term loan at LIBOR plus 3.75% p.a. repayable by June 2018	54,516	—
Term loan at LIBOR plus 4% p.a. repayable by July 2017	45,943	51,236
Term loan, at LIBOR plus 2.88% p.a. repayable by July 2017	38,806	41,463
Term loan at LIBOR plus 2.50% p.a. repayable by March 2018	27,930	30,055
Term loan, at LIBOR plus 2.65% p.a. repayable by July 2022	19,689	20,558
Term loan at 5.75% p.a. repayable by October 2017	18,629	19,436
Term loan, at LIBOR plus 0.35% p.a. repayable by December 2016	12,684	14,234
Term loan, at LIBOR plus 3.95% p.a. repayable by May 2018	11,467	9,189
Term loan, at LIBOR plus 3.95% p.a. repayable by October 2017	11,392	12,668
Term loan, at 5.90% p.a. repayable by September 2015	5,043	7,282
Term loan, at LIBOR plus 0.75% p.a. repayable by June 2015	2,500	3,125
Term loan, at LIBOR plus 0.75% p.a. repayable by December 2014	2,188	2,813
Term loan, at LIBOR plus 0.75% p.a. repayable by July 2015	1,794	2,153
Term loan, at LIBOR plus 3.75% p.a. repayable by December 2013	472	943
Term loan, at LIBOR plus 1% p.a. repayable by July 2013	457	915
Term loan, at EIBOR plus 3.50% p.a. repayable by April 2014	—	2,866
Term loan, at LIBOR plus 5% p.a. repayable by September 2016	—	4,981
Term loan, at LIBOR plus 4.25% p.a. repayable by November 2016	—	23,916
Term loan, at LIBOR plus 1.10% p.a. repayable by June 2015	—	5,100
Short term loan at SCB treasury plus 3.45% p.a. repayable by February 2013	—	10,000
	485,178	434,749
Current portion	(74,657)	(82,204)
Non-current portion	410,521	352,545

The term loans of the Group are denominated either in United States Dollars or United Arab Emirates Dirham and are secured by a first preferred mortgage over selective assets of the Group, the assignment of marine vessel insurance policies, corporate guarantees, lien on fixed deposits and the assignment of the marine vessel charter lease income (Notes 10 and 14).

The term loans are repayable as follows:

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
Due within one year	74,657	82,204
Due between two to five years	378,885	330,433
Due after five years	31,636	22,112
	485,178	434,749

The borrowing arrangements include undertakings to comply with various covenants like senior interest cover, current ratio, EBITDA to finance cost, debt to EBITDA ratio, tangible debt to net worth ratio and equity ratio including an undertaking to maintain a minimum tangible net worth which shall not be less than US\$ 350 million until 31 December 2013 and thereafter it shall be the greater of US\$ 450 million or 35% of total assets.

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

19 LOAN DUE TO ULTIMATE HOLDING COMPANY

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
Term loan at 7.25% p.a. repayable by October 2013	—	3,184
Term loan at 7% p.a. repayable by November 2014 (refer (i) below)	30,000	49,600
Term loan at 8.50% p.a. repayable by September 2017 (refer (ii) below)	104,000	104,000
Term loan at 6.75% p.a. repayable by January 2014	—	10,000
	134,000	166,784
Current portion	—	(5,424)
Non-current portion	134,000	161,360

(i) This represents loan obtained from the Ultimate holding company in 2012 for the purpose of financing acquisition of certain vessels and working capital requirements.

(ii) This represents a subordinated loan payable in four equal installments of USD 26 million, starting from November 2014 carrying mark up at the rate of 8.5% p.a. compounded on a quarterly basis.

20 EMPLOYEES' END OF SERVICE BENEFITS

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. This is an unfunded defined benefit scheme.

Principal actuarial assumptions at the reporting date are as follows:

- Normal retirement age : 60-65 years
- Mortality, withdrawal and retirement: 5% turnover rate. Due to the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used for maturity, withdrawal and retirement.
- Discount rate: 5.25% p.a.
- Salary increases: 3% - 5% p.a.

Movement in the provision is recognised in the condensed interim statement of financial position is as follows:

	Six months ended 30 June 2013 USD '000 (Reviewed)	Year ended 31 December 2012 USD '000 (Audited)
Provision as at 1 January	2,593	10,315
Provided during the period	610	1,401
End of service benefits paid	(186)	(408)
Transfer to a related party	—	(8,912)
Other movements	—	197
Provision as at 31 December	3,017	2,593

21 ACCOUNTS PAYABLE AND ACCRUALS

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
<i>Current</i>		
Trade accounts payables	12,592	23,462

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

Accrued expenses	29,433	20,567
Deferred income	6,114	5,390
Other payables	4,405	4,776
	<u>52,544</u>	<u>54,195</u>
<i>Non-current</i>		
Deferred income	<u>4,333</u>	<u>5,818</u>

22 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the condensed interim statement of comprehensive income are as follows:

	30 June 2013		30 June 2012	
	(Reviewed)		(Unreviewed)	
	Revenue USD '000	Purchases USD '000	Revenue USD '000	Purchases USD '000
Related parties	—	278	—	212

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	30 June 2013 USD '000	30 June 2012 USD '000
	(Reviewed)	(Unreviewed)
Short term benefits.....	1,170	1,123
Employees' end of service benefits	61	67
	<u>1,231</u>	<u>1,190</u>

	30 June 2013 USD '000	31 December 2012 USD '000
	(Reviewed)	(Audited)

Due from related parties

Directors	62	65
Topaz Engineering Ltd	17,735	19,275
	<u>17,797</u>	<u>19,340</u>

Due to related parties

Renaissance Services SAOG ("the Ultimate Holding Company")	696	2,371
Others.....	278	424
	<u>974</u>	<u>2,795</u>

23 CONTINGENCIES AND CLAIMS

Contingent liabilities

	30 June 2013 USD '000	31 December 2012 USD '000
	(Reviewed)	(Audited)
Letters of credit.....	1,121	1,011
Letters of guarantee	14,867	12,735
	<u>15,988</u>	<u>13,746</u>

Nico Middle East Limited and its subsidiaries
Notes to the condensed consolidated interim financial information
for the six month period ended 30 June 2013

These are non-cash banking instruments like bid bond, performance bond, refund guarantee, retention bonds, etc, which are issued by banks on behalf of group companies to customers / suppliers under the non-funded working capital lines with the banks. These lines are secured by the corporate guarantee from various group entities. The amounts are payable only in the event when certain terms of contracts with customers / suppliers are not met.

24 COMMITMENTS

	30 June 2013 USD '000 (Reviewed)	31 December 2012 USD '000 (Audited)
Capital expenditure commitment:		
Purchase of marine vessels	140,000	—
Purchase of other property, plant and equipment.....	—	—
	<u>140,000</u>	<u>—</u>

25 RECLASSIFICATION

Comparative figures as at 31 December 2012 relating to long term receivables amounting to USD 7.4 million has been reclassified as current.

Nico Middle East Limited and its subsidiaries

**Consolidated financial statements
For the year ended 31 December 2012**

Nico Middle East Limited and its subsidiaries

**Consolidated financial statements
31 December 2012**

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Nico Middle East Limited and its subsidiaries
Directors' report

Nico Middle East Limited reported consolidated net profit of USD 34M (*Yr 2011: loss USD 11M*) on revenue of USD 309 M (*Yr 2011: USD 464M*) for 2012. Due to the challenges the company faced during 2011, we re-organized the company to restore stability and growth. In the remainder of 2011 and throughout 2012 the company has reversed the setbacks; although consequences from 2010/11 remained to impact 2012 performance.

Effective 1 January, 2012, the Engineering business of Nico Middle East Ltd was transferred to Topaz Engineering Ltd under the terms of a Business Transfer Agreement ('BTA').

The Topaz Marine business continues to grow strong and profitable. Even so, there is scope for further improvement within existing operations. The Marine team is already working on addressing its under-performing assets and this bodes well for 2013. Topaz Marine owns a young, modern and relevant OSV fleet with the skills and capability sought by its clients, which are blue-chip International Oil Companies (IOC) and National Oil Companies (NOC). It has market leadership and growing presence in key geographies. Topaz is a global top-ten OSV fleet with the ability and potential to take on the best in the world.

2013 shall be a year of consolidation: turning around under-performing assets and investing in growth. By Q2 we expect to see a positive trend of profitability that we anticipate shall strengthen through the year.

The nature and quality of these businesses; the clients and markets that they serve; and the mix of long-term secure contracts and short-term opportunistic contracts, all bode well for the immediate and long-term future. There is uncertainty in the global economy for at least another year; but the prognosis is satisfactory for the oil & gas sectors of the Caspian, MENA and West Africa. Other markets offer new opportunity. We are taking on these opportunities with the benefit and humility of all the lessons arising from these past two challenging years.

The residue of consequences from 2010/11 proved tougher and more costly than we had anticipated. During the year we have concluded many positive actions and solutions to the legacy issues. Where final solutions are still pending, we have initiatives in place that are close to maturity.

The company has also taken steps to ensure the continuing financial strength and stability of the business. During the year, the Group successfully restructured its existing liabilities under various facilities. As a result of this restructuring, on 16 May 2012, the Group entered into an agreement with a syndicate of banks for a financing facility of USD 203 million. This concludes the material part of the refinancing. In December 2012, the Group signed a bilateral term sheet for a facility of USD 125 million. The Group intends to use part of this facility to refinance certain term loan facilities and the balance to finance vessel under construction.

Director
Date:

Director



Independent auditor's report to the shareholders of Nico Middle East Limited and its subsidiaries

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Nico Middle East Limited ("the Company") and its subsidiaries (together, "the Group"), which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statements of comprehensive income, cash flows and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter—prior period consolidated financial statements audited by a predecessor auditor

The consolidated financial statements of the Group for the year ended 31 December 2011, were audited by another firm of auditors, whose report dated 26 February 2012 expressed an unqualified opinion on those consolidated financial statements. Our opinion is not qualified in respect of this matter.

PricewaterhouseCoopers
3 March 2013
Dubai, United Arab Emirates

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W Hunt, AH Nasser, P Suddaby and JE Fakhoury are registered as practising auditors with the UAE Ministry of Economy

Nico Middle East Limited and its subsidiaries
Consolidated statement of comprehensive income
as at 31 December 2012

	Notes	2012 USD '000	2011 USD '000
Revenue	6	309,490	463,667
Direct costs		(192,738)	(351,109)
GROSS PROFIT		116,752	112,558
Administrative expenses		(30,013)	(48,303)
Impairment losses	8	(3,935)	(1,136)
Other income	7	587	1,141
Other non-operating expenses	9	—	(29,688)
PROFIT BEFORE FINANCE COSTS AND INCOME TAX		83,391	34,572
Finance costs	10	(37,400)	(33,729)
Finance income	10	1,000	2,549
Finance cost—net		(36,400)	(31,180)
PROFIT BEFORE INCOME TAX		46,991	3,392
Income tax expense	11	(12,546)	(14,064)
PROFIT FOR THE YEAR	12	34,445	(10,672)
OTHER COMPREHENSIVE INCOME			
Changes to cash flow hedges	10	2,715	(4,232)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		2,715	(4,232)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		37,160	(14,904)
Profit / (Loss) attributable to:			
Owners		22,801	(18,665)
Non-controlling interest		11,644	7,993
PROFIT / LOSS FOR THE YEAR		34,445	(10,672)
Total comprehensive (loss) / income attributable to:			
Owners		25,516	(22,897)
Non-controlling interest		11,644	7,993
TOTAL COMPREHENSIVE INCOME / LOSS FOR THE YEAR		37,160	(14,904)

The independent auditors' report is set out on page F-26.

The attached notes on pages F-32 to F-76 form part of these consolidated financial statements.

Nico Middle East Limited and its subsidiaries

Consolidated statement of comprehensive income as at 31 December 2012

	Notes	2012 USD '000	Restated 2011 USD '000	Restated 2010 USD '000
ASSETS				
Non-current assets				
Property, plant and equipment	13	980,193	987,823	851,953
Intangible assets and goodwill	14	26,846	27,322	27,282
Long-term receivables and prepayments	37	21,904	2,649	7,016
Deferred tax asset	29	4,770	3,095	1,164
		<u>1,033,713</u>	<u>1,020,889</u>	<u>887,415</u>
Current assets				
Inventories	15	8,045	12,372	12,632
Construction work in progress	16	—	3,444	13,751
Accounts receivable and prepayments	17	90,881	160,323	154,776
Due from related parties	28	19,340	760	3054
Bank balances and cash	18	32,942	47,036	34,602
		<u>151,208</u>	<u>223,935</u>	<u>218,816</u>
TOTAL ASSETS		<u>1,184,921</u>	<u>1,244,824</u>	<u>1,106,230</u>
EQUITY AND LIABILITIES				
Equity				
Share capital	19	256,818	241,818	241,818
Statutory reserve	20	38	2,622	2,622
Hedging reserve	21	(2,118)	(4,832)	(600)
Translation reserve	22	—	634	634
Revaluation reserve		1,727	1,872	2,017
Reserve at acquisition		(67)	(67)	—
Retained earnings		<u>164,004</u>	<u>149,806</u>	<u>204,724</u>
Total equity attributable to equity holders of the Company		<u>420,402</u>	<u>391,853</u>	<u>451,215</u>
Non-controlling interest		<u>73,449</u>	<u>66,369</u>	<u>58,376</u>
Total equity		<u>493,851</u>	<u>458,222</u>	<u>509,591</u>
Non-current liabilities				
Term loans	24	352,545	341,676	323,465
Loan due to holding company	25	161,360	156,760	54,181
Employees' end of service benefits	26	2,593	10,315	9,151
Accounts payable and accruals	27	5,818	3,391	5,690
Fair value of derivatives	33	2,102	5,185	3,781
		<u>524,418</u>	<u>517,327</u>	<u>396,268</u>
Current liabilities				
Accounts payable and accruals	27	54,195	121,246	99,635
Bank overdraft	18	5,846	5,270	—
Term loans	24	82,204	114,763	75,191
Loan due to holding company	25	5,424	5,424	16,148
Due to related parties	28	2,795	8,611	3,253
Income tax payable	11	12,313	9,828	2,342
Fair value of derivatives	33	3,875	4,133	3,767
		<u>166,652</u>	<u>269,275</u>	<u>200,371</u>
Total liabilities		<u>691,070</u>	<u>786,602</u>	<u>596,640</u>
TOTAL EQUITY AND LIABILITIES		<u>1,184,921</u>	<u>1,244,824</u>	<u>1,106,230</u>

The consolidated financial statements were approved and authorised for issue in accordance with a resolution of the directors on .

Director

Director

The independent auditors' report is set out on page F-26

The attached notes on pages F-32 to F-76 form part of these consolidated financial statements

Nico Middle East Limited and its subsidiaries

Consolidated statement of cash flows for the year ended 31 December 2012

	Notes	2012 USD'000	2011 USD'000
Profit before income tax from continuing operations		46,991	3,392
Adjustments to reconcile profit (loss) before tax to net cash flows:			
Charge on discontinuance of hedge accounting	10	2,508	—
Fair value changes of derivative financial instruments.....	10	(2,772)	(2,462)
Impairment losses on property, plant and equipment	8	2,200	—
Impairment loss on trade accounts receivables.....	17	1,735	1,136
Provision for slow moving inventory	15	436	757
Provision for employees end of service benefits	26	1,401	2,862
Profit on sale of property, plant and equipment.....	7	(234)	(125)
Finance income	10	(736)	(87)
Finance costs	10	37,400	33,729
Depreciation and amortisation.....	13,14	53,945	54,824
Working capital adjustments:			
Inventories.....		(202)	(497)
Gross amount due from customers for contract work.....		—	10,307
Accounts receivables, prepayments and other assets.....		(4,452)	(25,620)
Accounts payable, accruals and other liabilities		16,093	18,341
Due from related parties.....		(18,319)	2,293
Due to related parties.....		3,100	(1,185)
Net cash from operations		139,094	97,665
OPERATING ACTIVITIES			
Income tax paid		(11,297)	(7,373)
Interest paid		(38,724)	(27,682)
End of service benefits paid.....	26	(408)	(1,644)
Net cash flows generated from operating activities.....		88,665	60,966
INVESTING ACTIVITIES			
Purchase of property, plant and equipment.....		(98,256)	(165,936)
Advance paid for vessels		(1,714)	(3,200)
Payments for intangible assets.....		(248)	(128)
Proceeds from disposal of property, plant and equipment		801	390
Change in long term receivable		(18,990)	4,367
Cash on acquisition of a subsidiary		—	54
Interest received.....		—	87
Net movement in restricted cash.....		(3,000)	(9,000)
Net cash flows used in investing activities.....		(121,407)	(173,366)
FINANCING ACTIVITIES			
Loans borrowed		266,582	214,877
Loans paid		(257,502)	(159,734)
Loan due to Holding Company		49,600	108,326
Repayment of loan due to Holding Company.....		(30,000)	(16,507)
Dividend paid to Owner.....		—	(36,399)
Dividend paid to non-controlling interests.....		(3,500)	—
Net cash flows generated from financing activities		25,180	110,563
DECREASE IN CASH AND CASH EQUIVALENTS.....		(7,562)	(1,837)
Cash and cash equivalents at 1 January		32,766	34,603
Less: Cash and cash equivalent at 1 January relating to related party.....	38	(10,108)	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	18	15,096	32,766

The principal non-cash transactions relate to the following:

- (a) Transfer of a vessel (sold subsequent to balance sheet date) from property, plant and equipment to inventory of USD 2,982 thousand.
- (b) Transfer of Holding Company loan into share capital of USD 15 million.
- (c) Interest payable to parent company of USD 2,519 thousand.

The independent auditors' review report is set out on page F-26

The attached notes on pages F-32 to F-76 form part of these consolidated financial statements

Nico Middle East Limited and its subsidiaries

Consolidated statement of changes in equity for the year ended 31 December 2012

	Share capital USD '000	Statutory reserve USD '000	Hedging reserve USD '000	Translation reserve USD '000	Revaluation reserve USD '000	Reserve at acquisition USD '000	Retained earnings/ (Accumul ated losses) USD '000	Total USD '000	Non- controlling interests USD '000	Total equity USD '000
Balance at 1 January 2011 (previously reported)	241,818	2,622	(600)	634	2,017	—	205,942	452,433	59,304	511,737
Impact of restatement	—	—	—	—	—	—	(1,218)	(1,218)	(928)	(2,146)
Balance at 1 January 2011 (restated)	241,818	2,622	(600)	634	2,017	—	204,724	451,215	58,376	509,591
(Loss)/Profit for the year	—	—	—	—	—	—	(18,665)	(18,665)	7,993	(10,672)
Net changes in fair value of cash flow hedges (refer note 10)	—	—	(4,232)	—	—	—	—	(4,232)	—	(4,232)
Total comprehensive (loss)/ Profit for the year	—	—	(4,232)	—	—	—	(18,665)	(22,897)	7,993	(14,904)
Transactions with the Owners										
Dividend paid (refer note 23)	—	—	—	—	—	—	(36,399)	(36,399)	—	(36,399)
Transfer to Revaluation reserve	—	—	—	—	(145)	—	145	—	—	—
Acquisition of a subsidiary	—	—	—	—	—	(67)	—	(67)	—	(67)
Total transactions with the Owners	—	—	—	—	(145)	(67)	(36,254)	(36,466)	—	(36,466)
Balance at 31 December 2011 (restated)	241,818	2,622	(4,832)	634	1,872	(67)	149,806	391,853	66,369	458,222

The independent auditors' report is set out on page F-26.

The attached notes on pages F-32 to F-76 form part of these consolidated financial statements.

Nico Middle East Limited and its subsidiaries
Consolidated statement of changes in equity for the year ended 31 December 2012 (continued)

Attributable to equity holders of the Company

	Share capital USD '000	Statutory reserve USD '000	Hedging reserve USD '000	Translation reserve USD '000	Revaluation reserve USD '000	Reserve at acquisition USD '000	Retained earnings/ (Accumulated losses) USD '000	Total USD '000	Non-controlling interests USD '000	Total equity USD '000
Balance at 1 January 2012 (previously reported)	241,818	2,622	(4,832)	634	1,872	(67)	151,024	393,071	67,297	460,368
Effect of correcting prior year error.....	—	—	—	—	—	—	(1,218)	(1,218)	(928)	(2,146)
Balance at 1 January 2012 (restated)	241,818	2,622	(4,832)	634	1,872	(67)	149,806	391,853	66,369	458,222
(Loss)/Profit for the year.	—	—	—	—	—	—	22,801	22,801	11,644	34,445
Net changes in fair value of cash flow hedges (refer note 10)	—	—	2,715	—	—	—	—	2,715	—	2,715
Total comprehensive (loss)/ Profit for the year	—	—	2,715	—	—	—	22,801	25,516	11,644	37,160
Transactions with the Owners										
Dividend paid (refer note 23)	—	—	—	—	—	—	—	—	(3,500)	(3,500)
Conversion of Holding Company Loan in to share capital	15,000	—	—	—	—	—	—	15,000	—	15,000
Transfer to Income Statement	—	—	—	(896)	—	—	—	(896)	—	(896)
Transfer to related party.....	—	(2,584)	—	262	—	—	(8,775)	(11,097)	(763)	(11,860)
Acquisition of non controlling interest	—	—	—	—	—	—	—	—	(275)	(275)
Reclassification.....	—	—	(1)	—	—	—	27	26	(26)	—
Transfer to Revaluation reserve.....	—	—	—	—	(145)	—	145	—	—	—
Total transactions with the Owners.....	15,000	(2,584)	(1)	(634)	(145)	—	(8,603)	3,033	(4,564)	(1,531)
Balance at 31 December 2012 (restated)	256,818	38	(2,118)	—	1,727	(67)	164,004	420,402	73,449	493,851

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012

1 ACTIVITIES

Nico Middle East Limited (“the Company”) is a limited liability company incorporated in Bermuda. The Company is a wholly owned subsidiary of Topaz Energy and Marine Limited (“the Holding Company”), an Offshore company registered in the Jebel Ali Free Zone. The address of the registered office of the Company is P.O. Box 1022, Clarendon House, Church Street—West, Hamilton HM DX, Bermuda. The ultimate holding company is Renaissance Services SAOG, (“the Ultimate Holding Company”) a joint stock company incorporated in the Sultanate of Oman.

The consolidated financial statements of the Company as at and for the year ended 31 December 2012 comprises the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”) and the Group’s interest in jointly controlled entities. The principal activities of the Group are fabrication and maintenance services to the oil and gas industry, ship building and provision of ship repair services, provision of offshore supply vessels and other marine vessels on charter primarily to the oil and gas industry.

2 SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

		Registered percentage shareholding		
Company	Country of incorporation	2012	2011	Principal activities
A) Subsidiaries of Nico Middle East Limited				
Topaz Energy and Marine				
Services Emirates DMCC	United Arab	100%	100%	Ship management
Nico World II Limited	Vanuatu	100%	100%	Charter of marine vessels
Nico World S.A	Panama	100%	100%	Charter of marine vessels
Nico Far East Pte Limited	Singapore	100%	100%	Charter of marine vessels
TEAM I Limited	Vanuatu	100%	100%	Charter of marine vessels
TEAM II Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM III Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM IV Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM V Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM VI Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM VII Limited [refer note 2 ^(f)]				
.....	St. Vincent	100%	100%	Charter of marine vessels
TEAM VIII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM IX Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM X Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XIII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XV Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XVI Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XVII Limited [refer note 2 ^(f)]	St. Vincent	100%	100%	Charter of marine vessels
TEAM XVIII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XX Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXI Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXIII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXIV Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXV Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXVI Limited [refer note 2 ^(e)]	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXVII Limited [refer note 2 ^(e)]	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXVIII Limited [refer note 2 ^(e)]	Marshall Islands	100%	100%	Charter of marine vessels
BUE Marine Limited	United Kingdom	100%	100%	Charter of marine vessels
Adyard Abu Dhabi LLC ("Adyard")	United Arab Emirates	—	49%	Offshore and onshore projects and fabrication
[refer note 2 ^(f)] automation	Dart Automation Inc. Panama	—	100%	Marine and onshore
Nico Craft LLC [refer note 2 ^(f)]	United Arab Emirates	—	—	Boat building
Topaz BUE Limited	United Arab	100%	100%	Charter of marine Emirates vessels Charter of marine Limited
Nico International	United Arab vessels, ship repair and	—	100%	Emirates fabrication.

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012 (continued)

Nico International LLC [refer note 2 ⁽ⁱ⁾]	Sultanate of Oman	—	100%	Ship repair
Kyran Holdings Limited	St. Vincent	—	100%	Engineering
Topaz Doha Holdings I Limited	St. Vincent	100%	100%	Charter of marine vessels
Topaz Doha Holdings II Limited	St. Vincent	100%	100%	Charter of marine vessels
Caspian Fortress Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Pride Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Baki Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Citadel Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Gala Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Server Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessel
Caspian Breeze Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Protector Limited [refer note 2 ^(a)]	St. Vincent	50%	100%	Charter of marine vessels
Caspian Power Limited [refer note 2 ^(a)]	St. Vincent	50%	100%	Charter of marine vessels
Caspian Provider Limited [refer note 2 ^(a)]	St. Vincent	50%	100%	Charter of marine vessels
Topaz Marine Saudi Arabia Limited [refer note 2 ^(g)]	Saudi Arabia	95%	50%	Operation services and technical support for ships
Flying Angel Limited	St. Vincent	100%	100%	Commercial financial Lending and borrowing activities
Nemo Limited	St. Vincent	100%	100%	Commercial financial Lending and borrowing activities
Topaz Khobar Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Khuwair Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Khalidiya Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Karama Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Karzakkan Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Khubayb Limited	Marshall Islands	100%	100%	Charter of marine vessels
Ererson Shipping Limited	Cyprus	100%	100%	Charter of marine vessels
Heatberg Shipping Limited	Cyprus	100%	100%	Charter of marine vessels
Topaz Marine Limited [refer note 2 ^(c)]	Bermuda	100%	100%	Charter of marine vessels
Topaz Marine Azerbaijan Limited [refer note 2 ^(c)]	United Arab Emirates	100%	100%	Charter of marine vessels
B) Subsidiaries of BUE Marine Limited				
BUE Caspian Limited [refer note 2 ^(b)]	Scotland	100%	100%	Vessel management
BUE Kazakhstan Limited	Scotland	100%	100%	Vessel management
BUE Cygnet Limited	Scotland	100%	100%	Vessel management
BUE Bulkers Limited	Scotland	100%	100%	Vessel management
BUE Shipping Limited	Scotland	100%	100%	Vessel management
Roosalka Shipping Limited	Scotland	100%	100%	Vessel management
BUE Aktau LLP	Kazakhstan	100%	100%	Vessel management
BUE Bautino LLP	Kazakhstan	100%	100%	Vessel management
BH PSV Limited	Cayman Islands	100%	100%	Dormant company
BH Jura Limited	Cayman Islands	100%	100%	Dormant company
BH Standby Limited	Cayman Islands	100%	100%	Dormant company
Roosalka Shipping Limited	Cayman Islands	100%	100%	Dormant company
BH Bulkers Limited	Cayman Islands	100%	100%	Vessel management
BH Islay Limited	Cayman Islands	100%	100%	Dormant company
BUE Kyran Limited	Scotland	100%	100%	Vessel management
BUE Marine Turkmenistan Limited [refer note 2 ^(b)]	Scotland	100%	100%	Vessel management
XT Shipping Limited	Scotland	100%	100%	Vessel management
BUE Kashagan Limited	Cayman Islands	100%	100%	Vessel management
BUE Maritime Services Limited [refer note 2 ^(b)]	Scotland	100%	100%	Vessel management
River Till Shipping Limited	Scotland	100%	100%	Vessel management
C) Subsidiary of Topaz Doha Holdings II Limited				
Doha Marine Services WLL [refer note 2 ^(d)]	State of Qatar	49%	49%	Vessel management
DMS Jaya Marine [refer note 2 ^(h)]	State of Qatar	100%	51%	Charter of marine WLL vessels
D) Jointly controlled entities				

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012 (continued)

Nico Doosan Babcock (previously known as Nico Mitsui Babcock) [refer note 2 ⁽ⁱ⁾]	United Arab Emirates	—	50%	Marine boiler repair
Jaya DMS Marine Pte Limited [refer note 2 ⁽ⁱⁱ⁾]	Singapore	—	50%	Charter of marine vessels
Mangistau Oblast Boat Yard LLP [refer note 2 ⁽ⁱ⁾]	Kazakhstan	—	50%	Marine repair, fabrication and boat building

- (a) Caspian Fortress Limited, Caspian Pride Limited, Caspian Baki Limited, Caspian Citadel Limited, Caspian Gala Limited, Caspian Server Limited, Caspian Breeze Limited, Caspian Power Limited, Caspian Protector Limited and Caspian Provider Limited have been dealt with as subsidiaries as the Group has the power to govern the financial and operating policies of these entities under management agreements with the shareholders of these entities.
- (b) BUE Caspian Limited owns the entire issued share capital of BUE Maritime Services Limited and BUE Marine Turkmenistan Limited, companies incorporated and registered in Scotland.
- (c) Topaz Marine Limited owns the entire issued share capital of Topaz Marine Azerbaijan Limited.
- (d) The Group owns 49% of the shareholding in Doha Marine Services WLL (“DMS”), an entity incorporated in the State of Qatar. In addition to the above mentioned 49% ownership interest, the Group also has a beneficial interest in a further 51% in DMS through its Holding Company. Accordingly, the Group has the power to govern the financial and operating policies of DMS, and therefore, DMS has been dealt with as a subsidiary in these consolidated financial statements.
- (e) Team XXVI, TEAM XXVII and TEAM XXVIII were incorporated in the current year for the purposes of charter of marine vessels. The Group owns the entire issued capital of these companies.
- (f) During the year, the Group transferred their interest in two jointly owned vessels to TEAM VII and TEAM XVII. Accordingly, 50% of share of these companies are now beneficially owned by the joint venture partner through a joint venture agreement. The finalisation of share transfer agreement is pending certain legal formalities.
- (g) During the year, the Group acquired an additional 45% of the shareholding in Topaz Marine Saudi Arabia Limited, resulting in an ownership interest of 95%. In addition to this, the Group also acquired beneficial interest in the remaining 5% shareholding in this company through a memorandum of understanding. Accordingly, the total beneficial ownership interest is 100%.
- (h) During the year, the Group acquired an additional 49% of the shareholding in DMS Jaya Marine WLL from the previous joint venture partner, thereby resulting in total ownership interest of 100% in this Company. As consideration for this acquisition, the Group sold its 50% interest in Jaya DMS Marine Pte Limited joint venture to the said joint venture partner.
- (i) Effective 1 January, 2012, the Engineering business of Nico Middle East Ltd was transferred to Topaz Engineering Ltd under the terms of a Business Transfer Agreement (“BTA”). The group has therefore loss control in below refer Engineering entities:
- (i) Adyard Abudhabi LLC
 - (ii) Nico Craft LLC
 - (iii) Nico International LLC
 - (iv) Nico International Limited.
 - (v) Kyran Holdings Limited.
 - (vi) Dart Automation
 - (vii) Nico Doosan Babcock
 - (viii) Mangistau Oblast Boat Yard LLP

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012

3 BASIS OF PREPARATION

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

3.2 Basis of measurement

The consolidated financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of derivative financial instruments.

3.3 Functional currency and presentation currency

The consolidated financial statements are presented in United States Dollars (USD) which the Group's presentation currency. In 2012, the Group changed its presentation currency from the United Arab Emirates Dirhams (AED) to USD. The functional currency of the Company is AED. The Group's subsidiaries may have functional currencies other than USD, in which case the respective local currency is the functional currency.

A significant proportion of the Group's assets, liabilities, income and expenses are in AED, Qatari Riyal (QR), or USD, to which the AED and QR is currently pegged at approximately AED 3.67 equals to USD 1 and QR 3.46 equals to 1 USD respectively. All values are rounded to the nearest thousand except where otherwise indicated.

3.4 Going Concern assessment

The key focus of the Group is to manage its borrowing obligations in the current challenging macroeconomic environment. Group management has performed an assessment of the appropriateness of the use of the going concern assumption in the preparation of these consolidated financial statements and have concluded that the Group generates sufficient operating cash flows to manage its businesses and has necessary plans in place to manage its obligations under various borrowings as and when they fall due. Accordingly, these consolidated financial statements have been prepared on a going concern basis.

Restatement

In the current year, the Group recognised that certain expenses amounting to USD 2,146 thousand relating to mobilisation and other costs on marine vessels had been capitalised in 31 December 2010 accounts instead of being charged to the income statement. The error has been corrected retrospectively on all years presented in these consolidated financial statements, and therefore, the prior year balances have been restated accordingly. The negative effect on the retained earnings and non-controlling interests as of 31 December 2010 amounted to USD 1,218 thousand and USD 928 thousand respectively.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and it also requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 year in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 36.

The accounting policies set out below, which comply with IFRS have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group entities.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below, which comply with IFRS have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group entities.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and each of the entities that it controls together with its interest in jointly controlled entities. Also refer note 2.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group. 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 other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, 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.

Special purpose entities ("SPEs") are consolidated if, based on the evaluation of the substance of the relationship of the SPE with the Group and the SPEs risks and rewards, the Group concludes that it controls the SPEs.

The financial statements of the subsidiaries are prepared for the same reporting year using constant accounting policies.

Joint ventures

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in jointly controlled entities are accounted for under the proportionate consolidation method whereby the Group accounts for its share of assets, liabilities, income and expenses in the jointly controlled entities.

Transactions and balances eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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 and 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 the 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 for within equity.

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

Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured 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 financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Non-controlling interest

Non-controlling interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from owners' equity.

Acquisition of non controlling interests is accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Revenue recognition

Marine charter

Revenue comprises operating lease rent from charter of marine vessels, mobilisation income, and revenue from 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 when the mobilisation or demobilisation service has been rendered.

Sale of vessels

Revenue from sale of vessels is recognised in consolidated income statement when pervasive evidence exists, usually in the form of an executed sales agreement, that significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated

reliably, there is no continuing management involvement with the vessels and the amount of revenue can be measured reliably.

Ship building, ship repair and oil and gas services

Revenue comprises amounts derived from ship building, ship repair, provision of mechanical, electrical and instrumentation services, fabrication and maintenance services, turbocharger services and marine boiler repairs. Revenue is recognised under the percentage of completion method. Percentage of completion is determined by reference to the proportion that accumulated costs up to the period-end bear to the estimated total costs of the contract. Cost includes all expenditure directly related to specific projects and an allocation of fixed and variable overheads incurred in the Group's contractual activities. Profit is recognised only when the outcome of the contract can be assessed with reasonable certainty. Full provision is immediately made for all known or expected losses on individual contracts, when such losses are foreseen. Revenue arising from contract variations and claims is not accounted for unless it is probable that the customer will approve the variation/claim and the amount of revenue arising from such variation/claim can be measured reliably.

Dividend

Dividend income is recognised in consolidated income statement on the date that the Group's right to receive payment is established.

Finance income and expenses

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognised in consolidated income statement. Interest income is recognised in consolidated income statement as it accrues, using the effective interest rate method.

Finance expense comprises interest expense on borrowings and losses on hedging instruments that are recognised in consolidated income statement. All borrowing costs are recognised in consolidated income statement using the effective interest rate method. However, borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates ruling 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 ruling 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 consolidated income statement 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.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the dates 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 translation reserve related to that foreign operation is reclassified to consolidated income statement 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 income statement.

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 translation reserve in equity.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in consolidated income statement except to the extent that it relates to a business combination, or items that are recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of prior years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax

Deferred tax is provided in respect of temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the temporary differences reverse, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are 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 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 law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement 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.

Property, plant and equipment

Items of property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment in value. Cost of marine vessels includes purchase price paid to third party including registration and legal documentation costs, all directly attributable costs incurred to bring the vessel into working condition at the area of planned use, mobilization 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 mobilization is significant and the customer pays a mobilization fee, certain mobilization costs are charged to profit or loss. 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.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

	<u>Life in years</u>
Buildings.....	5 to 25
Plant, machinery, furniture, fixtures and office equipment	3 to 15
Marine vessels revalued (from the date of latest revaluation)	10
Marine vessels acquired (including boats).....	15 to 30
Expenditure on marine vessel dry docking (included as a component of marine vessels)	3
Jetty and land development.....	25
Floating dock (included as a component of marine vessels).....	25

Land is not depreciated. Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is capitalised and ready for use. Depreciation method, useful lives and residual values are reviewed at each reporting date.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off.

Other subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. All other expenditure is recognised in consolidated income statement as incurred.

Gains and losses on disposal of an item of property, plant and equipment, other than vessels, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised within other income or other expense in consolidated income statement.

The company disposes off vessels in the normal course of business. Vessels that are held for sale are transferred to inventories at their carrying value. The sale proceeds are accounted for subsequently under revenue.

Capital work in progress

Capital work in progress is stated at cost until the construction is complete. Upon the completion of construction, the cost of such assets together with cost directly attributable to construction, including capitalised borrowing cost are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

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.

Vessel refurbishment costs

Owned assets

Cost 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.

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012

4 SIGNIFICANT ACCOUNTING POLICIES

Intangible assets

Goodwill

Goodwill that arises with 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 recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any negative goodwill is immediately recognized 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 acquiree 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 an operating segment determined in accordance with IFRS 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or groups of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or groups of cash-generating units) is less than the carrying amount, an impairment loss is recognized in profit or loss. An impairment loss in respect of goodwill is not reversed. Where goodwill forms part of a cash-generating unit (or groups 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 that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognized in profit or loss as incurred.

Amortisation is charged on a straight line basis over the estimated useful life of five years, from the date they are available for use. Amortisation method, useful lives and residual values are reviewed at each reporting date.

Financial instruments

Non-derivative financial assets

Classification

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 at initial recognition.

a) 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.

b) 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 12 months after the end of the reporting period. These are classified as non-current assets. The Group loans and receivables comprise 'accounts and other receivables' due from related parties and 'bank balances and cash' in the statement of financial position.

c) 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 of it within twelve months of the end of the reporting period.

Recognition and measurement

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 consolidated statement of comprehensive income. 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 presented in the consolidated statement of comprehensive income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

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 included in the statement of comprehensive income as 'gains and losses from investment securities'.

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

Non-derivative financial liabilities

All the financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group's non-derivative financial liabilities include loans and borrowings, bank overdrafts, accounts and other payables and balances due to related parties. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported consolidated income statement

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the consolidated income statement as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect consolidated income statement, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the consolidated income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects consolidated income statement. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in the consolidated income statement. In other cases the amount recognised in other comprehensive income is transferred to the consolidated income statement in the same period that the hedged item affects the consolidated income statement.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in consolidated income statement.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise and indications that a

debtor or issuer will enter bankruptcy, adverse changes in payment status of borrowers or issuer and economic conditions that correlate with defaults. The Group considers evidence of impairment of financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in consolidated income statement and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through consolidated income statement.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than goodwill, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in consolidated income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to that cash generating unit and then to reduce the carrying amounts of the other assets in that cash generating unit on a pro rata basis.

The recoverable amount of an asset or its cash generating unit is the greater of its value in use over its useful life 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 or cash generating unit. For the purpose of impairment testing, assets that cannot be tested individually 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 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 measured at lower of cost and net realizable value after making due allowance for any obsolete or slow moving items. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Work in progress

Construction contracts in progress represent the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognised to date less progress billings and recognised losses. Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Group's contract activities based on normal operating capacity.

Construction contracts in progress is presented as part of current assets for all contracts in which costs incurred plus recognised profits exceed progress billings. If progress billings exceed costs incurred plus recognised profits, then the difference is presented as billings in excess of valuation in the current liabilities.

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 company 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. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

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 overdrafts 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 the statement of cash flows.

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.

Trade and other payables

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

Interest bearing borrowings

Interest bearing borrowings are recognised initially at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

Employees' end of service benefits

Pursuant to IAS 19 "*Employee benefits*", end of service benefit obligations are measured using the projected unit credit method. The objective of the method is to spread the cost of each employee's benefits over the period that the employee is expected to work for the Group. The allocation of the cost of benefits to each year of service is achieved indirectly by allocating projected benefits to years of service. The cost allocated to each year of service is then the value of the projected benefit allocated to that year.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past services costs and fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed periodically by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the group. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan

are improved, the portion of the increased benefit related to past service by employees is recognised in consolidated income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in consolidated income statement.

The Group recognises all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in consolidated income statement.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost 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

Leased asset

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.

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.

Lease payments

In respect of finance leases, 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 reflected in consolidated income statement.

Operating lease payments are recognised as an expense in consolidated income statement on a straight-line basis over the lease term. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Group as a lessor

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Leases where the Group has transferred substantially all the risks and rewards of ownership are classified as finance leases. The present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. The lease rentals are allocated between finance income and repayment of principal in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

Dividends distribution

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

New and amended standard adopted by the Group as a result of updates to International Financial Reporting Standards

The following new standard is mandatory for the first time for the financial period beginning 1 January 2012.

- *IAS 12 (amendment), 'Income taxes' (effective 1 January 2012)*; Previously IAS 12, 'Income taxes', required an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes—recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

Management has considered the above amendment and concluded that it does not have any impact on the Group.

New standards and amendments issued but not effective for the financial period beginning 1 January 2012 and not early adopted by the Group

- IAS 1 (amendment), 'Presentation of financial statements' (effective 1 July 2012);
- IAS 19, 'Employee benefits' (effective 1 January 2013);
- IAS 27 (revised 2011), 'Separate financial statements' (effective 1 January 2013);
- IAS 28 (revised 2011), 'Associates and joint ventures' (effective 1 January 2013);
- IAS 32 (amended), 'Financial instruments' (effective 1 January 2014);
- IFRS 7 (amended), 'Financial instruments' (effective 1 January 2013);
- IFRS 9, 'Financial instruments' (effective 1 January 2015);
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013);

- IFRS 11, 'Joint arrangements' (effective 1 January 2013);
- IFRS 12, 'Disclosure of interests in other entities' (effective 1 January 2013); and
- IFRS 13, 'Fair value measurement' (effective 1 January 2013).

The Group is in the process of assessing the impact of the new standards and amendments and intends to adopt these no earlier than their respective effective dates. These standards and amendments are not expected to have significant impact on the Group's accounting policies and are expected to result in additional disclosures only.

5 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 that asset or liability.

6 REVENUE

	2012 USD'000	2011 USD'000
Charter and other revenues from marine vessels	303,959	276,060
Income from mobilization of marine vessels	4,231	16,095
Sale of marine vessels	1,300	—
Oil and gas services	—	117,689
Ship building	—	3,987
Marine repairs	—	49,836
	<u>309,490</u>	<u>463,667</u>

7 OTHER INCOME

	2012 USD'000	2011 USD'000
Gain on disposal of property, plant and equipment	234	125
Unclaimed balances written back	44	—
Miscellaneous income	309	1,016
	<u>587</u>	<u>1,141</u>

8 IMPAIRMENT LOSSES

	2012 USD'000	2011 USD'000
Impairment loss on accounts receivable (refer note 17)	1,735	1,136
Impairment loss on property, plant and equipment	2,200	—
	<u>3,935</u>	<u>1,136</u>

9 OTHER NON-OPERATING EXPENSES

Other non-operating expenses of 2011 amounting to USD 29,688 thousand related to one-off expenses incurred by the Group.

10 FINANCE INCOME AND COSTS

	2012 USD'000	2011 USD'000
Recognized in profit or loss		
Interest income	95	—
Exchange gain	641	87

Fair value changes of derivative financial instruments (refer (i) below and note 34).....	2,772	2,462
Charge on discontinuance of hedge accounting.....	(2,508)	—
Finance income	1,000	2,549
Interest expense	37,194	32,639
Exchange loss	206	1,090
Finance costs	37,400	33,729
Recognized in other comprehensive income		
Effective portion of changes in the fair value of cash flow hedges (refer note 21).....	207	(4,232)
Reclassification on discontinuance of hedge accounting (refer note 21).....	2,508	—
Finance costs	2,715	(4,232)

(i) This represents gain on fair valuation of interest rate swaps which are not designated as hedging instruments under IAS 39 'Financial Instruments: Recognition and Measurement' and therefore recognized in profit or loss.

11 INCOME TAX

Tax expense relates to corporation tax payable on the profits earned by certain Group entities which operate in taxable jurisdictions, as follows:

	2012 USD'000	2011 USD'000
Current taxation		
Foreign tax	11,969	15,251
Corporation tax	2,531	744
Total current tax.....	14,500	15,995
Deferred tax		
Current year	(2,657)	(1,684)
Prior year	703	(247)
Total deferred tax.....	(1,954)	(1,931)
Tax expense for the year	12,546	14,064
Tax liabilities	12,313	9,828

The Group's consolidated effective tax rate is 35% for 2012 (2011: 470.7%).

The charge for the period can be reconciled to the profits of the Group attributable to entities registered in the United Kingdom, Oman and Qatar as follows:

	2012 USD'000	2011 USD'000
Profit before income tax of Group entities operating in taxable jurisdictions	23,122	31,609
Less: Non-taxable profits earned by these entities.....	(8,391)	(2,558)
Profit subject to tax included in the profit/(loss) for the year	14,731	29,051
Tax at the applicable average UK tax rate of 24.5% (2011: 26%) based on profits generated by Group entities registered in UK	2,138	3,248
Tax effect of expenses that are not deductible in determining taxable profit	175	163
Effect of different tax rates of subsidiaries operating in jurisdictions other than UK.....	9,357	10,839
Prior year movement on deferred tax.....	703	(247)
Effect of change in rate of deferred tax recognition	173	—
Adjustment to prior year's tax payable	—	61
Tax expense for the year	12,546	14,064

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

12 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2012 USD'000	2011 USD'000
Staff costs (all operations and administration staff costs).....	90,897	128,661
Rental-operating leases	12,120	24,442
Staff costs include personnel costs of all divisions.		

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings USD'000	Plant, machinery furniture, fixtures and office equipment USD'000	Marine vessels USD'000	Jetty and land development USD'000	Motor vehicles USD'000	Capital work in progress USD'000	Total USD'000
Cost:							
At 1 January							
2011(reported)	22,415	55,575	926,095	5,342	3,904	49,917	1,063,248
Impact of restatement (Note 3)							
Prior year loss (mobilisation cost).....	—	—	(2,333)	—	—	—	(2,333)
At 1 January							
2011(restated)	22,415	55,575	923,762	5,342	3,904	49,917	1,060,915
Additions	2,975	8,404	96,585	—	291	57,673	165,928
Transfers	238	24	47,679	—	63	(48,004)	—
Transfer from current assets .	—	—	21,000	—	—	—	21,000
On acquisition of subsidiary .	3,980	—	—	—	—	—	3,980
Disposals / write offs	—	(761)	—	—	(308)	—	(1,069)
At 31 December							
2011(restated).....	29,608	63,242	1,089,026	5,342	3,950	59,586	1,250,754
At 1 January 2012							
(restated)	29,608	63,242	1,089,026	5,342	3,950	59,586	1,250,754
Additions	—	971	80,493	—	90	16,703	98,257
Transfers	—	—	44,183	—	—	(44,183)	—
Transfer to related party.....	(25,848)	(50,566)	(1,204)	(5,342)	(3,062)	(1,098)	(87,120)
Transfer to current assets	—	—	(18,765)	—	—	(2,934)	(21,699)
Disposals / write offs	—	(451)	(9,531)	—	(28)	(41)	(10,051)
At 31 December 2012	3,760	13,196	1,184,202	—	950	28,033	1,230,141
Depreciation:							
At 1 January 2011	7,556	29,944	166,910	1,680	3,060	—	209,150
Impact of restatement (Note 3)							
Prior year loss (mobilisation cost).....	—	—	(187)	—	—	—	(187)
At 1 January							
2011(restated)	7,556	29,944	166,723	1,680	3,060	—	208,963
Charge for the year	2,244	8,075	43,511	284	622	—	54,736
On acquisition of subsidiary .	45	—	—	—	—	—	45
Transfers	—	21	—	—	(21)	—	—
Relating to disposals/write offs	—	(527)	—	—	(286)	—	(813)
At 31 December							
2011(restated).....	9,845	37,513	210,234	1,964	3,375	—	262,931
At 1 January 2012							
(restated)	9,845	37,513	210,234	1,964	3,375	—	262,931
Charge for the year	160	1,844	51,869	—	22	—	53,895
Impairment charge for the year (Note 8)	—	—	2,200	—	—	—	2,200

Transfer to current assets	—	—	(15,783)	—	—	—	(15,783)
Relating to disposals/write offs	—	(445)	(9,012)	—	(27)	—	(9,484)
Transfer to related party.....	(9,669)	(29,411)	(347)	(1,964)	(2,420)	—	(43,811)
At 31 December 2012.....	336	9,501	239,161	—	950	—	249,948
Net carrying amount							
At 31 December 2012.....	3,424	3,695	945,041	—	—	28,033	980,193
At 31 December 2011(restated).....	19,763	25,729	878,792	3,378	575	59,586	987,823

13 PROPERTY, PLANT AND EQUIPMENT

Management assesses impairment of property, plant and equipment on an annual basis. In the current year, management recognised an impairment charge in relation to a vessel where the book value exceeded its fair value by USD 2.2 million.

Marine vessels with a net book value of USD 855,093 thousand (2011: USD 769,918 thousand) and plant and machinery with a net book value of USD Nil thousand (2011: USD 9,213 thousand) are pledged against bank loans obtained. Buildings with a net book value of USD Nil (2011: USD 9,832 thousand) are pledged against bank overdrafts. Refer note 24.

Capital work in progress includes costs incurred for construction of marine vessels and workshop facilities for marine repair and fabrication and construction.

Building amounting to USD Nil (2011: USD 300 thousand) is situated on leased hold premises which is renewable every year. The Directors of the Group believe that the lease will continue to be available to the Group for the foreseeable future.

Transfer from current assets represents capitalization of advances given for the acquisition of vessels.

During the year, the Group has capitalized borrowing cost amounting to USD Nil thousand (2011: USD 2,114 thousand).

The depreciation charge has been allocated as follows:

	2012 USD'000	2011 USD'000
Direct costs	52,919	51,353
Administrative expenses	976	3,383
	53,895	54,736

14 INTANGIBLE ASSETS AND GOODWILL

	2012			2011		
	Goodwill USD'000	Computer software USD'000	Total USD'000	Goodwill USD'000	Computer software USD'000	Total USD'000
At 1 January	26,848	474	27,322	26,848	434	27,282
Additions	—	248	248	—	128	128
Amortization	—	(50)	(50)	—	(88)	(88)
Less: Transfer to related party	(674)	—	(674)	—	—	—
At 31 December	26,174	672	26,846	26,848	474	27,322
Cost (gross carrying amount).....	26,848	1,947	28,795	26,848	1,696	28,544
Accumulated amortization	—	(1,275)	(1,275)	—	(1,222)	(1,222)
Less: Transfer to related party	(674)	—	(674)	—	—	—
Net carrying amount.....	26,174	672	26,846	26,848	474	27,322

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012 (continued)

Amortization of intangible assets has been allocated to administrative expenses in the consolidated statement of comprehensive income.

Goodwill comprise of the following:

- a) goodwill arising from the acquisition of BUE Marine Limited with effect from 1 July 2005.
- b) goodwill arising from the excess of the cost of acquisition over the fair value of identifiable assets of Marine and Industrial Division of Fujairah Marine Services acquired by the Fujairah Branch of a Group entity with effect from 1 January 2005.
- c) goodwill arising from the acquisition of Doha Marine Services WLL with effect from 8 May 2008.

Goodwill has been allocated to three individual cash-generating units for impairment testing as follows:

- BUE Marine cash-generating unit;
- Fujairah Marine Services cash-generating unit; and
- Doha Marine Services cash generating unit.

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

	2012 USD'000	2011 USD'000
BUE Marine Limited Unit	18,383	18,383
Fujairah Marine Services Unit	—	674
Doha Marine Services Unit.....	7,791	7,791
	<u>26,174</u>	<u>26,848</u>

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 senior management.

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 for each cash-generating unit is a pre tax measure estimated, based on past experience, and industry average weighted average cost of capital, which is based on a possible range of debt leveraging of 70% at a market interest rate of 6%.

Terminal value calculations

The discounted cash flow calculations for all the cash generating units include projected cash flows for the next year as approved by the Group's senior management. These cash flows then form the basis of perpetuity cash flows used in calculating the terminal value.

Budgeted EBITDA

Budgeted EBITDA is based on financial budgets approved by senior management. The anticipated annual revenue growth included in the cash flow projections has been based on past experience and adjusted for the expected growth in established and new markets.

Sensitivity to changes in assumptions:

Management believes that there is adequate headroom as some of the key assumptions are conservative, particularly the expected growth rate. For the year ended 31 December 2012, 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.

15 INVENTORIES

	2012 USD'000	2011 USD'000
Stores, spares and consumables	5,613	14,728
Marine vessel held for sale	2,982	—
Provision for slow moving inventories	(550)	(2,356)
	<u>8,045</u>	<u>12,372</u>

Movement in the provision for slow moving inventories were as follows:

	2012 USD'000	2011 USD'000
At 1 January	2,356	1,599
Charge for the year	436	757
Less: Transfer to related party	(2,242)	—
At 31 December	<u>550</u>	<u>2,356</u>

16 WORK IN PROGRESS

	2012 USD'000	2011 USD'000
Costs incurred on contracts in progress	—	156,652
Attributable profits less recognised losses	—	10,806
	—	167,458
Progress billings	—	(164,014)
	<u>—</u>	<u>3,444</u>

17 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2012 USD'000	2011 USD'000
Trade accounts receivable	65,904	105,645
Allowance for impairment of receivable	(4,705)	(7,317)
	61,199	98,328
Value added tax (VAT) recoverable	8,485	9,915
Prepaid expenses	2,186	4,493
Advance to suppliers	5,642	19,135
Retention receivable	—	10,318
Other receivables	13,369	18,134
	<u>90,881</u>	<u>160,323</u>

At 31 December 2012, trade receivables with a nominal value of USD 4,705 thousand (2011: USD 7,317 thousand) were impaired. Movement in the allowance for impairment of receivables were as follows:

	2012 USD'000	2011 USD'000
At 1 January	7,317	6,658
Charge for the year (refer note 8)	1,735	1,136

Amounts written off.....	(161)	(477)
Less: Transfer to related party	(4,186)	—
At 31 December	<u>4,705</u>	<u>7,317</u>

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	2012 USD'000	2011 USD'000
GCC	13,026	46,231
Caspian	23,826	25,364
Others.....	24,347	26,733
At 31 December	<u>61,199</u>	<u>98,328</u>

As at 31 December, the ageing of unimpaired trade receivables is as follows:

			Past due but not impaired				
		Neither past due nor impaired USD'000	<30 days USD'000	30-60 days USD'000	60-90 days USD'000	90-120 days USD'000	>120 days USD'000
2012.....	61,199	46,001	8,932	2,753	1,905	747	861
2011.....	98,328	69,181	10,000	12,933	2,300	2,428	1,486

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majorities are, therefore, unsecured.

18 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows include the following:

	2012 USD'000	2011 USD'000
Cash at bank		
—Fixed deposit accounts (refer (i) below)	—	7,724
—Deposits under lien (refer (ii) below).....	12,000	9,000
—Current accounts	20,237	30,110
	<u>32,237</u>	<u>46,834</u>
Cash in hand	705	202
	<u>32,942</u>	<u>47,036</u>
Bank overdraft	(5,846)	(5,270)
Cash and bank balances	27,096	41,766
Less: Deposits under lien.....	(12,000)	(9,000)
Cash and cash equivalents	<u>15,096</u>	<u>32,766</u>

- (i) Fixed deposits and call accounts are placed with commercial banks in the UAE. These are denominated in AED and USD, short term in nature and carry interest rate ranging between 0.5% to 3% p.a. (2011: 0.5% to 3% p.a.).
- (ii) These represent deposits with a commercial bank held under lien against term loans obtained by the Group (refer note 25).
- (iii) Bank overdrafts at the year-end relate to overdraft balances of a Group entity and carry interest rate ranging between 3% to 7.5% p.a. (2011: 4% to 9% p.a.).
- (iv) Working capital facilities for one of the subsidiaries are secured against pari-passu mortgage over its property, plant and equipment.

19 SHARE CAPITAL

	2012 USD'000	2011 USD'000
Authorised		
400,000,000 shares of USD 1 each (2011: 400,000,000 shares of USD 1 each).....	400,000	400,000
Issued and fully paid		
256,817,094 shares of USD 1 each (2011: 241,817,094 shares of USD 1 each).....	256,818	241,818

During the previous year the Company has issued 100,000,000 shares of USD 1 each amounting to USD 100,000 thousand.

20 STATUTORY RESERVE

As required by the UAE Commercial Companies Law of 1984 (as amended) and the Articles of Association of subsidiaries incorporated in the UAE, 10% of the profit for the year is required to be transferred to statutory reserve. The subsidiaries may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up capital of the individual entities being consolidated.

21 HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet affected the consolidated income statement.

During the year, in addition to the fair value changes of USD 207 thousand, an amount of USD 2,508 thousand was charged to the income statement due to the discontinuance of hedge accounting.

22 TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

23 DIVIDEND

During the year, no dividend (2011: USD 36,399 thousand) was declared and paid by the Company and no dividend (2011: USD 36,399 thousand) was proposed by the Board of Directors.

24 TERM LOANS

	2012 USD'000	2011 USD'000
Term loan, at LIBOR plus 4.00% p.a. repayable by August 2017.....	171,816	—
Term loan, at LIBOR plus 0.75% p.a. repayable by December 2014.....	2,813	4,063
Term loan, at LIBOR plus 0.75% p.a. repayable by June 2015.....	3,125	4,375
Term loan, at EIBOR plus 3.50% p.a. repayable by April 2014.....	2,866	4,777
Term loan, at LIBOR plus 5% p.a. repayable by September 2016.....	4,981	6,310
Term loan, at LIBOR plus 3.75% p.a. repayable by December 2014 (refer to (i)).....	—	25,248
Term loan, at LIBOR plus 4.25% p.a. repayable by November 2016.....	23,916	55,614
Term loan, at LIBOR plus 2% p.a. repayable by April 2013 (refer to (i)).....	—	55,000
Term loan, at 5.87% p.a. repayable by August 2014 (refer to (ii)).....	—	4,065
Term loan, at 5.90% p.a. repayable by September 2015.....	7,282	14,554
Term loan, at LIBOR plus 1.10% p.a. repayable by June 2015.....	5,100	6,800
Term loan, at LIBOR plus 3.95% p.a. repayable by May 2018.....	9,189	—
Term loan, at LIBOR plus 0.30% p.a. repayable by October 2016 (refer to (ii)).....	—	7,960
Term loan, at LIBOR plus 1.25% p.a. repayable by December 2013 (refer to (ii)).....	—	7,200
Term loan, at LIBOR plus 3.5% p.a. repayable by July 2017 (refer to (i)).....	—	66,734
Term loan, at LIBOR plus 2.88% p.a. repayable by July 2017.....	41,463	23,508
Term loan, at LIBOR plus 1% p.a. repayable by July 2013.....	915	1,830
Term loan, at LIBOR plus 0.35% p.a. repayable by December 2016.....	14,234	15,817
Term loan, at LIBOR plus 0.75% p.a. repayable by July 2015.....	2,153	2,871
Term loan, at 7.37% p.a. repayable by September 2012.....	—	2,065
Term loan, at 5.75% p.a. repayable by June 2012.....	—	313
Aluminum Catamarans at ABC funding rate plus 2.75% p.a. repayable by Feb 2012.....	—	100
Short term loan at EIBOR plus 3% p.a. repayable by June 2012.....	—	9,357
Short term loan at EIBOR plus 3% p.a. repayable by February 2012.....	—	597
Short term loan at SCB treasury rate plus 2.50% p.a. repayable by April 2012.....	—	1,028
Short term loan at SCB treasury plus 3.45% p.a. repayable by February 2013.....	10,000	10,000
Term loan at LIBOR + 2.50% p.a. repayable by March 2018.....	30,055	34,335
Term loan at EIBOR + 3.50% p.a. repayable by December 2012.....	—	3,411
Term loan, at LIBOR plus 2% p.a. repayable by March 2013.....	—	320
Term loan, at SCB treasury rate plus 2% p.a. repayable by December 2012.....	—	700
Term loan, at EIBOR plus 5% p.a. repayable by September 2015.....	—	7,490
Vehicle finance loan, at EIBOR plus 3% p.a. repayable by November 2012.....	—	9
Vehicle finance loan at EIBOR plus 3% p.a. repayable by November 2012.....	—	79
Term loan, at LIBOR plus 3.95% p.a. repayable by October 2017.....	12,668	—
Equipment finance loan, at Mashreq Bank Base rate plus 3% p.a. repayable by August 2012.....	—	345
Term loan, at LIBOR plus 3.60% p.a. repayable by June 2018.....	—	4,983
Term loan, at LIBOR plus 2.65% p.a. repayable by July 2022.....	20,558	—
Term loan at 5.75% p.a. repayable by October 2017.....	19,436	—
Equipment finance loan, at Mashreq Bank Base rate plus 3% p.a. repayable by June 2012.....	—	26
Term loan, at EIBOR plus 3.25% p.a. repayable by March 2012.....	—	50
Term loan, at LIBOR plus 3% p.a. repayable by March 2012.....	—	104
Term loan, at LIBOR plus 3.75% p.a. repayable by December 2013.....	943	1,887
Term loan at LIBOR plus 4% p.a. repayable by July 2017.....	51,236	46,744
Short term loan at LIBOR plus 2% p.a. repayable by January 2012.....	—	2,167
	434,749	456,439
Current portion.....	(82,204)	(114,763)
Non-current portion.....	352,545	341,676

- (i) During the year, the Group successfully restructured its existing liabilities amounting to USD 129,430 thousand under various facilities. As a result of this restructuring, on 16 May 2012, the Group entered into an agreement with a syndicate of banks for financing facility of USD 203 million. The existing liabilities under the target restructure loans were prepaid and replaced by a new term loan amounting to USD 171,816 thousand. The new term loan carries interest at the rate of three-months LIBOR plus 4% and is repayable in quarterly instalments till August 2017.

In December 2012, the Group has signed a bilateral term sheet for facility of USD 125 million. The Group intends to use part of this facility to refinance certain term loan facilities and the balance to finance vessel under construction.

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012 (continued)

- (ii) Through the additional proceeds from the aforementioned restructuring, the Group also prepaid liabilities due under these term loans.
- (iii) The term loans of the Group are denominated either in United States Dollars or United Arab Emirates Dirham and are secured by a first preferred mortgage over selective assets of the Group, the assignment of marine vessel insurance policies, corporate guarantees, lien on fixed deposits and the assignment of the marine vessel charter lease income. The equipment finance loan is secured against plant and machinery acquired with the proceeds of the loan. The property loan is secured by first preferred mortgage over the underlying property (refer note 13 and 18).

The term and equipment finance loans are repayable as follows:

	2012 USD'000	2011 USD'000
Due within one year	82,204	114,763
Due between two to five years.....	330,433	289,330
Due after five years.....	22,112	52,346
	<u>434,749</u>	<u>456,439</u>

The borrowing arrangements include undertakings to comply with various covenants like senior interest cover, current ratio, EBITDA to finance cost, debt to EBITDA ratio, tangible debt to net worth ratio and equity ratio including an undertaking to maintain a minimum tangible net worth which, at no time, shall be less than US\$ 350,000 thousand.

25 LOAN DUE TO HOLDING COMPANY

	2012 USD'000	2011 USD'000
Term loan, at 7.25% p.a. repayable by October 2013 (refer (i) below)	3,184	3,184
Term loan at 7% p.a. repayable by January 2014 (refer (ii) below)	49,600	—
Term loan at 8.50% p.a. repayable by September 2017 (refer (iii) below)	104,000	104,000
Term loan at 6.00% p.a. repayable by July 2013 (refer (iv) below)	—	10,000
Term loan at 6.50% p.a. repayable by November 2013 (refer (iv) below)	—	25,000
Term loan at 6.50% p.a. repayable by November 2013 (refer (iv) below)	—	10,000
Term loan at 6.75% p.a. repayable by January 2014 (refer (i) below).....	10,000	10,000
	<u>166,784</u>	<u>162,184</u>
Current portion.....	<u>(5,424)</u>	<u>(5,424)</u>
Non-current portion	<u>161,360</u>	<u>156,760</u>

The loan is repayable as follows:

	2012 USD'000	2011 USD'000
Due within one year	5,424	5,424
Due between two to five years.....	161,360	130,760
Due after five years.....	—	26,000
	<u>166,784</u>	<u>162,184</u>

- (i) During the current year, the Holding Company confirmed that the repayment of this term loan will not be required to be made before the specified date.
- (ii) This represents new loan obtained from the Holding Company during the year for the purpose of financing acquisition of certain vessels and working capital requirements.
- (iii) This represents a subordinated loan payable in four equal installments of USD 26 million, starting from November 2014 carrying mark up at the rate of 8.5% p.a. compounded on a quarterly basis.
- (iv) Out of the total amount of USD 45 million due to the Holding Company under various loans, USD 15 million was converted into share capital (refer note 20) through the resolution of the Board of Directors of the Holding Company on 30 December 2012. The remaining USD 25 million was prepaid through proceeds of the restructured external loans.

26 EMPLOYEES' END OF SERVICE BENEFITS

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. This is unfunded defined benefit scheme.

Principal actuarial assumptions at the reporting date are as follows:

- Normal retirement age : 60-65 years
- Mortality, withdrawal and retirement: 5% turnover rate. Due to the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used for maturity, withdrawal and retirement.
- Discount rate: 5.25% p.a.
- Salary increases: 3% - 5% p.a.

Movement in the provision is recognised in the consolidated statement of financial position is as follows:

	2012 USD'000	2011 USD'000
Provision as at 1 January	10,315	9,151
Provided during the year	1,401	2,862
End of service benefits paid	(408)	(1,644)
Transfer to a related party	(8,912)	—
Other movements	197	(54)
Provision as at 31 December	2,593	10,315

27 ACCOUNTS PAYABLE AND ACCRUALS

	2012 USD'000	2011 USD'000
<i>Current</i>		
Trade accounts payables	23,462	43,916
Accrued expenses	20,567	44,662
Advance from customers	—	6,493
Deferred income	5,390	2,186
Retention payable	—	265
Other payables	4,776	23,724
	54,195	121,246
<i>Non-current</i>		
Deferred income	5,818	3,048
Retention payable	—	343
	5,818	3,391

28 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in the consolidated statement of comprehensive income are as follows:

2012 Revenue USD'000	2012 Purchases USD'000	2011 Revenue USD'000	2011 Purchases USD'000
----------------------------	------------------------------	----------------------------	------------------------------

Related parties	—	424	1,515	1,521
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Compensation of key management personnel

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

	2012 USD'000	2011 USD'000
Short term benefits.....	2,095	2,246
Employees' end of service benefits	135	135
	<u>2,230</u>	<u>2,381</u>

	2012 USD'000	2011 USD'000
Due from related parties		
Directors	65	48
Topaz Enginerring Ltd.....	19,275	—
Topaz Energy and Marine Plc,UK.....	—	350
Mangistau Oblast Boat Yard LLP.....	—	362
	<u>19,340</u>	<u>760</u>

28 RELATED PARTY TRANSACTIONS

	2012 USD'000	2011 USD'000
Due to related parties		
Renaissance Services SAOG	2,371	5,895
Gentas	424	—
Doosan Babcock Energy Limited	—	84
Jaya Holdings Limited.....	—	2,632
	<u>2,795</u>	<u>8,611</u>

29 DEFERRED TAX ASSET

	2012 USD'000	2011 USD'000
At 1 January.....	3,095	1,164
Credit to profit or loss.....	1,955	1,931
Less:Transfer to related party	(280)	—
At 31 December	<u>4,770</u>	<u>3,095</u>

The deferred tax balance at 31 December 2012 comprises depreciation in excess of capital allowances of USD 4,243 thousand (2011: USD 2,372 thousand) and short term timing differences of USD 527 thousand (2011: USD 723 thousand).

30 CONTINGENCIES AND CLAIMS**Contingent liabilities**

	2012 USD'000	2011 USD'000
Letters of credit.....	1,011	21,853
Letters of guarantee	12,735	60,701
	<u>13,746</u>	<u>82,554</u>

These are non-cash banking instruments like bid bond, performance bond, refund guarantee, retention bonds, etc, which are issued by banks on behalf of group companies to customers / suppliers under the non-funded working capital lines with the banks. These lines are secured by the corporate guarantee from various group entities. The amounts are payable only in the event when certain terms of contracts with customers / suppliers are not met.

31 NON-CANCELLABLE LEASES

a) Operating leases—receivable

The Group leases its marine vessels under operating leases. The leases typically run for a period between 3 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 non-cancellable operating leases as of 31 December are as follows:

	2012 USD'000	2011 USD'000
Within one year.....	258,050	176,764
Between one and five years	372,526	395,011
More than five years	114,668	131,734
	<u>745,244</u>	<u>703,509</u>

b) Operating leases—payable

The Group has commitments for future minimum lease payments under non- cancellable operating leases for marine vessels as follows:

	2012 USD'000	2011 USD'000
Within one year.....	36,422	18,213
Between one and five years	103,434	61,899
More than five years	26,854	29,449
	<u>166,710</u>	<u>109,561</u>

During the year an amount of USD 12,120 thousand (2011: USD 22,154 thousand) was recognized as an expense in profit or loss in respect of bareboat charter of marine vessels obtained on operating lease.

32 COMMITMENTS

	2012 USD'000	2011 USD'000
Capital expenditure commitment:		
Purchase of marine vessels	—	58,986
Purchase of other property, plant and equipment.....	—	2,387
	<u>—</u>	<u>61,373</u>

33 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2012	Negative fair value USD'000	Notional amount total USD'000	Notional amounts by term to maturity		
			Within 1 year USD'000	Between 1 year to 5 years USD'000	Over 5 years USD'000
Interest rate swaps.....	5,977	142,516	101,056	41,460	—

31 December 2011	Negative fair value USD'000	Notional amount total USD'000	Notional amounts by term to maturity		
			Within 1 year USD'000	Between 1 year to 5 years USD'000	Over 5 years USD'000
Interest rate swaps.....	9,318	222,612	26,736	187,584	8,292

The term loan facilities of the Group bear interest at US LIBOR plus applicable margins (refer note 25). In accordance with the financing documents, the Group has fixed the rate of interest through Interest Rate Swap Agreements (“IRS”) as follows:

- USD 40,000 thousand (2011: USD 55,000 thousand) at a fixed interest rate of 3.95% (2011: 3.95%) per annum, excluding margin;
- USD NIL thousand (2011: USD 54,040) at a fixed margin of 2.5% (2011: 2.5) per annum, excluding margin;
- USD 50,000 thousand (2011: USD 50,000 thousand) at the rate of 2% (2011: 2%) per annum, excluding margin;
- An amount of USD 5,930 thousand (2011: USD 7,180 thousand) at the rate of 3.25% (2011: 3.25%) per annum, excluding margin; and
- An amount of USD 46,500 thousand (2011: USD 56,400 thousand) at the rate of 1.97% (2011: 1.97%) per annum, excluding margin.

At 31 December 2012 the US LIBOR was approximately 0.51% (2011: 0.77%) per annum. Accordingly, the gap between US LIBOR and fixed rate under IRS was approximately 3.44%, NIL, 1.49%, 2.74% and 1.46% (2011: 3.18%, 1.73%, 1.23%, 2.48% and 1.20%) per annum.

Based on the interest rates gap, over the life of the IRS, the indicative losses were assessed at approximately USD 5,977 thousand (2011: USD 9,318 thousand) by the counter parties to IRS. Consequently, in order to comply with International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* fair value of the hedge instruments’ indicative losses in the amount of approximately USD 5,977 thousand (2011: USD 9,318 thousand) has been recorded under current and non-current liabilities and the impact for the year amounting to USD 264 thousand (2011: USD 2,462 thousand) has been recorded under finance income (refer note 10) and USD (2,715) thousand (2011: USD 4,232 thousand) has been recognized in the hedging reserve.

34 RISK MANAGEMENT

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.

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 and overdrafts, accounts payables and accruals and balances due to 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 balance and cash, long-term receivables and due from related parties which arise directly from its operations.

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

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 17% (2011: 18%) of the Group's revenue is attributable to sales transactions with a single customer. The Group's ten largest customers account for 56% (2011: 58%) of the outstanding trade accounts receivable as at 31 December 2012. 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.

More than 61% (2011: 45%) of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. As a result of the deteriorating economic circumstances in 2008 and 2009, certain purchase limits have been redefined, particularly for customers operating in the engineering segment.

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.

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012 (continued)

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.

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:

	2012 USD'000	2011 USD'000
Trade accounts receivable—Net.....	61,199	98,328
Other receivables and accrued income.....	13,369	28,452
Long-term receivable.....	—	—
Due from related parties	19,340	760
Cash at bank.....	32,237	46,834
	162,829	174,374

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. 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 2012, the Group had the following undrawn facilities of USD 20.4 million and an bank overdraft facility of USD 8 million.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2012, based on contractual undiscounted payments.

	Carrying amount USD'000	Contractual cash flows USD'000	Within 1 year USD'000	1 to 5 years USD'000	More than 5 years USD'000
At 31 December 2012					
Non derivative financial liabilities					
Accounts payables and accruals	48,805	(48,805)	(48,805)		
Term loans	434,749	(523,300)	(102,052)	(392,089)	(29,159)
Loan due to holding company	166,784	(211,524)	(18,650)	(190,664)	(2,210)
Due to related parties	2,795	(2,795)	(2,795)		
Bank overdraft	5,846	(5,846)	(5,846)	—	—
Total.....	658,979	792,270	178,148	582,753	31,369

	Carrying amount USD'000	Contractual cash flows USD'000	Within 1 year USD'000	1 to 5 years USD'000	More than 5 years USD'000
At 31 December 2011					
Non derivative financial liabilities					
Accounts payables and accruals	112,911	(112,911)	(112,568)	(343)	—

Nico Middle East Limited and its subsidiaries**Notes to the consolidated financial statement for the year ended 31 December 2012 (continued)**

Term loans	456,439	(517,065)	(120,520)	(341,565)	(54,980)
Loan due to holding company	162,184	(210,817)	(14,562)	(168,597)	(27,658)
Due to related parties	8,611	(8,611)	(8,611)	—	—
Bank overdraft	5,270	(5,270)	(5,270)	—	—
Total.....	<u>745,415</u>	<u>(854,674)</u>	<u>(261,531)</u>	<u>(510,505)</u>	<u>(82,638)</u>

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 used floating-to-fixed interest rate swaps, and 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. Generally the Group seeks to apply hedge accounting in order to manage volatility in consolidated income statement.

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 with 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, 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 designated to hedge underlying debt obligations. At 31 December 2012, after taking into account the effect of interest rate swaps, approximately 67% of the Group's borrowings are at a fixed rate of interest (2011: 63%) of which 8% (2011:17%) are linked to hedging instruments designated as such in accordance with IFRS.

34 RISK MANAGEMENT**Profile**

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

	Carrying amount	
	2012 USD'000	2011 USD'000
Fixed rate instruments		
Financial assets	12,000	16,724
Financial liabilities.....	(193,502)	(183,181)
Variable rate instruments		
Financial liabilities.....	(408,031)	(435,442)
	<u>(408,031)</u>	<u>(435,442)</u>

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 profit or loss, 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 profit or loss.

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 profit or loss 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 2011.

	Profit or loss		Equity	
	100 bp increase USD'000	100 bp decrease USD'000	100 bp increase USD'000	100 bp Decrease USD'000
31 December 2012				
Variable rate instruments	(4,080)	4,080	(4,080)	4,080
31 December 2011				
Variable rate instruments	(4,354)	4,354	(4,354)	4,354

Currency risk

The Group is exposed to currency risk on sales and purchases denominated in currencies other than AED which is the functional currency of the Group, USD to which AED is pegged and other currencies which are pegged to USD. At any point in time the Group hedges 100% of its estimated foreign currency exposure in respect of its forecast capital commitments. The Group uses forward currency contracts to hedge its currency risk, with a maturity of less than one year from the reporting date.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	EUR	AZN	KZT	GBP	NOK	JPY	SGD
31 December 2012							
Trade accounts receivables	—	—	—	—	—	—	—
Bank balances	18	61	6,447	—	—	11	—
Accounts payables	(394)	(403)	(7,430)	(153)	(745)	(666)	(61)
Net statement of financial position exposure	<u>(376)</u>	<u>(342)</u>	<u>(983)</u>	<u>(153)</u>	<u>(745)</u>	<u>(655)</u>	<u>(61)</u>
31 December 2011							

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012 (continued)

Trade accounts receivables	95	—	—	131	—	4,484	—
Bank balances	934	75	3,513	73	—	6,825	813
Accounts payables	(864)	(446)	(50,352)	(1,104)	(1,522)	(5,384)	(1,550)
Net statement of financial position exposure	165	(371)	(46,839)	(900)	(1,522)	5,925	(737)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2012	2011	2012	2011
Euro (EUR)	0.764	0.763	0.756	0.772
Azerbaijan New Manat (AZN)	0.785	0.792	0.784	0.786
Kazakhstan Tenge (KZT)	147.938	148.738	150.300	145.576
Great Britain Pound (GBP)	0.632	0.647	0.618	0.647
Norwegian Kroner (NOK)	5.788	5.943	5.582	5.994
Japanesse Yen (JPY)	81.64	79.471	85.88	77.400
Singapore dollars (SGD)	1.260	1.295	1.223	1.298

Sensitivity analysis

A strengthening of the USD, as indicated below, against the Euro, Azerbaijan New Manat, Kazakhstan Tenge, Great Britain Pound, Norwegian Kroner, Japanese Yen and Singapore Dollars at 31 December would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	Effect on profit before tax	
	Strengthening by 5% USD'000	Weakening by 5% USD'000
2012		
Euro (EUR)	26	(26)
Azerbaijan New Manat (AZN)	26	(26)
Kazakhstan Tenge (KZT)	2	—
Great Britain Pound (GBP)	12	(12)
Norwegian Kroner (NOK)	7	(7)
Singapore dollars (SGD)	2	(2)
2011		
Euro (EUR)	56	(56)
Azerbaijan New Manat (AZN)	28	(28)
Kazakhstan Tenge (KZT)	17	(17)
Great Britain Pound (GBP)	85	(85)
Norwegian Kroner (NOK)	13	(13)
Japanesse Yen (JPY)	3	(3)
Singapore dollars (SGD)	59	(59)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as "Result from operating activities" divided by "Total shareholders' equity, excluding non-controlling interests". The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group's capital employed consists mainly of capital, legal reserve and retained earnings. Management believes that the current level of capital is sufficient to sustain the profitability of 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:

2012 USD'000	2011 USD'000
-----------------	-----------------

Interest bearing loans and borrowings	601,533	618,623
Bank overdraft	5,846	5,270
Less: cash and short term deposits	(32,942)	(47,036)
Net debt.....	574,437	576,857
Equity.....	493,851	458,222
Add: cash flow hedge reserve included in equity	2,118	4,832
Adjusted equity	495,969	463,054
Capital and net debt	1,070,406	1,039,911
Gearing ratio	53.66%	55.40%

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

35 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

The fair value of derivatives is set out in note 34. The fair values of other financial instruments are not materially different from their carrying values.

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 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
31 December 2012				
Derivative financial liabilities.....	—	5,977	—	5,977
	—	5,977	—	5,977

	Level 1 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
31 December 2011				
Derivative financial liabilities.....	—	(9,318)	—	(9,318)
	—	(9,318)	—	(9,318)

36 KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimation uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are as follows:

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. The carrying amount of goodwill at 31 December 2012 was USD 26,174 thousand (2011: USD 26,848 thousand). Also refer note 14.

Impairment of vessels

The Group determines whether its vessels are impaired when there are indicators of impairment as defined in IAS 36. 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 2012 was USD 945,041 thousand (2011: USD 878,792 thousand). Also refer note 13.

Impairment of accounts receivable

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

At the reporting date, gross trade accounts receivable were USD 65,904 thousand (2011: USD 105,645 thousand) and the provision for doubtful debts was USD 4,705 thousand (2011: USD 7,317 thousand). Any difference between the amounts actually collected in future periods and the amounts expected to be impaired will be recognised in consolidated income statement. Also refer note 17.

Impairment of inventories

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices, consumption trend and usage.

At the reporting date, gross inventories were USD 8,595 thousand (2011: USD 14,728 thousand) with provisions for old and obsolete inventories of USD 550 thousand (2011: USD 2,356 thousand). Any difference between the amounts actually realised in future periods and the amounts provided will be recognised in consolidated income statement. Also refer note 15.

Useful lives of property, plant and equipment

The useful lives, residual values and methods of depreciation of property, plant and equipment 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 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.

Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument. As at the reporting date the cumulative fair value of the interest rate swap was USD 5,977 thousand (2011: USD 9,318 thousand).

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, proportionately consolidated or equity accounted in accordance with the accounting policy of the Group (also refer note 2).

Leases

Management exercises judgments in assessing whether a lease is a finance lease or an operating lease. The judgement 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.

The Group's property, plant and equipment include marine crafts such as barges and other vessels of a specialist nature capable of operating in difficult climatic conditions. Although these vessels are currently leased to a customer under contracts which contain purchase options, the leases have been judged by management to be operating leases.

Management have based this judgement 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 recent renewal by the customer of one major leasing contract for a secondary period despite the purchase option being available to the lessee; and
- 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.

Management has reached an in-principle agreement with the customer, for the removal of the option to purchase clauses in the contracts and are concluding formal variations to contracts, which is subject to fulfilment of certain conditions.

Current and non-current classification of bank borrowings

The Group's management has exercised significant judgment during the year in determining the current and non-current classification of bank borrowings. The classification is based on the repayment terms agreed with the bank, assessing the events and circumstances which can render a loan becoming payable on demand and the status of any negotiations and communications with the creditor banks in this regard.

Nico Middle East Limited and its subsidiaries

Notes to the consolidated financial statement for the year ended 31 December 2012 (continued)

The Group's management has further exercised judgment in determining the current and non-current classification of amounts due from related parties at the reporting date. In determining the current and non-current classification, the Group's management makes judgment based on the estimated future cash flows in respect of settlement of the outstanding balance between the parties involved and the intention of management of the time frame within which these balances would be repaid.

Determining percentage completion of contracts in progress and estimating foreseeable losses

Contract work-in-progress is stated at cost plus estimated attributable profits less foreseeable losses and progress billings. In determining estimated attributable profits or foreseeable losses if any to be recognised, the Group needs to estimate the outcome of each contract and also the percentage of completion of the contract which is determined by the actual cost incurred to date in relation to the total estimated costs. The final results of the contract may differ from the estimates made at the time of preparation of these consolidated financial statements.

37 LONG TERM RECEIVABLE AND PREPAYMENTS

Long-term receivables and prepayments primarily relate to deferred mobilisation costs for two vessels, leased under operating lease arrangements, amounting to USD 19.4 million as of 31 December 2012.

38 ENGINEERING DIVISION BUSINESS TRANSFER

Effective 1 January, 2012, the Engineering business of Nico Middle East Ltd was transferred to Topaz Engineering Ltd under the terms of a Business Transfer Agreement ('BTA'). As this is a transfer between entities under common control it is outside the scope of IFRS 3 "Business Combinations" hence according to the group's policy the assets & liabilities have been transferred on the basis of recorded historical cost. The assets and liabilities transferred are as follows:

	USD'000
ASSETS	
Property, plant and equipment	43,311
Goodwill	674
Other long term assets	3,810
Other current assets	124,097
Bank.....	14,169
TOTAL ASSETS	<u>186,061</u>
EQUITY	
Share capital	7,430
Reserves.....	(31,320)
Loan from parent company.....	2,000
TOTAL EQUITY	<u>(21,890)</u>
LIABILITIES	
Long term loan	9,941
Loan from parent company.....	7,536
Other long term liabilities	9,263
Term loan	20,829
Other current liabilities.....	156,321
Bank overdraft	4,061
TOTAL LIABILITIES.....	<u>207,951</u>
TOTAL EQUITY AND LIABILITIES	<u>186,061</u>

Nico Middle East Limited and its marine subsidiaries

**Combined financial statements
31 December 2011**

Nico Middle East Limited and its marine subsidiaries
Combined financial statements
31 December 2011

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Independent auditors' report

The shareholders
Nico Middle East Limited

Report on the combined financial statements

We have audited the accompanying combined financial statements of Nico Middle East Limited ("the Company") and its marine subsidiaries (collectively referred to as "the Group"), which comprise the combined statement of financial position as at 31 December 2011, the combined statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the combined financial position of the Group as at 31 December 2011, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of preparation of combined financial statements

The combined financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its marine subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in jointly controlled marine entities as mentioned in note 2 to the combined financial statements. Marine subsidiaries and jointly controlled marine entities (collectively referred to as the Marine Division) include those subsidiaries and jointly controlled entities of the Company which are engaged in provision of offshore supply vessels and other marine vessels on charter primarily to the oil and gas industry.

Nico Middle East Limited and its marine subsidiaries

Combined statement of comprehensive income

for the year ended 31 December 2011

	Note	2011 USD'000	2010 USD'000
Revenue	6	293,436	243,799
Direct costs		(176,952)	(134,874)
GROSS PROFIT		116,484	108,925
Other income	7	349	5,347
Other expenses	8	(218)	(803)
Administrative expenses		(27,287)	(22,503)
RESULTS FROM OPERATING ACTIVITIES		89,328	90,966
Other non-operating expenses	9	(13,579)	—
Finance costs	10	(32,362)	(17,123)
Finance income	10	2,462	800
PROFIT BEFORE INCOME TAX		45,849	74,643
Income tax expense	11	(14,332)	(10,160)
PROFIT FOR THE YEAR	12	31,517	64,483
OTHER COMPREHENSIVE INCOME			
Foreign currency translation differences	10	—	42
Effective portion of changes in fair value of cash flow hedges	10	(4,232)	(372)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(4,232)	(330)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		27,285	64,153
Profit attributable to:			
Owners of the Company		20,281	52,985
Non-controlling interests		11,236	11,498
PROFIT FOR THE YEAR		31,517	64,483
Total comprehensive income attributable to:			
Owners of the Company		16,049	52,655
Non-controlling interests		11,236	11,498
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		27,285	64,153

The independent auditors' report is set out on page F-79.

The attached notes on pages F-85 to F-124 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries
Combined statement of financial position
as at 31 December 2011

	Note	2011 USD '000	2010 USD '000
ASSETS			
Non-current assets			
Property, plant and equipment	13	914,848	811,399
Intangible assets and goodwill	14	26,648	26,608
Long-term receivables and prepayments		2,650	2,644
Investment in Engineering Division entities	26	6,155	6,155
Long-term receivable from Engineering Division entities	26	9,537	9,537
Deferred tax assets	28	2,799	1,164
		<u>962,637</u>	<u>857,507</u>
Current assets			
Inventories	15	5,298	5,553
Accounts receivable and prepayments	16	84,647	105,352
Due from related parties	26	66,869	20,813
Bank balances and cash	17	32,938	16,611
		<u>189,752</u>	<u>148,329</u>
TOTAL ASSETS		<u>1,152,389</u>	<u>1,005,836</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	18	241,817	241,817
Statutory reserve		38	38
Hedging reserve	19	(4,832)	(600)
Translation reserve	20	895	895
Revaluation reserve		1,871	2,016
Reserve at acquisition		(67)	—
Retained earnings		<u>146,182</u>	<u>162,155</u>
Equity attributable to owners of the Company		385,904	406,321
Non-controlling interests		65,599	54,363
Total equity		<u>451,503</u>	<u>460,684</u>
Non-current liabilities			
Term loans	22	331,739	313,645
Loans due to Holding Company	23	156,760	54,181
Employees' end of service benefits	24	1,441	1,549
Accounts payable and accruals	25	3,048	5,442
Provision for fair value of derivatives	32	5,185	3,781
		<u>498,173</u>	<u>378,598</u>
Current liabilities			
Accounts payable and accruals	25	40,784	38,790
Bank overdraft	17	1,285	—
Term loans	22	93,934	66,726
Loans due to Holding Company	23	5,424	16,184
Due to related parties	26	47,360	38,823
Income tax payable	11	9,793	2,264
Provision for fair value of derivatives	32	4,133	3,767
		<u>202,713</u>	<u>166,554</u>
Total liabilities		<u>700,886</u>	<u>545,152</u>
TOTAL EQUITY AND LIABILITIES		<u>1,152,389</u>	<u>1,005,836</u>

The combined financial statements were approved and authorised for issue in accordance with a resolution of the directors on .

Director

Director

The independent auditors' report is set out on page F-79.

The attached notes on pages F-85 to F-124 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries

**Combined statement of cash flows
for the year ended 31 December 2011**

	Note	2011 USD'000	2010 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		45,849	74,643
Adjustments for:			
Depreciation.....		45,447	36,361
Amortization of intangible assets.....		88	35
Gain on disposal of property, plant and equipment		(7)	(216)
Provision for employees' end of service benefits		386	602
Finance cost		32,362	17,123
Finance income		(2,462)	(800)
Impairment loss on trade accounts receivables		218	803
		121,881	128,551
Changes in:			
Inventories		255	(4,112)
Accounts receivable and prepayments.....		1,549	(1,552)
Accounts payable and accruals		(793)	(13,666)
Due from related parties		(50,220)	(20,735)
Due to related parties		3,465	13,517
Cash generated from operating activities.....		76,137	102,003
Employees' end of service benefits paid.....		(386)	(38)
Income tax paid.....		(7,300)	(9,334)
Net cash from operating activities		68,451	92,631
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(121,847)	(290,717)
Cash on acquisition of a subsidiary		54	—
Acquisition of intangible assets		(128)	(389)
Proceeds from disposal of property, plant and equipment		7	5,263
Advance/deposit paid for vessels.....		(3,200)	(6,535)
Changes in deposits under lien		(9,000)	—
Interest received.....		—	321
Change in long-term receivable and prepayments		(6)	(2,001)
Net cash used in investing activities		(134,120)	(294,058)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital		—	100,000
Funds introduced by non-controlling shareholders.....		—	4,922
Dividend paid to owners of the Company		(36,399)	(24,402)
Dividend paid to non-controlling shareholders.....		—	(7,250)
External borrowings obtained—net		45,302	75,434
Loan obtained from the Holding Company—net.....		91,819	60,813
Interest paid		(29,011)	(18,795)
Net cash from financing activities		71,711	190,722
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
EQUIVALENTS		6,042	(10,705)
Cash and cash equivalents at 1 January		16,611	27,274
Effect of exchange rate changes on cash held.....		—	42
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	17	22,653	16,611

The independent auditors' report is set out on page F-79.

The attached notes on pages F-85 to F-124 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries

Combined statement of changes in equity

for the year ended 31 December 2011

	Attributable to owners of the Company						Non-controlling interests USD '000	Total equity USD '000
	Share capital USD '000	Statutory reserve USD '000	Hedging reserve USD '000	Translation reserve USD '000	Revaluation reserve USD '000	Retained earnings USD '000		
Balance at 1 January 2010 (unaudited)....	141,817	38	(228)	853	2,161	133,427	45,193	323,261
Total comprehensive income for the year								
Profit for the year.....	—	—	—	—	—	52,985	11,498	64,483
Other comprehensive income								
Foreign currency translation differences.....	—	—	—	42	—	—	—	42
Effective portion of changes in fair value of cash flow hedge.....	—	—	(372)	—	—	—	—	(372)
Total other comprehensive income	—	—	(372)	42	—	—	—	(330)
Total comprehensive income for the year.....	—	—	(372)	42	—	52,985	11,498	64,153
Transactions with owners of the Company, recorded directly in equity								
Additional capital introduced (refer note 18).....	100,000	—	—	—	—	—	4,922	104,922
Dividend paid (refer note 21).....	—	—	—	—	—	(24,402)	(7,250)	(31,652)
Total transactions with owners of the Company, recorded directly in equity	100,000	—	—	—	—	(24,402)	(2,328)	73,270
Other equity movements								
Transfer to revaluation reserve.	—	—	—	—	(145)	145	—	—
Total other equity movements	—	—	—	—	(145)	145	—	—
Balance at 31 December 2010.	241,817	38	(600)	895	2,016	162,155	54,363	460,684

The attached notes on pages F-85 to F-124 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries
Combined statement of changes in equity
for the year ended 31 December 2011

	Attributable to owners of the Company									
	Share capital USD '000	Statutory reserve USD '000	Hedging reserve USD '000	Translation reserve USD '000	Revaluation reserve USD '000	Reserve at acquisition USD '000	Retained earnings USD '000	Total USD '000	Non-controlling interest USD '000	Total equity USD '000
Balance at 1 January 2011 .	241,817	38	(600)	895	2,016	—	162,155	406,321	54,363	460,684
Total comprehensive income for the year										
Profit for the year	—	—	—	—	—	—	20,281	20,281	11,236	31,517
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedge.....	—	—	(4,232)	—	—	—	—	(4,232)	—	(4,232)
Total other comprehensive income.	—	—	(4,232)	—	—	—	—	(4,232)	—	(4,232)
Total comprehensive income for the year	—	—	(4,232)	—	—	—	20,281	16,049	11,236	27,285
Transactions with owners of the Company, recorded directly in equity										
Dividend paid (refer note 21)	—	—	—	—	—	—	(36,399)	(36,399)	—	(36,399)
Total transactions with owners of the Company, recorded directly in equity	—	—	—	—	—	—	(36,399)	(36,399)	—	(36,399)
Other equity movements										
Acquisition of a subsidiary	—	—	—	—	—	(67)	—	(67)	—	(67)
Transfer to revaluation reserve.....	—	—	—	—	(145)	—	145	—	—	—
Balance at 31 December 2011	241,817	38	(4,832)	895	1,871	(67)	146,182	385,904	65,599	451,503

The attached notes on pages F-85 to F-124 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries

Notes to the combined financial statements

1 REPORTING ENTITY

Nico Middle East Limited (“the Company”) is a limited liability company incorporated in Bermuda. The Company is a wholly owned subsidiary of Topaz Energy and Marine Limited (“the Holding Company”), an Offshore company registered in the Jebel Ali Free Zone. The address of the registered office of the Company is P.O. Box 1022, Clarendon House, Church Street—West, Hamilton HM DX, Bermuda. The ultimate holding company is Renaissance Services SAOG, (“the Ultimate Holding Company”) a joint stock company incorporated in the Sultanate of Oman.

2 SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES FORMING PART OF MARINE DIVISION

Following subsidiaries and jointly controlled entities have been combined with the financial statements of the Company:

Company	Country of incorporation	Registered percentage shareholding		Principal activities
		2011	2010	
A) Subsidiaries of Nico Middle East Limited				
Topaz Energy and Marine Services DMCC [refer note 2 ⁽⁶⁾]	United Arab Emirates	100%	—	Ship management
Nico World II Limited	Vanuatu	100%	100%	Charter of marine vessels
Nico World S.A	Panama	100%	100%	Charter of marine vessels
Nico Far East Pte Limited	Singapore	100%	100%	Charter of marine vessels
TEAM I Limited	Vanuatu	100%	100%	Charter of marine vessels
TEAM II Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM III Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM IV Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM V Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM VI Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM VII Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM VIII Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM IX Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM X Limited	St.Vincent	100%	100%	Charter of marine vessels
TEAM XII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XIII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XV Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XVI Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XVII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XVIII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM XX Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXI Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXIII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXIV Limited	Marshall Islands	100%	—	Charter of marine vessels
TEAM XXV Limited	Marshall Islands	100%	—	Charter of marine vessels
BUE Marine Limited	United Kingdom	100%	100%	Charter of marine vessels
Topaz BUE Limited	United Arab Emirates	100%	100%	Charter of marine vessels
Topaz Doha Holdings I Limited	St. Vincent	100%	100%	Charter of marine vessels
Topaz Doha Holdings II Limited	St. Vincent	100%	100%	Charter of marine vessels
Caspian Fortress Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Pride Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Baki Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Citadel Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Gala Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Server Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Breeze Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Protector Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Power Limited [refer note 2 ^(a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Provider Limited [refer note 2 ^(a)]	St. Vincent	50%	100%	Charter of marine vessels
Topaz Marine	Saudi Arabia	50%	50%	Operation services and technical support for ships
Saudi Arabia Limited				Commercial financial lending and borrowing activities
Flying Angel Limited	St. Vincent	100%	100%	Commercial financial lending and borrowing activities
Nemo Limited	St. Vincent	100%	100%	Commercial financial lending and borrowing activities

Nico Middle East Limited and its marine subsidiaries

Notes to the combined financial statements (continued)

Topaz Khobar Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Khuwair Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Khalidiya Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Karama Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Karzakkan Limited	Marshall Islands	100%	100%	Charter of marine vessels
Topaz Khubayb Limited	Marshall Islands	100%	100%	Charter of marine vessels
Ererson Shipping Limited	Cyprus	100%	100%	Charter of marine vessels
Heatberg Shipping Limited	Cyprus	100%	100%	Charter of marine vessels
Topaz Marine Limited [refer note 2 ^(b)]	Bermuda	100%	—	Charter of marine vessels
Topaz Marine Azerbaijan Limited [refer note 2 ^(b)]	United Arab Emirates	100%	—	Charter of marine vessels
B) Subsidiaries of BUE Marine Limited				
BUE Caspian Limited [refer note 2 ^(c)]	Scotland	100%	100%	Vessel management
BUE Kazakhstan Limited	Scotland	100%	100%	Vessel management
BUE Cygnet Limited	Scotland	100%	100%	Vessel management
BUE Bulkers Limited	Scotland	100%	100%	Vessel management
BUE Shipping Limited	Scotland	100%	100%	Vessel management
Roosalka Shipping Limited	Scotland	100%	100%	Vessel management
BUE Aktau LLP	Kazakhstan	100%	100%	Vessel management
BUE Bautino LLP	Kazakhstan	100%	100%	Vessel management
BH PSV Limited	Cayman Islands	100%	100%	Dormant company
BH Jura Limited	Cayman Islands	100%	100%	Dormant company
BH Standby Limited	Cayman Islands	100%	100%	Dormant company
Roosalka Shipping Limited	Cayman Islands	100%	100%	Dormant company
BH Bulkers Limited	Cayman Islands	100%	100%	Vessel management
BH Islay Limited	Cayman Islands	100%	100%	Dormant company
BUE Kyran Limited	Scotland	100%	100%	Vessel management
BUE Marine Turkmenistan Limited [refer note 2 ^(c)]	Scotland	100%	100%	Vessel management
XT Shipping Limited	Scotland	100%	100%	Vessel management
BUE Kashagan Limited	Cayman Islands	100%	100%	Vessel management
BUE Maritime Services Limited [refer note 2 ^(c)]	Scotland	100%	100%	Vessel management
River Till Shipping Limited	Scotland	100%	100%	Vessel management
C) Subsidiary of Topaz Doha Holdings II Limited				
Doha Marine Services WLL [refer note 2 ^(e)]	State of Qatar	100%	100%	Vessel management
D) Jointly controlled entities				
DMS Jaya Marine WLL	State of Qatar	51%	51%	Charter of marine vessels
Jaya DMS Marine Pte Limited	Singapore	50%	50%	Charter of marine vessels

- (a) Caspian Fortress Limited, Caspian Pride Limited, Caspian Baki Limited, Caspian Citadel Limited, Caspian Gala Limited, Caspian Server Limited, Caspian Breeze Limited, Caspian Power Limited, Caspian Protector Limited and Caspian Provider Limited have been dealt with as subsidiaries as the Group has the power to govern the financial and operating policies of these entities under management agreements with the shareholders of these entities.
- (b) Topaz Marine Limited owns the entire issued share capital of Topaz Marine Azerbaijan Limited.
- (c) BUE Caspian Limited owns the entire issued share capital of BUE Maritime Services Limited and BUE Marine Turkmenistan Limited, companies incorporated and registered in Scotland.
- (d) One of the Group's subsidiaries operates in the Azeri region through an alliance agreement with Kazmorttransflot ("KMNF"), the marine shipping arm of the Azeri state oil company. Under the Alliance agreement, responsibilities have been allocated between KMNF, BUE and the Alliance. The Group accounts for its own assets and liabilities and for the costs and revenues on transactions that it enters into with the Alliance.
- (e) The Group owns 49% of the shareholding in Doha Marine Services WLL ("DMS"), an entity incorporated in the State of Qatar. In addition to the above mentioned 49% ownership interest, the Group also has a beneficial interest in a further 51% in DMS through its Ultimate Holding Company. Accordingly, the Group has the power to govern the financial and operating policies of DMS, and therefore, DMS has been dealt with as a subsidiary in these combined financial statements.
- (f) During the year the equity interest in Topaz Energy and Marine Services DMCC was transferred from Topaz Energy and Marine Limited to the Company. The transfer has been treated as a common control transaction and has been effected at book values.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Nico Middle East Limited and its marine subsidiaries

Notes to the combined financial statements

3 BASIS OF PREPARATION

Statement of compliance

The combined financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Acquisition of a subsidiary

During the year, on 13 March 2011, the Group has acquired controlling interest from the Holding Company in Topaz Marine Services DMCC ("Topaz DMCC") at the net book value of assets and liabilities of that entity as at that date. Total consideration payable on acquisition of Topaz DMCC was accounted for as due to the Holding Company. The reserves of Topaz DMCC are included within reserves on acquisition of the Group. The details of assets and liabilities of Topaz DMCC on the acquisition date are as follows:

	USD'000
Non-current assets	
Property, plant and equipment (refer note 13)	3,935
Current assets	
Cash and bank balances	54
(A)	<u>3,989</u>
Non-current liabilities	
Term loan.....	1,887
Current liabilities	
Term loan.....	752
Due to a related party.....	1,363
(B).....	<u>4,002</u>
Net liabilities (A-B)	(13)
Presented as:	
Due to Holding Company	54
Reserves.....	(67)
	<u>(13)</u>
Cash and cash equivalents acquired.....	<u>54</u>

Basis of combination

The combined financial statements as at and for the year ended 31 December 2011 comprise the Company and its marine subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in jointly controlled marine entities. Marine subsidiaries and jointly controlled marine entities (collectively referred to as Marine Division) include those subsidiaries and jointly controlled entities of the Company which are engaged in provision of offshore supply vessels and other marine vessels on charter primarily to the oil and gas industry. These combined financial statements excludes those subsidiaries and jointly controlled entities of the Company which are engaged in fabrication and maintenance services to the oil and gas industry, ship building and provision of ship repair services (collectively referred to as Engineering Division).

Basis of measurement

The combined financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of derivative financial instruments.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Functional and presentation currency

The combined financial statements are presented in United States Dollars (“USD”) as a significant proportion of the transactions of the Group entities are undertaken in that currency. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise stated.

Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the combined financial statements are described in note 35.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements, and have been applied consistently by the Group entities.

Combination of Group entities

These combined financial statements comprise the combined financial position and the combined results of operations of the Company and its Marine Division subsidiaries on a line by line basis together with the Group’s share in the net assets of its Marine Division joint ventures. Significant balances and transactions between the Company and its Marine Division subsidiaries have been eliminated. The Company’s investment in its engineering division subsidiaries has been recognized at cost and separately disclosed as a non-current asset in these combined financial statements. Common management and administrative expenses incurred by the Company in its capacity as the corporate head office for the Marine Division and Engineering Division entities has been allocated in the proportion of 70:30 between Marine and Engineering Divisions.

The significant Marine Division subsidiaries and joint ventures have been disclosed in note 2.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of Marine Division subsidiaries as mentioned in note 2 are included in the combined financial statements from the date that control commences until the date that control ceases. The accounting policies of these subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non controlling interests in any of these subsidiaries 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 other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that the control is lost. Subsequently, it is accounted for as an equity accounted investee or as an available for sale financial asset depending on the level of influence retained.

Special purpose entities (“SPEs”) are combined if, based on the evaluation of the substance of the relationship of the SPE with the Group and the SPEs risks and rewards, the Group concludes that it controls the SPEs.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the combined financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Joint ventures

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The combined financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in jointly controlled marine entities as mentioned in note 2 are accounted for under the proportionate consolidation method whereby the Group accounts for its share of assets, liabilities, income and expenses in the jointly controlled entities.

Non-controlling interests

Non-controlling interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the combined statement of comprehensive income and within equity in the combined statement of financial position, separately from owners' equity.

Acquisition of non-controlling interests is accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Financial instruments

Non-derivative financial assets

The Group initially recognises a non-derivative financial asset on the date that they are originated. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group's non-derivative financial assets include accounts and other receivables, long-term receivables, cash and cash equivalents, and balances due from related parties.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise accounts and other receivables, long-term receivables and balances due from related parties.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts 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 the statement of cash flows.

Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group's non-derivative financial liabilities include loans and borrowings, bank overdrafts, accounts and other payables and balances due to related parties. Such financial liabilities are recognised initially at fair value less any

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be “highly effective” in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

Share capital

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

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates ruling 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 ruling at that date. Foreign currency

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

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 profit or loss 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 recognized in other comprehensive income.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the dates 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 translation reserve related to that foreign operation is reclassified to profit or loss 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 profit or loss.

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 translation reserve in equity.

Property, plant and equipment

Items of property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment in value. Cost of marine vessels includes purchase price paid to third party including registration and legal documentation costs, all directly attributable costs incurred to bring the vessel into working condition at the area of planned use, mobilization 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 mobilization is significant and the customer pays a mobilization fee, certain mobilization costs are charged to profit or loss. 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.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

Life in years

Buildings.....	5 to 25
Plant, machinery, furniture, fixtures and office equipment	3 to 15
Marine vessels	10 to 30
Expenditure on marine vessel dry docking (included as a component of marine vessels)	3
Floating dock	25
Motor vehicles	3

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Land and capital work in progress is not depreciated. Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is capitalized and ready for use. Depreciation method, useful lives and residual values are reviewed at each reporting date.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. All other expenditure is recognised in profit or loss as incurred.

Gains and losses on disposal of an item of property, plant and equipment, other than vessels, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised within other income or other expense in profit or loss.

The company disposes off vessels in the normal course of business. Vessels that are held for sale are transferred to inventories at their carrying value. The sale proceeds are accounted for subsequently under revenue.

Capital work in progress

Capital work in progress is stated at cost until the construction is complete. Upon the completion of construction, the cost of such assets together with cost directly attributable to construction, including capitalized borrowing cost are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

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.

4 SIGNIFICANT ACCOUNTING POLICIES

Vessel refurbishment costs

Leased assets

Costs incurred in advance of charter to refurbish vessels under long-term charter agreements are capitalised within property, plant and equipment and depreciated in line with the use of the refurbished vessel. Where there is an obligation to incur future restoration costs under charter agreements which would not meet the criteria for capitalisation within property, plant and equipment, the costs are accrued over the period to the next vessel re-fit to match the use of the vessel and the period over which the economic benefits of its use are realised.

Owned assets

Cost 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 with acquisition of subsidiaries mentioned in note 2 to the combined financial statements 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 the existing equity interest in the acquiree less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any negative goodwill is immediately recognized 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 acquiree 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 an operating segment determined in accordance with IFRS 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or groups of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or groups of cash-generating units) is less than the carrying amount, an impairment loss is recognized in profit or loss. An impairment loss in respect of goodwill is not reversed. Where goodwill forms part of a cash-generating unit (or groups 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 that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognized in profit or loss as incurred.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Amortization is charged on a straight line basis over the estimated useful life of five years, from the date they are available for use. Amortisation method, useful lives and residual values are reviewed at each reporting date.

Inventories

Inventories are measured at lower of cost and net realizable value after making due allowance for any obsolete or slow moving items. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise and indications that a debtor or issuer will enter bankruptcy, adverse changes in payment status of borrowers or issuer and economic conditions that correlate with defaults. The Group considers evidence of impairment of financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than goodwill, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to that cash generating unit and then to reduce the carrying amounts of the other assets in that cash generating unit on a pro rata basis.

The recoverable amount of an asset or its cash generating unit is the greater of its value in use over its useful life 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 or cash generating unit. For the purpose of impairment testing, assets that cannot be tested individually 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").

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

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.

Employees' end of service benefits

Pursuant to IAS 19 "Employee benefits", end of service benefit obligations are measured using the projected unit credit method. The objective of the method is to spread the cost of each employee's benefits over the period that the employee is expected to work for the Group. The allocation of the cost of benefits to each year of service is achieved indirectly by allocating projected benefits to years of service. The cost allocated to each year of service is then the value of the projected benefit allocated to that year.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past services costs and fair values of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed periodically by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognizes gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Revenue recognition

Marine charter

Revenue comprises operating lease rent from charter of marine vessels, mobilization income, and revenue from 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 mobilization or demobilization of the vessel to or from the location of charter under the vessel charter agreement is recognised when the mobilization or demobilization service has been rendered.

Sale of vessels

Revenue from sale of vessels is recognized in profit or loss when pervasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated reliably, there is no continuing management involvement with the vessels and the amount of revenue can be measured reliably.

Finance income and expenses

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized in profit or loss as it accrues, using the effective interest rate method.

Finance expense comprises interest expense on borrowings and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest rate method. However, borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

Dividend

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Leases

Group as a lessee

Leased asset

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.

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.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and are not recognized in the Group's statement of financial position.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Leased payments

In respect of finance leases, 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 reflected in profit or loss.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as lease rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items that are recognized directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of prior years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax

Deferred tax is provided in respect of temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the temporary differences reverse, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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 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 law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement 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.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for accounting period starting 1 January 2011, have not been early adopted in preparing these combined financial statements:

- In October 2010 the IASB issued *Disclosures—Transfer of Financial Assets* (Amendments to IFRS 7) with an effective date of 1 July 2011.
- In October 2010 the IASB issued IFRS 9 *Financial Instruments* (IFRS 9 (2010)) with an effective date of 1 January 2013. IFRS 9 (2010) supersedes the previous version that was issued in November 2009 (IFRS (2009)).
- In December 2010 the IASB issued *Deferred Tax: Recovery of Underlying Assets—Amendments to IAS 12* with an effective date of 1 January 2012.
- In May 2011 the IASB issued IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities* and IFRS 13 *Fair Value Measurement*, which all have an effective date of 1 January 2013.
- **In June 2011 the IASB issued *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1 Presentation of Financial Statements)* with an effective date of 1 July 2012.**
- **In June 2011 the IASB issued an amended IAS 19 *Employee Benefits*, with an effective date of 1 January 2013.**
- **The IASB also issued IAS 27 *Separate financial statements* which supersedes IAS 27 (2008) and IAS 28 *Investment in Associates and Joint Ventures* (2011) which supersedes IAS 28 (2008). All these standards have an effective date of 1 January 2013.**

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Group or their impact is limited to the disclosures and presentation requirement in the financial statements except for IFRS 9 *Financial Instruments*, which become mandatory for the Group's 2015 financial statements and could change the classification and measurement of financial assets. The Group does not intend to adopt this standard early and the extent of the impact has not been determined.

5 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 that asset or liability.

Forward exchange contracts and interest rate swaps

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Other non-derivative financial liabilities

Fair value which is determined for disclosure purposes, is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6 REVENUE

	2011 USD'000	2010 USD'000
Charter and other revenues from marine vessels	277,342	227,413
Income from mobilization of marine vessels	16,094	14,961
Sale of marine vessels	—	1,425
	<u>293,436</u>	<u>243,799</u>

7 OTHER INCOME

	2011 USD'000	2010 USD'000
Gain on disposal of property, plant and equipment	7	216
Excess provision written back	—	3,432
Unclaimed balances written back	—	1,022
Miscellaneous income	342	677
	<u>349</u>	<u>5,347</u>

8 OTHER EXPENSES

	2011 USD'000	2010 USD'000
Impairment loss on accounts receivable (refer to note 16)	218	803

9 OTHER NON-OPERATING EXPENSES

	2011 USD'000	2010 USD'000
Write off of IPO costs (refer note (i) below)	8,047	—
Provision against litigation and claims (refer note (ii) below)	1,964	—
Impairment of claim and other receivables (refer note (iii) below)	1,768	—

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Others.....	1,800	—
	13,579	—

- (i) During the year, the Company's Holding Company incorporated a wholly owned subsidiary Topaz Energy and Marine Plc, United Kingdom with the objective of listing the entity on the London Stock Exchange and to raise equity capital from the public market to finance the future growth plans of the Group. The Group incurred USD 8,047 thousand of IPO costs mainly including professional and arrangement fees paid to various consultants for their services provided to the Group and other related and ancillary costs. However, due to the negative market sentiment arising as a result of various global and regional geopolitical issues, the Group decided to indefinitely postpone the proposed listing. Accordingly, the management has decided to write off all the IPO costs incurred till 31 December 2011 to profit or loss.
- (ii) During the year, the Group has received certain claims from a customer for the reimbursement of alleged tax savings generated by the Group from the performance of contracts with that customer in the current and previous years. The Group estimates that these claims will be settled for USD 1,964 thousand and has made provision in these combined financial statements for this amount. The Group management is in the advanced stage of negotiations with the customer and is confident that no further provision is required.
- (iii) In the earlier years, the Group entered into a contract with one of its customers for providing marine vessels on charter. The customer subsequently did not take the delivery of these vessels, pursuant to the delays made by the Group in the delivery of these vessels. Furthermore, the customer refused to reimburse the capital expenditure incurred by the Group in respect of those vessels. The management is actively pursuing the customer for reimbursement of these costs. However, the Group has created a provision against the entire amount receivable from the customer.

10 FINANCE INCOME AND COSTS

	2011 USD'000	2010 USD'000
Recognized in profit or loss		
Interest income.....	—	321
Reversal of provision for derivative used for hedging (refer note 32).....	2,462	479
Finance income.....	2,462	800
Interest expense	31,472	16,693
Exchange loss	890	430
	—	—
Finance costs	32,362	17,123
Recognized in other comprehensive income		
Foreign currency translation differences.....	—	42
Effective portion of changes in the fair value of cash flow hedges	(4,232)	(372)
	—	—
Finance costs	(4,232)	(330)

11 INCOME TAX

Tax expense relates to corporation tax payable on the profits earned by certain Group entities which operate in taxable jurisdictions, as follows:

	2011 USD'000	2010 USD'000
Current tax		
Foreign tax	15,223	8,059
Corporation tax	744	137
Total current tax.....	15,967	8,196
Deferred tax		
Current year	(1,388)	2,202
Prior year	(247)	(238)
Total deferred tax.....	(1,635)	1,964
Tax expense for the year	14,332	10,160
Tax liabilities	9,793	2,264

The Group's combined effective tax rate is 31.3% for 2011 (2010: 13.6%).

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

The charge for the period can be reconciled to the profits of the Group attributable to entities in the United Kingdom and Qatar as follows:

	2011 USD'000	2010 USD'000
Profit before income tax of Group entities operating in taxable jurisdictions	31,397	43,195
Less: Non-taxable profits earned by these entities	(2,558)	(17,901)
Profit subject to tax included in the profit for the year	28,839	25,294
Tax at the applicable average UK tax rate of 26% (2010: 28%) based on profits generated by Group entities registered in UK	7,508	5,814
Tax effect of expenses that are not deductible in determining taxable profit	163	130
Effect of different tax rates of subsidiaries operating in jurisdictions other than UK	6,847	3,393
Prior year movement on deferred tax	(247)	(238)
Foreign tax amounts provided but not paid	—	1,018
Effect of change in rate of deferred tax recognition	—	43
Adjustment to prior year's tax payable	61	—
Tax expense for the year	14,332	10,160

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

12 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2011 USD'000	2010 USD'000
Staff costs	79,494	56,683
Rental-operating leases	22,154	24,215

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings USD'000	Plant, machinery furniture, and office equipment USD'000	Marine vessels USD'000	Motor vehicles USD'000	Capital work in progress USD'000	Total USD'000
Cost:						
At 1 January 2010 (unaudited).....	24	8,733	639,895	1,092	32,522	682,266
Additions	—	2,007	167,315	—	124,583	293,905
Transfers	—	—	105,202	—	(105,202)	—
Transfer from current assets	—	—	16,833	—	—	16,833
Disposals/write offs/transfer to current assets.....	—	(301)	(8,271)	(29)	(2,101)	(10,702)
At 31 December 2010	24	10,439	920,974	1,063	49,802	982,302
At 1 January 2011.....	24	10,439	920,974	1,063	49,802	982,302
Additions	—	1,759	96,494	—	25,708	123,961
Transfers	—	—	47,766	—	(47,766)	—
On acquisition of a subsidiary (refer note 3)	3,980	—	—	—	—	3,980
Transfer from current assets	—	—	21,000	—	—	21,000
Disposals/write offs	—	—	—	(116)	—	(116)
At 31 December 2011	4,004	12,198	1,086,234	947	27,744	1,131,127
Depreciation:						
At 1 January 2010 (unaudited).....	22	4,693	134,618	864	—	140,197
Charge for the year	—	1,666	34,557	138	—	36,361
Relating to disposals/write offs/transfer to current assets	—	(204)	(5,393)	(58)	—	(5,655)
At 31 December 2010	22	6,155	163,782	944	—	170,903
At 1 January 2011.....	22	6,155	163,782	944	—	170,903
Charge for the year	133	1,716	43,490	108	—	45,447
On acquisition of a subsidiary (refer to note 3)	45	—	—	—	—	45
Relating to disposals/write offs.....	—	—	—	(116)	—	(116)
At 31 December 2011	200	7,871	207,272	936	—	216,279
Net carrying amount At						
31 December 2011	3,804	4,327	878,962	11	27,744	914,848
At 31 December 2010	2	4,284	757,192	119	49,802	811,399

Marine vessels with a net book value of USD 769,069 thousand (2010: USD 600,157 thousand) are pledged against bank loans obtained. Buildings with a net book value of USD 3,804 thousand (2010: Nil) are pledged against bank overdrafts. Refer note 22.

Certain vessels are subject to commercial agreements with third parties whereby those third parties have a call option to purchase each of the relevant vessels owned by the Group at a predetermined price. As at the reporting date, the Group has not been notified of any intention to exercise such a call option and consequently the call option and associated implications are not reflected in these combined financial statements. Included in the above are vessels for which the option was exercisable at the year end and would potentially result in an impairment loss, if the option is exercised. However, the management, based on their discussions with the customers are confident that such option is only a protective clause inserted to safeguard the customer's interests, and that the customer has no intention of exercising such option in a manner that may result in a loss to the Group. Subsequent to the year end, one of the third parties has exercised the call option in respect of two vessels. The book value of these vessels on the date the options were exercised were USD 2.98 million and USD nil as against their option price of USD 5.89 million and USD 1 respectively. Accordingly, the Group has recognized a gain on disposal of these vessels of USD 2.91 million in profit or loss during the year 2013.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Capital work in progress includes costs incurred for construction of marine vessels.

During the year 2011, the Group has capitalized borrowing cost amounting to USD 2,114 thousand (2010: USD 3,188 thousand).

Transfer from current assets represents capitalization of advances given for the acquisition of vessels.

The depreciation charge has been allocated in the combined statement of comprehensive income as follows:

	2011 USD'000	2010 USD'000
Direct costs	44,591	35,610
Administrative expenses	856	751
	<u>45,447</u>	<u>36,361</u>

14 INTANGIBLE ASSETS AND GOODWILL

	2011			2010		
	Goodwill USD'000	Computer software USD'000	Total USD'000	Goodwill USD'000	Computer software USD'000	Total USD'000
At 1 January	26,174	434	26,608	26,174*	80*	26,254*
Additions	—	128	128	—	389	389
Amortization	—	(88)	(88)	—	(35)	(35)
At 31 December	<u>26,174</u>	<u>474</u>	<u>26,648</u>	<u>26,174</u>	<u>434</u>	<u>26,608</u>
Cost (gross carrying amount)	26,174	1,697	27,871	26,174	1,569	27,743
Accumulated amortization	—	(1,223)	(1,223)	—	(1,135)	(1,135)
Net carrying amount	<u>26,174</u>	<u>474</u>	<u>26,648</u>	<u>26,174</u>	<u>434</u>	<u>26,608</u>

* Unaudited.

Amortization of intangible assets has been allocated to administrative expenses in the combined statement of comprehensive income.

Goodwill comprise of the following:

- goodwill arising from the acquisition of BUE Marine Limited with effect from 1 July 2005.
- goodwill arising from the acquisition of Doha Marine Services WLL with effect from 8 May 2008.

Goodwill has been allocated to two individual cash-generating units for impairment testing as follows:

- BUE Marine cash-generating unit; and
- Doha Marine Services cash generating unit.

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

	2011 USD'000	2010 USD'000
BUE Marine Limited Unit	18,383	18,383
Doha Marine Services Unit	7,791	7,791
	<u>26,174</u>	<u>26,174</u>

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 senior management.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

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 for each cash-generating unit is a pre tax measure estimated, based on past experience, and industry average weighted average cost of capital, which is based on a possible range of debt leveraging of 70% at a market interest rate of 6%.

Terminal value calculations

The discounted cash flow calculations for all the cash generating units include projected cash flows for the next year as approved by the Group's senior management. These cash flows then form the basis of perpetuity cash flows used in calculating the terminal value.

Budgeted EBITDA

Budgeted EBITDA is based on financial budgets approved by senior management. The anticipated annual revenue growth included in the cash flow projections has been based on past experience and adjusted for the expected growth in established and new markets.

Sensitivity to changes in assumptions:

Management believe that no reasonably possible change in any of the key assumptions would cause the recoverable amount of the unit to reduce below its carrying value. An increase in the discount rate by 200 basis points and reducing the growth rate by 2% would reduce headroom by 43% but still results in adequate headroom.

For the year ended 31 December 2011, 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.

15 INVENTORIES

	2011 USD'000	2010 USD'000
Stores, spares and consumables	5,412	5,667
Provision for slow moving inventories	(114)	(114)
	<u>5,298</u>	<u>5,553</u>

16 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2011 USD'000	2010 USD'000
Trade accounts receivable.....	60,988	59,822
Allowance for impairment of receivable	(3,130)	(3,390)
	57,858	56,432
Value Added Tax (VAT) recoverable.....	9,915	8,855
Prepaid expenses.....	1,648	6,529
Advance to suppliers.....	3,602	20,741
Retention receivable	—	8
Other receivables	11,624	12,787
	<u>84,647</u>	<u>105,352</u>

At 31 December 2011, trade accounts receivables with a nominal value of USD 3,130 thousand (2010: USD 3,390 thousand) were impaired. Movement in the allowance for impairment of receivables were as follows:

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

	2011 USD'000	2010 USD'000
At 1 January	3,390	2,983*
Charge for the year (refer to note 8)	218	803
Amounts written off.....	(478)	(396)
At 31 December	<u>3,130</u>	<u>3,390</u>

* Unaudited.

The maximum exposure to credit risk for trade accounts receivables at the reporting date by geographic region was:

	2011 USD'000	2010 USD'000
GCC	12,350	17,760
Caspian	24,913	24,978
Others.....	20,595	13,694
At 31 December	<u>57,858</u>	<u>56,432</u>

At 31 December, the ageing of unimpaired trade accounts receivables is as follows:

	Total USD'000	Neither past due nor impaired USD'000	Past due but not impaired				
			<30 days USD'000	31-60 days USD'000	61-90 days USD'000	91-120 days USD'000	>120 days USD'000
2011	57,858	39,610	6,557	8,406	1,802	152	1,331
2010	56,432	42,974	7,981	1,908	1,115	1,142	1,312

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majorities are, therefore, unsecured.

17 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the combined statement of cash flows include the following:

	2011 USD'000	2010 USD'000
Cash at bank		
—Fixed deposit accounts (refer note (i) below)	4,453	1,139
—Fixed deposits under lien (refer note (ii) below).....	9,000	—
—Current accounts	19,391	15,305
	<u>32,844</u>	<u>16,444</u>
Cash in hand	94	167
	<u>32,938</u>	<u>16,611</u>
Bank overdraft	(1,285)	—
Cash and bank balances	31,653	16,611
Less: Deposits under lien.....	(9,000)	—
	<u>22,653</u>	<u>16,611</u>

- (i) Fixed deposits and call accounts are placed with commercial banks in the UAE. These are denominated in United Arab Emirates Dirhams and United States Dollars, short term in nature and carry interest rate ranging between 0.5% to 3% p.a. (2010: 1% to 3% p.a.).
- (ii) These represent deposits with a commercial bank held under lien against term loans obtained by the Group (refer note 22).
- (iii) Bank overdrafts at the year-end relate to overdraft balances of a Group entity and carry interest rate ranging between 4% to 9% p.a.
- (iv) Working capital facilities for one of the subsidiaries are secured against pari-passu mortgage over its property, plant and equipment.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

18 SHARE CAPITAL

	2011 USD'000	2010 USD'000
Authorised		
400,000,000 shares of USD 1 each (2010: 400,000,000 shares of USD 1 each)	400,000	400,000
Issued and fully paid		
241,817,094 shares of USD 1 each (2010: 241,817,094 shares of USD 1 each)	241,817	241,817

During the previous year, the Company issued 100,000,000 shares of USD 1 each.

19 HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet affected the profit or loss.

20 TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

21 DIVIDEND

During the year, dividend of USD 36,399 thousand (2010: USD 31,652 thousand) thousand was declared and paid by the Company and its subsidiaries.

22 TERM LOANS

	2011 USD'000	2010 USD'000
Term loan, at LIBOR plus 0.75% p.a. repayable by December 2014	4,063	5,313
Term loan, at LIBOR plus 0.75% p.a. repayable by March 2015	4,375	5,625
Term loan, at EIBOR plus 3.50% p.a. repayable by April 2014	4,777	6,688
Term loan, at LIBOR plus 5% p.a. repayable by September 2016	6,310	7,639
Term loan, at LIBOR plus 3.75% p.a. repayable by December 2014	25,248	33,470
Term loan, at LIBOR plus 3% p.a. repayable by August 2016	55,614	36,640
Term loan, at LIBOR plus 2% p.a. repayable by April 2013	55,000	69,000
Term loan, at 5.87% p.a. repayable by August 2014	4,065	5,420
Term loan, at 5.90% p.a. repayable by March 2015	7,277	9,330
Term loan, at 5.90% p.a. repayable by March 2015	7,277	9,330
Term loan, at LIBOR plus 1.10% p.a. repayable by June 2015	6,800	8,500
Term loan, at LIBOR plus 1.10% p.a. repayable by February 2011	—	199
Term loan, at LIBOR plus 0.30% p.a. repayable by October 2016	7,960	9,552
Term loan, at LIBOR plus 1.25% p.a. repayable by December 2013	7,200	10,800
Term loan, at LIBOR plus 3.5% p.a. repayable by July 2017	66,734	77,331
Term loan, at LIBOR plus 2.88% p.a. repayable by July 2017	17,134	—
Term loan, at LIBOR plus 2.88% p.a. repayable by July 2017	6,374	—
Term loan, at LIBOR plus 1.00% p.a. repayable by July 2013	1,830	2,744
Term loan, at LIBOR plus 0.35% p.a. repayable by January 2017	15,817	20,561
Term loan, at LIBOR plus 0.75% p.a. repayable by July 2015	2,871	3,589
Term loan, at 7.37% p.a. repayable by September 2012	2,065	4,436
Term loan, at 5.75% p.a. repayable by June 2012	313	886
Term loan at SCB treasury plus 3% p.a. repayable by March 2012	10,000	—
Term loan at LIBOR plus 2.88% p.a. repayable by July 2017	11,303	—
Term loan at LIBOR plus 2.88% p.a. repayable by July 2017	12,300	—
Term loan at LIBOR + 2.50% p.a. repayable by March 2018	34,335	—

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Term loan, at LIBOR plus 3.75% p.a. repayable by August 2013.....	1,887	—
Term loan at LIBOR plus 4% p.a. repayable by July 2017	46,744	53,318
	425,673	380,371
Current portion.....	(93,934)	(66,726)
Non-current portion	331,739	313,645

The term loans of the Group are denominated either in United States Dollars or United Arab Emirates Dirham and are secured by a first preferred mortgage over selective assets of the Group, the assignment of marine vessel insurance policies, corporate guarantees, lien on fixed deposits and the assignment of the marine vessel charter lease income. The property loan is secured by first preferred mortgage over the office building property. (refer notes 13 and 17).

The term loans are repayable as follows:

	2011	2010
	USD'000	USD'000
Due within one year.....	93,934	66,726
Due between two to five years.....	279,389	257,036
Due after five years.....	52,346	56,609
	425,669	380,371

The borrowing arrangements include undertakings to comply with various covenants like senior interest cover, current ratio, debt to EBITDA ratio, gearing ratio, tangible debt to net worth ratio, total assets to tangible net worth ratio and equity ratio including an undertaking to maintain a minimum net worth which, at no time, shall be less than US\$ 300 million.

At the reporting date, the Group has complied with all financial covenants except some covenants in respect of some banks as mentioned above. The management believes that the breach in the covenants has resulted due to non-operating expenses which are one-off charges incurred by the Group during the year (refer note 9) and decline in the performance of Topaz Engineering Division. The long term portion pertaining to these loans amounted to USD 109,427 thousand.

During 2011, the Company's management, anticipating the covenant breaches as at 31 December 2011, had initiated negotiations with the lenders to obtain waivers. The Group has obtained waivers from certain lenders and in addition has also obtained an addendum to the waiver from a significant creditor bank which in the opinion of the management indicates that the waiver in principal was agreed before the reporting date by the creditor bank.

The Group has not defaulted on any of its payment obligations for the bank loans and there has been no formal demand for prepayment from any lenders arising out of these financing covenant breach.

One of the key measures carried out by the Group has been to undertake a bank borrowings refinancing initiative, which is expected to conclude shortly. This will be used to refinance certain existing term loans to improve liquidity and also to provide funds for capital expansion purposes (refer note 36).

Further measures include proposed reorganization of the group structure whereby the parent entities of marine and engineering divisions will be separated into different legal entities resulting in two independent and separate divisions with distinct financing facilities (refer note 36).

Topaz Energy and Marine Limited will however continue to act as the Holding Company for both the divisions. In the current situation most of the covenants are related to facilities for the Marine Division, however the covenants are tested at a consolidated level.

The new structure will therefore ensure that performance in any one division will not impact the credit facilities of the other division. Progressively, the Group plans to move towards credit arrangements at each division level where covenants are tested exclusively to measure the performance of that division. These new arrangements have been discussed with all the lenders to give them further comfort on the measures initiated by the Group to improve its liquidity and profitability.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

In the intervening period, the Ultimate Holding Company has provided full and continued support to meet the funding requirements of the Group, and has undertaken to continue to do so by way of new equity injection and bridge financing to meet the Group funding requirements.

The management of the Company, on the basis of their review of the measures undertaken and of the presently ongoing negotiations with the lenders, are of the opinion that these negotiations for restructuring the borrowings will conclude in a satisfactory manner (as the initial term sheet has already been signed) and will not result in a discontinuance or immediate demand for repayment of the existing credit facilities. Accordingly, the Group has continued to classify the term loans into current and non-current portions as per the original loan repayment schedule.

23 LOANS DUE TO HOLDING COMPANY

	2011 USD'000	2010 USD'000
Term loan, at 7.25% p.a. repayable by October 2012.....	3,184	6,367
Term loan at 5% p.a. repayable by January 2011	—	13,000
Term loan at 8.50% p.a. repayable by September 2017 (refer (ii) below).....	104,000	50,998
Term loan at 6.00% p.a. repayable by July 2013	10,000	—
Term loan at 6.50% p.a. repayable by November 2013.....	25,000	—
Term loan at 6.50% p.a. repayable by November 2013.....	10,000	—
Term loan at 6.75% p.a. repayable by December 2013	10,000	—
	162,184	70,365
Current portion.....	(5,424)	(16,184)
Non-current portion	156,760	54,181
Due within one year	5,424	16,184
Due between two to five years.....	130,760	28,864
Due after five years.....	26,000	25,317
	162,184	70,365

(i) Loans from Holding Company represents financing obtained by the Group for the purpose of liquidity management and vessel acquisitions.

(ii) This represents a subordinated loan payable in four equal installments of USD 26 million, starting from November 2014 carrying mark up at the rate of 8.5% p.a. compounded on a quarterly basis.

24 EMPLOYEES' END OF SERVICE BENEFITS

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. This is an unfunded defined benefit scheme.

Principal actuarial assumptions at the reporting date are as follows:

- Normal retirement age : 60-65 years
- Mortality, withdrawal and retirement: 5% turnover rate. Due to the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used for mortality, withdrawal and retirement.
- Discount rate: 5.25% p.a.
- Salary increases: 3% - 5% p.a.

Movement in the provision recognised in the combined statement of financial position is as follows:

	2011 USD'000	2010 USD'000
Provision as at 1 January	1,549	979*
Provided during the year.....	386	602

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

End of service benefits paid	(386)	(38)
Transfer (to) /from related parties.....	(108)	6
Provision as at 31 December	<u>1,441</u>	<u>1,549</u>

* Unaudited.

25 ACCOUNTS PAYABLE AND ACCRUALS

	2011 USD'000	2010 USD'000
<i>Current</i>		
Trade accounts payables	15,191	15,210
Accrued expenses	14,020	14,277
Deferred income	2,185	2,344
Other payables	<u>9,388</u>	<u>6,959</u>
	<u>40,784</u>	<u>38,790</u>
<i>Non-current</i>		
Deferred income	<u>3,048</u>	<u>5,442</u>

26 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in combined statement of comprehensive income are as follows:

	2011 Revenue USD'000	2011 Purchases USD'000	2010 Revenue USD'000	2010 Purchases USD'000
Related parties	<u>1,515</u>	<u>1,522</u>	<u>957</u>	<u>56</u>

Compensation of key management personnel

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

	2011 USD'000	2010 USD'000
Short term benefits.....	2,246	2,771
Employees' end of service benefits	135	411
	<u>2,381</u>	<u>3,182</u>

Investment in Engineering Division entities

	2011 USD'000	2010 USD'000
Adyard Abu Dhabi LLC	5,618	5,618
Nico International LLC.....	390	390
Dart Automation Inc.	137	137
Kyran Holdings Limited	<u>10</u>	<u>10</u>
	<u>6,155</u>	<u>6,155</u>

Investment in Engineering Division entities is carried at cost in these combined financial statements. The principal activities of these entities include offshore and onshore projects and fabrication, marine and onshore automation, boat building, ship repair, marine boiler repair and other ship engineering activities. Also refer note 3.

2011 USD'000	2010 USD'000
-----------------	-----------------

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Long-term receivables from Engineering Division entities

Nico Middle East Limited—Dubai Branch	6,870	6,870
Kyran Holdings Limited	2,203	2,203
Nico Middle East Limited—Fujairah Branch	327	327
Dart Automation Inc.	137	137
	9,537	9,537

	2011	2010
	USD'000	USD'000

Due from related parties

Directors	48	51
Adyard Abu Dhabi LLC	41,122	—
Nico Middle East Limited—Dubai Branch	25,106	17,942
Topaz Energy and Marine Plc, UK.....	350	—
Nico International LLC.....	243	—
Topaz Energy and Marine Services DMCC	—	1,205
Mangistau Oblast Boat Yard LLP.....	—	1,615
	66,869	20,813

	2011	2010
	USD'000	USD'000

Due to related parties

Nico Middle East Limited—Fujairah Branch	15,218	15,728
Nico Craft LLC.....	9,939	5,252
Nico Middle East Limited—Topaz Energy and Marine—Dubai Branch.....	6,690	5,241
Renaissance Services SAOG	5,895	444
Dart Automation Inc.	4,541	4,141
Jaya Holdings Limited.....	2,632	1,816
Mangistau Oblast Boat Yard LLP.....	2,361	—
Doosan Babcock Energy Limited	84	—
Tawoos LLC	—	18
Adyard Abu Dhabi LLC	—	5,792
Nico International LLC.....	—	391
	47,360	38,823

27 INVESTMENT IN JOINTLY CONTROLLED ENTITIES

The income, expenses, assets and liabilities at 31 December 2011 of the jointly controlled entities described in note 2, not adjusted for the percentage ownership held by the Group, are set out below:

	2011	2010
	USD'000	USD'000
Current assets	14,211	12,421
Current liabilities.....	(1963)	(1,605)
Non-current assets	7,715	8,675
Non-current liabilities.....	(12,882)	(6,997)
Net assets.....	7,081	12,494
Revenue.....	3,818	6,057
Cost of sales	(3,061)	(3,239)
Administrative expenses.....	(18)	(26)
Finance cost.....	(326)	(332)
Finance income	1	1
Profit before tax.....	414	2,461
Tax.....	(119)	(101)
Profit for the year	295	2,360

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Notes to the combined financial statements (continued)

28 DEFERRED TAX ASSETS

	2011 USD'000	2010 USD'000
At 1 January.....	1,164	3,128*
Credit / (charge) to profit or loss (refer note 11).....	1,635	(1,964)
At 31 December.....	<u>2,799</u>	<u>1,164</u>

* Unaudited.

The deferred tax balance at 31 December 2011 comprises depreciation in excess of capital allowances of USD 2,076 thousand (2010: USD 839 thousand) and short-term timing differences of USD 723 thousand (2010: USD 325 thousand).

29 CONTINGENCIES AND CLAIMS

Contingent liabilities

	2011 USD'000	2010 USD'000
Letters of credit.....	1,590	—
Letters of guarantee	16,754	6,634
	<u>18,344</u>	<u>6,634</u>

These are non-cash banking instruments like bid bond, performance bond, refund guarantee, retention bonds, etc. which are issued by banks on behalf of group companies to customers / suppliers under the non-funded working capital lines with the banks. These lines are secured by the corporate guarantee from various group entities. The amounts are payable only in the event when certain terms of contracts with customers / suppliers are not met.

Litigation and claims

Claims by Trustees of the Merchant Navy Officer's Pension Fund

During the year ended 31 December 2011, the Group has received an invoice of USD 228,359 from Trustees of the Merchant Navy Officer's Pension Fund ("MNOF") seeking payment on a joint and several basis from both the Group and Guernsey Ship Management Limited ("GSM"), in respect of 2009 valuations of pension deficit arising in respect of seafarers allegedly employed on board vessels managed by BUE during the period 1995 to 1999. The said invoice was unpaid by the Group at the year end and was not actively pursued by the MNOF, although solicitors have been appointed to recover this debt. Interest is claimed to accrue on the invoice at a rate of 10% per annum on a compounding basis. The worst case scenario for the Group would be commencement of legal proceedings by MNOF Trustees for USD 228,359 plus interest at the rate of 10% p.a. on a compounding basis plus any legal costs. As at the year end, the management of the Group is seeking suitable legal advice in relation to the merits and entitlements of the MNOF Trustees to pursue these claims and the prospects to recover these claims from the erstwhile owners of the Group. Accordingly, no provision in respect of this claim has been made in the combined financial statements of the Group.

Furthermore, during the year ended 31 December 2011, the Group has settled an invoice of USD 214,695 received from Trustees of the Merchant Navy Officer's Pension Fund ("MNOF") seeking payment in respect of 2003 and 2006 valuations of pension deficit arising in respect of seafarers allegedly employed on board vessels managed by the Group during the period from 1995 to 1999. The Group received an indemnity in the sum of USD 193,000 against the payment made by it to MNOF, which was available in favour of the Group's Immediate Holding Company from the erstwhile owners of the Group, whereas, the remaining balance of USD 21,695 was taken to profit or loss.

Claims by Trustees of Merchant Navy Ratings Pension Fund

The Group has a possible exposure of shortfall in the pension fund contributions towards Merchant Navy Ratings Pension Fund. During the year, the result of a test case of this matter was issued by the Court of Appeal in London in May 2011, which confirmed the ability of the Trustees of the Ratings Pension Fund to seek to amend their

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Trust Deed to require contributions from former employers, said to include the Group as well. No quantification of this exposure is yet available, therefore, no provision has been made by the Group.

30 NON-CANCELLABLE LEASES

a) Operating leases—receivable

The Group leases its marine vessels under operating leases. The leases typically run for a period between 3 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 non-cancellable operating leases as of 31 December are as follows:

	2011 USD'000	2010 USD'000
Within one year.....	176,764	193,598
Between one and five years	395,011	356,790
More than five years	131,734	188,153
	703,509	738,541

b) Operating leases—payable

The Group has commitments for future minimum lease payments under non-cancellable operating leases for marine vessels as follows:

	2011 USD'000	2010 USD'000
Within one year.....	17,002	19,262
Between one and five years	61,576	55,310
More than five years	28,401	28,069
	106,979	102,641

During the year an amount of USD 22,154 thousand (2010: USD 24,215 thousand) was recognized as an expense in profit or loss in respect of bareboat charter of marine vessels obtained on operating lease.

31 COMMITMENTS

	2011 USD'000	2010 USD'000
Capital expenditure commitment:		
Purchase of property, plant and equipment.....	58,986	59,763

32 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

			Notional amounts by term to maturity		
	Negative fair value USD'000	Notional amount total USD'000	Within 1 year USD'000	Between 1 year to 5 years USD'000	Over 5 years USD'000
31 December 2011					
Interest rate swaps.....	9,318	222,612	26,736	187,584	8,292
31 December 2010					
Interest rate swaps.....	7,548	183,460	14,888	149,224	19,348

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The term loan facilities of the Group bear interest at US LIBOR plus applicable margins (refer note 22). In accordance with the financing documents, the Group has fixed the rate of interest through Interest Rate Swap Agreements (“IRS”) as follows:

- USD 55,000 thousand (2010: USD 55,000 thousand) at a fixed interest rate of 3.95% (2010: 3.95%) per annum, excluding margin;
- USD 54,040 thousand (2010: USD Nil) at a fixed interest rate of 2.5% (2010: Nil) per annum, excluding margin;
- USD Nil (2010: USD 10,700 thousand) at a fixed interest rate of Nil (2010: 4.89%) per annum, excluding margin;
- USD 50,000 thousand (2010: USD 50,000 thousand) at the rate of 2% (2010: 2%) per annum, excluding margin;
- An amount of USD 7,180 thousand (2010: USD 8,400 thousand) at the rate of 3.25% (2010: 3.25%) per annum, excluding margin; and
- An amount of USD 56,400 thousand (2010: 59,300 thousand) at the rate of 1.97% (2010: 1.97%) per annum, excluding margin.

At 31 December 2011 the US LIBOR was approximately 0.77% (2010: 0.46%) per annum. Accordingly, the gap between US LIBOR and fixed rate under IRS was approximately 3.18%, 1.73%, 1.23%, 2.48% and 1.20% (2010: 3.49%, Nil, 1.54%, 2.79% and 1.51%) per annum.

Based on the interest rates gap, over the life of the IRS, the indicative losses were assessed at approximately USD 9,318 thousand (2010: USD 7,548 thousand) by the counter parties to IRS. Consequently, in order to comply with International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* fair value of the hedge instruments’ indicative losses in the amount of approximately USD 9,318 thousand (2010: USD 7,548 thousand) has been recorded under current and non-current liabilities and the impact for the year amounting to USD 2,462 thousand (2010: USD 479 thousand) has been recorded under finance income (refer note 10) and USD 4,232 thousand (2010: USD 372 thousand) has been recognized in the hedging reserve.

33 RISK MANAGEMENT

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.

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 analyze 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

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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.

During the year, the Group implemented a new code of business conduct across various Group entities. Whilst implementing this code, management uncovered potential financial misconduct in a Group entity and an urgent investigation was immediately undertaken. The outcome of the investigation suggested that certain unacceptable financial and ethical practices had taken place in the entity concerned over a number of years. In particular, it emerged that, over several years, in aggregate approximately USD 2.9 million of cash payments had not been properly approved and / or classified and may have been used for improper purposes, although, as the payments had been recorded as expenses in the relevant years, there was no misstatement of the profit for any period.

At an early stage, the Group established a special committee with an independent chairman to assist in resolving these matters including, where appropriate, reporting certain findings to the relevant authorities. Further investigations were also undertaken to determine whether there might be issues elsewhere in the Group. Management promptly took all appropriate steps within their power to ensure that any inappropriate practices ceased immediately and permanently, and ended the employment of certain personnel. In addition to rigorous implementation of the new code of business conduct, management has taken further steps, including greater oversight of the activities of the Group by senior management of the Holding Company and strengthening the relevant internal controls. Management is confident that, based on the foregoing measures and the rigorous implementation of the new code of business conduct, they will ensure that such instances do not recur in the future.

The Group's principal financial liabilities, other than derivatives, comprise bank loans and overdrafts, accounts payables and accruals and balances due to 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 balance and cash, long-term receivables and due from related parties which arise directly from its operations.

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

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 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 17% (2010: 25%) of the Group's revenue is attributable to sales transactions with a single customer. The Group's ten largest customers account for 79% (2010: 81%) of the outstanding trade accounts receivable as at 31 December 2011. Geographically the credit risk is significantly concentrated in the Middle East and North Africa (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

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established for each customer, which represents the maximum open amount without requiring approval from the senior Group management; these limits are reviewed periodically.

More than 30% (2010: 25%) of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. As a result of the deteriorating economic circumstances in 2008 and 2009, certain purchase limits have been redefined for the Group's customers.

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 banks of good repute. 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.

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:

	2011 USD'000	2010 USD'000
Trade accounts receivable.....	57,858	56,432
Other receivables and accrued income.....	11,624	12,795
Due from related parties	66,869	20,813
Long-term receivable from Engineering Division entities.....	9,537	9,537
Cash at bank.....	32,844	16,444
	<u>178,732</u>	<u>116,021</u>

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. In addition, the Group maintains the following lines of credit:

- Short term loans USD 10,000 thousand
- Overdraft facilities USD 1,362 thousand

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At the reporting date the Group has external borrowings of USD 425,673 (including USD 93,934 payable within one year) and borrowings from Holding Company of USD 162,184 (including USD 5,424 payable within one year). The Group has also breached certain financial covenants as specified in the agreements with creditor banks. The Group has undertaken several initiatives to ensure sufficient liquidity to meet operational expenses, including the servicing of financial obligations. The details of these initiatives are explained in note 22 to the combined financial statements.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2011, based on contractual undiscounted payments.

		Contractual cashflows			
	Carrying amount USD'000	Total USD'000	Due within 1 year USD'000	Due in 1 to 5 years USD'000	Due after 5 years USD'000
At 31 December 2011					
<i>Non-derivative financial liabilities</i>					
Trade accounts payables and accruals	38,599	(38,599)	(38,599)	—	—
Term loans	425,673	(483,718)	(98,381)	(331,865)	(53,472)
Loans due to Holding Company	162,184	(210,817)	(14,562)	(168,597)	(27,658)
Due to related parties	47,360	(47,364)	(47,364)	—	—
Bank overdraft	1,285	(1,285)	(1,285)	—	—
Total.....	675,101	(781,783)	(200,191)	(500,462)	(81,130)
At 31 December 2010					
<i>Non-derivative financial liabilities</i>					
Trade accounts payables and accruals	36,604	(36,604)	(36,604)	—	—
Term loans	380,371	(416,666)	(79,445)	(282,928)	(54,293)
Loans due to Holding Company	70,365	(96,088)	(20,928)	(45,845)	(29,315)
Due to related parties	38,823	(38,823)	(38,823)	—	—
Total.....	526,163	(588,181)	(175,800)	(328,773)	(83,608)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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 buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

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 with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep between 40% and 70% of its borrowings at fixed rates of interest. To manage this, the Group enters into interest rate swaps, 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 designated to hedge underlying debt obligations. At 31 December 2011, after taking into account the effect of interest rate swaps, approximately 67% of the Group's borrowings are at a fixed rate of interest (2010: 64%) of which 18% (2010: 15%) is also hedge accounted for.

Profile

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

Carrying amount	
2011	2010
USD'000	USD'000

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Fixed rate instruments

Financial assets	13,453	1,139
Financial liabilities.....	(183,181)	(99,767)

Variable rate instruments

Financial liabilities.....	(404,676)	(350,969)
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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 profit or loss, 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 profit or loss.

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 profit or loss 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 2010.

	Profit or loss		Equity	
	100 bp increase USD'000	100 bp decrease USD'000	100 bp increase USD'000	100 bp decrease USD'000
31 December 2011				
Variable rate instruments	4,047	(4,047)	4,047	(4,047)
31 December 2010				
Variable rate instruments	3,510	(3,510)	3,510	(3,510)

Currency risk

The Group is exposed to currency risk on sales and purchases denominated in currencies other than USD which is the functional currency of the Group or currencies which are pegged to USD. At any point in time the Group hedges 100% of its estimated foreign currency exposure in respect of its forecast capital commitments. The Group uses forward currency contracts to hedge its currency risk, with a maturity of less than one year from the reporting date.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	EUR	AZN	KZT	GBP	NOK	JPY	SGD
31 December 2011							
Bank balances	—	75	3,513	—	—	—	—
Trade account payables.....	(624)	(446)	(50,352)	(465)	(862)	(5,384)	(727)
Net statement of financial position exposure	(624)	(371)	(46,839)	(465)	(862)	(5,384)	(727)
31 December 2010							
Bank balances	—	70	2,167	—	—	—	—
Trade account payables.....	(752)	(802)	(108,895)	(421)	(1,756)	(11,733)	(1,062)
Net statement of financial position exposure	(752)	(732)	(106,728)	(421)	(1,756)	(11,733)	(1,062)

The following significant exchange rates applied during the year:

	Reporting period average rate		Reporting date spot rate	
	2011	2010	2011	2010
Euro (EUR).....	0.763	0.755	0.772	0.754
Azerbaijan New Manat (AZN)	0.792	0.802	0.786	0.797
Kazakhstan Tenge (KZT)	145.32	147.356	145.57	145.081
Great Britain Pound (GBP).....	0.647	0.647	0.647	0.646

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Norwegian Kroner (NOK)	5.943	6.044	5.99	5.897
Japanese Yen (JPY)	79.471	87.785	77.4	81.541
Singapore Dollars (SGD)	1.295	1.363	1.298	1.291

Sensitivity analysis

A strengthening of the USD, as indicated below, against the Euro, Azerbaijan New Manat, Kazakhstan Tenge, Great Britain Pound, Norwegian Kroner, Japanese Yen and Singapore Dollars at 31 December 2011 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010.

2011	Effect on profit before tax	
	Strengthening by 5% USD'000	Weakening by 5% USD'000
Euro (EUR)	40	(40)
Azerbaijan New Manat (AZN)	28	(28)
Kazakhstan Tenge (KZT)	17	(17)
Great Britain Pound (GBP)	36	(36)
Norwegian Kroner (NOK)	7	(7)
Japanese Yen (JPY)	3	(3)
Singapore Dollars (SGD)	28	(28)

33 RISK MANAGEMENT

2010	Effect on profit before tax	
	Strengthening by 5% USD'000	Weakening by 5% USD'000
Euro (EUR)	50	(50)
Azerbaijan New Manat (AZN)	50	(50)
Kazakhstan Tenge (KZT)	37	(37)
Great Britain Pound (GBP)	33	(33)
Norwegian Kroner (NOK)	15	(15)
Japanese Yen (JPY)	7	(7)
Singapore Dollars (SGD)	41	(41)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2011 USD'000	2010 USD'000
Interest bearing loans and borrowings	587,857	450,736
Bank overdraft	1,285	—
Less: cash and short term deposits	(32,938)	(16,611)
Net debt	556,204	434,125
Equity	453,649	462,830
Add: cash flow hedge reserve included in equity	4,832	600
Adjusted equity	458,481	463,430
Capital and net debt	1,014,681	897,555

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Gearing ratio **54.82%** **48.37%**

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its marine subsidiaries are subject to externally imposed capital requirements.

34 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

The fair value of derivatives is set out in note 32. The fair values of other financial instruments are not materially different from their carrying values.

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 USD'000	Level 2 USD'000	Level 3 USD'000	Total USD'000
31 December 2011				
Derivative financial liabilities.....	<u>—</u>	<u>(9,318)</u>	<u>—</u>	<u>(9,318)</u>
31 December 2010				
Derivative financial liabilities.....	<u>—</u>	<u>(7,548)</u>	<u>—</u>	<u>(7,548)</u>

35 KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimation uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the combined financial statements are as follows:

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. The carrying amount of goodwill at 31 December 2011 was USD 26,174 thousand (2010: USD 26,174 thousand). Further details are given in note 14.

Impairment of vessels

The Group determines whether its vessels are impaired when there are indicators of impairment as defined in IAS 36. 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 2011 was USD 878,962 thousand (2010: USD 757,192 thousand).

Impairment of accounts receivable

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

At the reporting date, gross trade accounts receivable were USD 60,988 thousand (2010: USD 59,822 thousand) and the provision for doubtful debts was USD 3,130 thousand (2010: USD 3,390 thousand). Any difference between the amounts actually collected in future periods and the amounts expected to be impaired will be recognised in profit or loss.

Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices, consumption trend and usage.

At the reporting date, gross inventories were USD 5,412 thousand (2010: USD 5,667 thousand) with provision for old and obsolete inventories of USD 114 thousand (2010: USD 114 thousand). Any difference between the amounts actually realised in future periods and the amounts provided will be recognised in profit or loss.

Useful lives of property, plant and equipment

The useful lives, residual values and methods of depreciation of property, plant and equipment 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 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.

Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument. As at the reporting date the cumulative fair value of the interest rate swap was USD 9,318 thousand (2010: USD 7,548 thousand).

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 combined, proportionately combined or equity accounted in accordance with the accounting policy of the Group (also refer note 2).

Leases

Management exercises judgments in estimating whether a lease is a finance lease or an operating lease by assessing whether in substance the risks and rewards of ownership of the assets have been transferred or not. In the instances where management estimates that the risks and rewards have actually been transferred the lease is considered as a finance lease, otherwise it is accounted for as an operating lease.

Current and non-current classification of bank borrowings

The Group's management has exercised significant judgment during the year in determining the current and non-current classification of bank borrowings. The classification is based on the repayment terms agreed with the bank, assessing the events and circumstances which can render a loan becoming payable on demand and the status of any negotiations and communications with the creditor banks in this regard.

The Group's management has further exercised judgment in determining the current and non-current classification of amounts due from related parties at the reporting date. In determining the current and non-current classification, the Group's management makes judgment based on the estimated future cash flows of the parties involved and the intention of management of the time frame within which these balances would be repaid.

36 SUBSEQUENT EVENTS

Reorganization of Group structure

Subsequent to the year-end, the Group has undertaken a reorganization of its operations with the intention of distinctly separating the Marine and Engineering divisions. As at the year ended 31 December 2011, both the divisions are owned and operated through a single holding company Nico Middle East Limited ("NMEL") which in turn is wholly owned by Topaz Energy and Marine Limited ("Topaz").

Effective 1 January 2012, the Group has decided to transfer the entire business, assets and liabilities of Topaz Engineering division from NMEL to another wholly owned subsidiary of Topaz namely Topaz Engineering Limited under the terms of a Business Transfer Agreement ("BTA"). Management expects that the reorganization will result in optimal performance and structural efficiencies for both the divisions. Since the transaction is between entities which are under common control, it is outside the scope of IFRS 3 "Business Combinations". Hence the transfer of assets and liabilities is proposed to be accounted for at book values and no goodwill will be recognized thereon.

Refinancing of term loans

Subsequent to the year-end, the Group has successfully restructured its existing liabilities amounting to USD 129,430 thousand under various facilities. As a result of this restructuring, on 16 May 2012, the Group has entered into an agreement with a syndicate of banks for a financing facility of USD 203 million. The existing liabilities under the target restructure loans were prepaid and replaced by a new term loan amounting to USD 171,816 thousand. The new term loan carries interest at the rate of three-months LIBOR plus 4% and is repayable in quarterly installments by August 2017.

Moreover, in December 2012, the Group has signed a bilateral term sheet for facility of USD 125 million. The Group intends to use part of this facility to refinance certain term loan facilities and the balance to finance vessels under construction.

37 COMPARATIVES

Certain comparative figures have been reclassified / regrouped, wherever found necessary to confirm to the presentation adopted in these combined financial statements.

Nico Middle East Limited and its marine subsidiaries

**Combined financial statements
31 December 2010**

Nico Middle East Limited and its marine subsidiaries

**Combined financial statements
31 December 2010**

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Independent auditors' report

The shareholders
Nico Middle East Limited

Report on the combined financial statements

We have audited the accompanying combined financial statements of Nico Middle East Limited ("the Company") and its marine subsidiaries (collectively referred to as "the Group"), which comprise the combined statement of financial position as at 31 December 2010, the combined statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined financial statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

As explained in note 3 to the combined financial statements, the Group has not presented the combined information for the year ended 31 December 2009. This treatment is not in compliance with the requirements of IAS 1 "Presentation of Financial Statements" which requires the disclosure of comparative information in respect of the previous period for all amounts reported in the current period's financial statements.

Qualified opinion

In our opinion, except for the matter described in the basis for qualified opinion paragraph, the combined financial statements present fairly, in all material respects, the combined financial position of the Group as at 31 December 2010, and its combined financial performance and its combined cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of preparation of combined financial statements

The management has determined to prepare and present a separate set of combined financial statements as at and for the year ended 31 December 2010, which includes the financial results of the Company and its marine subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in jointly controlled marine entities as mentioned in note 2 to the combined financial statements. Marine subsidiaries and jointly controlled marine entities (collectively referred to as the Marine Division) include those subsidiaries and jointly controlled entities of the Company which are engaged in provision of offshore supply vessels and other marine vessels on

charter primarily to the oil and gas industry. These separate set of combined financial statements have been prepared to enable the management to evaluate the performance and financial position of the Marine Division on a stand-alone basis. This is the first year that the management has prepared the combined financial statements of the Group.

Nico Middle East Limited and its marine subsidiaries

Combined statement of comprehensive income

for the year ended 31 December 2010

	Note	2010 USD'000
Revenue	6	243,799
Direct costs		(134,874)
GROSS PROFIT		108,925
Other income	7	5,347
Other expenses	8	(803)
Administrative expenses		(22,503)
RESULTS FROM OPERATING ACTIVITIES		90,966
Finance costs	9	(17,123)
Finance income	9	800
PROFIT BEFORE INCOME TAX		74,643
Income tax expense	10	(10,160)
PROFIT FOR THE YEAR	11	64,483
OTHER COMPREHENSIVE INCOME		
Foreign currency translation differences	9	42
Effective portion of changes in fair value of cash flow hedges	9	(372)
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(330)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		64,153
Profit attributable to:		
Owners of the Company		52,985
Non-controlling interests		11,498
PROFIT FOR THE YEAR		64,483
Total comprehensive income attributable to:		
Owners of the Company		52,655
Non-controlling interests		11,498
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		64,153

The independent auditors' report is set out on page F-127.

The attached notes on pages F-133 to F-168 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries

Combined statement of financial position

as at 31 December 2010

	Note	2010 USD'000
ASSETS		
Non-current assets		
Property, plant and equipment	12	811,399
Intangible assets and goodwill	13	26,608
Long-term receivables and prepayments		2,644
Investment in Engineering Division entities	25	6,155
Long-term receivable from Engineering Division entities	25	9,537
Deferred tax assets	27	1,164
		<u>857,507</u>
Current assets		
Inventories	14	5,553
Accounts receivable and prepayments	15	105,352
Due from related parties	25	20,813
Bank balances and cash	16	16,611
		<u>148,329</u>
TOTAL ASSETS		<u>1,005,836</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	17	241,817
Statutory reserve		38
Hedging reserve	18	(600)
Translation reserve	19	895
Retained earnings		162,155
Revaluation reserve		2,016
Equity attributable to owners of the Company		<u>406,321</u>
Non-controlling interests		54,363
Total equity		<u>460,684</u>
Non-current liabilities		
Term loans	21	313,645
Loans due to Holding Company	22	54,181
Employees' end of service benefits	23	1,549
Accounts payable and accruals	24	5,442
Provision for fair value of derivatives	31	3,781
		<u>378,598</u>
Current liabilities		
Accounts payable and accruals	24	38,790
Term loans	21	66,726
Loans due to Holding Company	22	16,184
Due to related parties	25	38,823
Income tax payable	10	2,264
Provision for fair value of derivatives	31	3,767
		<u>166,554</u>
Total liabilities		<u>545,152</u>
TOTAL EQUITY AND LIABILITIES		<u><u>1,005,836</u></u>

The combined financial statements were approved and authorised for issue in accordance with a resolution of the directors on .

Director

Director

The independent auditors' report is set out on page F-127.

The attached notes on pages F-133 to F-168 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries

Combined statement of cash flows

for the year ended 31 December 2010

	2010 USD'000
Note	
CASH FLOWS FROM OPERATING ACTIVITIES	
Profit before income tax	74,643
Adjustments for:	
Depreciation.....	36,361
Amortization of intangible assets.....	35
Gain on disposal of property, plant and equipment	(216)
Provision for employees' end of service benefits	602
Finance cost	17,123
Finance income.....	(800)
Impairment loss on trade accounts receivables	803
	<u>128,551</u>
Changes in:	
Inventories	(4,112)
Accounts receivable and prepayments.....	(1,552)
Accounts payable and accruals	(13,666)
Due from related parties	(20,735)
Due to related parties.....	13,517
Cash generated from operating activities.....	102,003
Employees' end of service benefits paid.....	(38)
Income tax paid.....	(9,334)
Net cash from operating activities	<u>92,631</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of property, plant and equipment	(290,717)
Acquisition of intangible assets	(389)
Proceeds from disposal of property, plant and equipment	5,263
Advance/deposit paid for vessels.....	(6,535)
Interest received.....	321
Change in long term receivable	(2,001)
Net cash used in investing activities	<u>(294,058)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of share capital	100,000
Funds introduced by non-controlling shareholders.....	4,922
Dividend paid to owners of the Company	(24,402)
Dividend paid to non-controlling shareholders.....	(7,250)
External borrowings obtained—net	75,434
Loan obtained from the Holding Company—net.....	60,813
Interest paid	(18,795)
Net cash from financing activities	<u>190,722</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(10,705)
Cash and cash equivalents at 1 January (unaudited).....	27,274
Effect of exchange rate changes on cash held.....	42
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>16,611</u>

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The independent auditors' report is set out on page F-127.

The attached notes on pages F-133 to F-168 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries

Combined statement of changes in equity

for the year ended 31 December 2010

	Attributable to owners of the Company-								
	Share capital USD '000	Statutory reserve USD '000	Hedging reserve USD '000	Translation reserve USD '000	Revaluation reserve USD '000	Retained earnings USD '000	Total USD '000	Non-controlling interests USD '000	Total equity USD '000
Balance at 1 January 2010 (unaudited).....	141,817	38	(228)	853	2,161	133,427	278,068	45,193	323,261
Total comprehensive income for the year									
Profit for the year	—	—	—	—	—	52,985	52,985	11,498	64,483
Other comprehensive income									
Foreign currency translation differences.....	—	—	—	42	—	—	42	—	42
Effective portion of changes in fair value of cash flow hedges	—	—	(372)	—	—	—	(372)	—	(372)
Total other comprehensive income	—	—	(372)	42	—	—	(330)	—	(330)
Total comprehensive income for the year	—	—	(372)	42	—	52,985	52,655	11,498	64,153
Transactions with owners of the Company, recorded directly in equity									
Additional capital introduced (refer note 17)	100,000	—	—	—	—	—	100,000	4,922	104,922
Dividend paid (refer note 20).....	—	—	—	—	—	(24,402)	(24,402)	(7,250)	(31,652)
Total transactions with owners of the Company	100,000	—	—	—	—	(24,402)	75,598	(2,328)	73,270
Other equity movements									
Transfer to revaluation reserve ..	—	—	—	—	(145)	145	—	—	—
Total other equity movements	—	—	—	—	(145)	145	—	—	—
Balance at 31 December 2010 .	241,817	38	(600)	895	2,016	162,155	406,321	54,363	460,684

The attached notes on pages F-133 to F-168 form part of these combined financial statements.

Nico Middle East Limited and its marine subsidiaries

Notes to the combined financial statements

1 REPORTING ENTITY

Nico Middle East Limited (“the Company”) is a limited liability company incorporated in Bermuda. The Company is a wholly owned subsidiary of Topaz Energy and Marine Limited (“the Holding Company”), an Offshore company registered in the Jebel Ali Free Zone. The address of the registered office of the Company is P.O. Box 1022, Clarendon House, Church Street—West, Hamilton HM DX, Bermuda. The ultimate holding company is Renaissance Services SAOG, (“the Ultimate Holding Company”) a joint stock company incorporated in the Sultanate of Oman.

2 SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES FORMING PART OF MARINE DIVISION

Following subsidiaries and jointly controlled entities have been combined with the financial statements of the Company:

Company	Country of incorporation	Registered percentage shareholding	Principal activities
A) Subsidiaries of Nico Middle East Limited			
Nico World II Limited	Vanuatu	100%	Charter of marine vessels
Nico World S.A	Panama	100%	Charter of marine vessels
Nico Far East Pte Limited	Singapore	100%	Charter of marine vessels
TEAM I Limited	Vanuatu	100%	Charter of marine vessels
TEAM II Limited	St.Vincent	100%	Charter of marine vessels
TEAM III Limited	St.Vincent	100%	Charter of marine vessels
TEAM IV Limited	St.Vincent	100%	Charter of marine vessels
TEAM V Limited	St.Vincent	100%	Charter of marine vessels
TEAM VI Limited	St.Vincent	100%	Charter of marine vessels
TEAM VII Limited	St.Vincent	100%	Charter of marine vessels
TEAM VIII Limited	St.Vincent	100%	Charter of marine vessels
TEAM IX Limited	St.Vincent	100%	Charter of marine vessels
TEAM X Limited	St.Vincent	100%	Charter of marine vessels
TEAM XII Limited	St. Vincent	100%	Charter of marine vessels
TEAM XIII Limited	St. Vincent	100%	Charter of marine vessels
TEAM XV Limited	St. Vincent	100%	Charter of marine vessels
TEAM XVI Limited	St. Vincent	100%	Charter of marine vessels
TEAM XVII Limited	St. Vincent	100%	Charter of marine vessels
TEAM XVIII Limited	St. Vincent	100%	Charter of marine vessels
TEAM XX Limited	Marshall Islands	100%	Charter of marine vessels
TEAM XXI Limited	Marshall Islands	100%	Charter of marine vessels
TEAM XXII Limited	Marshall Islands	100%	Charter of marine vessels
TEAM XXIII Limited	Marshall Islands	100%	Charter of marine vessels
BUE Marine Limited	United Kingdom	100%	Charter of marine vessels
Topaz BUE Limited	United Arab Emirates	100%	Charter of marine vessels
Topaz Doha Holdings I Limited	St. Vincent	100%	Charter of marine vessels
Topaz Doha Holdings II Limited	St. Vincent	100%	Charter of marine vessels
Caspian Fortress Limited [refer note 2 (a)]	St. Vincent	50%	Charter of marine vessels
Caspian Pride Limited [refer note 2 (a)]	St. Vincent	50%	Charter of marine vessels
Caspian Baki Limited [refer note 2 (a)]	St. Vincent	50%	Charter of marine vessels
Caspian Citadel Limited [refer note 2 (a)]	St. Vincent	50%	Charter of marine vessels
Caspian Gala Limited [refer note 2 (a)]	St. Vincent	50%	Charter of marine vessels
Caspian Server Limited [refer note 2 (a)]	St. Vincent	50%	Charter of marine vessels
Caspian Breeze Limited [refer note 2 (a)]	St. Vincent	50%	Charter of marine vessels
Caspian Protector Limited [refer note 2(a)]	St. Vincent	50%	Charter of marine vessels
Caspian Power Limited [refer note 2(a)]	St. Vincent	50%	Charter of marine vessels
Caspian Provider Limited	St. Vincent	100%	Charter of marine vessels
	Saudi Arabia	50%	Operation services and technical support for ships
Topaz Marine Saudi Arabia Limited	St. Vincent	100%	Commercial financial lending and borrowing activities
Flying Angel Limited	St. Vincent	100%	Commercial financial lending and borrowing activities
Nemo Limited			
Topaz Khobar Limited	Marshall Islands	100%	Charter of marine vessels
Topaz Khuwair Limited	Marshall Islands	100%	Charter of marine vessels
Topaz Khalidiya Limited	Marshall Islands	100%	Charter of marine vessels
Topaz Karama Limited	Marshall Islands	100%	Charter of marine vessels
Topaz Karzakkan Limited	Marshall Islands	100%	Charter of marine vessels

Nico Middle East Limited and its marine subsidiaries

Notes to the combined financial statements (continued)

Topaz Khubayb Limited.....	Marshall Islands	100%	Charter of marine vessels
Ererson Shipping Limited	Cyprus	100%	Charter of marine vessels
Heatberg Shipping Limited	Cyprus	100%	Charter of marine vessels
B) Subsidiaries of BUE Marine Limited			
BUE Caspian Limited [refer note 2 (b)]	Scotland	100%	Vessel management
BUE Kazakhstan Limited.....	Scotland	100%	Vessel management
BUE Cygnet Limited.....	Scotland	100%	Vessel management
BUE Bulkers Limited.....	Scotland	100%	Vessel management
BUE Shipping Limited.....	Scotland	100%	Vessel management
Roosalka Shipping Limited	Scotland	100%	Vessel management
BUE Aktau LLP	Kazakhstan	100%	Vessel management
BUE Bautino LLP	Kazakhstan	100%	Vessel management
BH PSV Limited	Cayman Islands	100%	Dormant company
BH Jura Limited.....	Cayman Islands	100%	Dormant company
BH Standby Limited	Cayman Islands	100%	Dormant company
Roosalka Shipping Limited	Cayman Islands	100%	Dormant company
BH Bulkers Limited	Cayman Islands	100%	Vessel management
BH Islay Limited.....	Cayman Islands	100%	Dormant company
BUE Kyran Limited	Scotland	100%	Vessel management
BUE Marine Turkmenistan Limited [refer note 2 (b)]	Scotland	100%	Vessel management
XT Shipping Limited	Scotland	100%	Vessel management
BUE Kashagan Limited	Cayman Islands	100%	Vessel management
BUE Maritime Services Limited [refer note 2 (b)]..	Scotland	100%	Vessel management
River Till Shipping Limited	Scotland	100%	Vessel management
C) Subsidiary of Topaz Doha Holdings II Limited			
Doha Marine Services WLL [refer note 2 (d)]	State of Qatar	100%	Vessel management
D) Jointly controlled entities			
DMS Jaya Marine WLL.....	State of Qatar	51%	Charter of marine vessels
Jaya DMS Marine Pte Limited.....	Singapore	50%	Charter of marine vessels

- (a) Caspian Fortress Limited, Caspian Pride Limited, Caspian Baki Limited, Caspian Citadel Limited, Caspian Gala Limited, Caspian Server Limited, Caspian Breeze Limited, Caspian Power Limited, Caspian Protector Limited have been dealt with as subsidiaries as the Group has the power to govern the financial and operating policies of these entities under management agreements with the shareholders of these entities.
- (b) BUE Caspian Limited owns the entire issued share capital of BUE Maritime Services Limited and BUE Marine Turkmenistan Limited, companies incorporated and registered in Scotland.
- (c) One of the Group's subsidiaries operates in the Azeri region through an alliance agreement with Kazmortransflot ("KMNF"), the marine shipping arm of the Azeri state oil company. Under the Alliance agreement, responsibilities have been allocated between KMNF, BUE and the Alliance. The Group accounts for its own assets and liabilities and for the costs and revenues on transactions that it enters into with the Alliance.
- (d) The Group owns 49% of the shareholding in Doha Marine Services WLL ("DMS"), an entity incorporated in the State of Qatar. In addition to the above mentioned 49% ownership interest, the Group also has a beneficial interest in a further 51% in DMS through its Ultimate Holding Company. Accordingly, the Group has the power to govern the financial and operating policies of DMS, and therefore, DMS has been dealt with as a subsidiary in these combined financial statements.

3 BASIS OF PREPARATION

Combination of Group entities

These combined financial statements as at and for the year ended 31 December 2010 comprise the Company and its marine subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in jointly controlled marine entities. Marine subsidiaries and jointly controlled marine entities (collectively referred to as the Marine Division) include those subsidiaries and jointly controlled entities of the Company which are engaged in provision of offshore supply vessels and other marine vessels on charter primarily to the oil and gas industry. These combined financial statements excludes those subsidiaries and jointly controlled entities of the Company which are engaged in fabrication and maintenance services to the oil and gas industry, ship building and provision of ship repair services (collectively referred to as the Engineering Division).

Until the year ended 31 December 2009, the management had been focusing on the performance of both the Marine and Engineering divisions at a consolidated level and were preparing and presenting the consolidated financial statements of the Company which comprised all the subsidiaries of the Company as well as the Company's interest in jointly controlled entities. However, for the year ended 31 December 2010, the management, beside preparing and presenting the consolidated financial statements of the Company, has determined to prepare and present a separate set of

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

combined financial statements which includes the financial results of the Marine Division only, with a view to evaluate the performance and financial position of the Marine Division on a stand-alone basis. This is the first year that the management has prepared the combined financial statements of the Group.

Accordingly, comparative financial information for the year ended 31 December 2009 has not been presented in these combined financial statements since Group management has not carried out a detailed exercise for the combination of Group entities for that period.

Statement of compliance

The combined financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of measurement

The combined financial statements are prepared under the historical cost convention, modified to include the measurement at fair value of derivative financial instruments.

Functional and presentation currency

The combined financial statements are presented in United States Dollars ("USD") as a significant proportion of the transactions of the Group entities are undertaken in that currency. All financial information presented in USD has been rounded to the nearest thousand, unless otherwise stated.

Use of estimates and judgments

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

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

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the combined financial statements are described in note 34.

4 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these combined financial statements, and have been applied consistently by the Group entities.

Combination of Group entities

These combined financial statements comprise the combined financial position and the combined results of operations of the Company and its Marine Division subsidiaries on a line by line basis together with the Group's share in the net assets of its Marine Division joint ventures. Significant balances and transactions between the Company and its Marine Division subsidiaries have been eliminated. The Company's investment in its Engineering Division subsidiaries has been recognized at cost and separately disclosed as a non-current asset in these combined financial statements. Common management and administrative expenses incurred by the Company in its capacity as the corporate head office for the Marine Division and Engineering Division entities has been allocated in the proportion of 70:30 between Marine and Engineering Divisions.

The significant Marine Division subsidiaries and joint ventures have been disclosed in note 2.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of Marine Division subsidiaries as mentioned in note 2 are included in the combined financial statements from the date that control commences until the date that control ceases. The accounting policies of these subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Losses applicable to the non controlling interests in any of these subsidiaries 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 other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that the control is lost. Subsequently, it is accounted for as an equity accounted investee or as an available for sale financial asset depending on the level of influence retained.

Special purpose entities (“SPEs”) are combined if, based on the evaluation of the substance of the relationship of the SPE with the Group and the SPEs risks and rewards, the Group concludes that it controls the SPEs.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the combined financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Joint ventures

A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The combined financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint operation and the expenses that the Group incurs and its share of the income that it earns from the joint operation.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Investments in jointly controlled marine entities as mentioned in note 2 are accounted for under the proportionate consolidation method whereby the Group accounts for its share of assets, liabilities, income and expenses in the jointly controlled entities.

Non-controlling interests

Non-controlling interest represents the portion of profit or loss and net assets not held by the Group and are presented separately in the combined statement of comprehensive income and within equity in the combined statement of financial position, separately from owners’ equity.

Acquisition of non-controlling interests is accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Financial instruments

Non-derivative financial assets

The Group initially recognises a non-derivative financial asset on the date that they are originated. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

The Group's non-derivative financial assets include accounts and other receivables, long-term receivables, cash and cash equivalents, and balances due from related parties.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise accounts and other receivables, long-term receivables and balances due from related parties.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts 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 the statement of cash flows.

Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group's non-derivative financial liabilities include loans and borrowings, bank overdrafts, accounts and other payables and balances due to related parties. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments, including hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Other non-trading derivatives

When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

Share capital

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

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates ruling 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 ruling at that date. 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 profit or loss 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 recognized in other comprehensive income.

4 SIGNIFICANT ACCOUNTING POLICIES

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to USD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates at the dates 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 translation reserve related to that foreign operation is reclassified to profit or loss 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 profit or loss.

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 translation reserve in equity.

Property, plant and equipment

Items of property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment in value. Cost of marine vessels includes purchase price paid to third party including registration and legal documentation costs, all directly attributable costs incurred to bring the vessel into working condition at the area of planned use, mobilization 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 mobilization is significant and the customer pays a mobilization fee, certain mobilization costs are charged to profit or loss. 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.

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. The estimated useful lives for the current and comparative periods are as follows:

	Life in years
Buildings.....	5 to 25
Plant, machinery, furniture, fixtures and office equipment	3 to 15
Marine vessels	10 to 30
Expenditure on marine vessel dry docking (included as a component of marine vessels)	3
Floating dock	25
Motor vehicles	3

Land and capital work in progress is not depreciated. Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is capitalized and ready for use. Depreciation method, useful lives and residual values are reviewed at each reporting date.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

expenditure is capitalised only when it is probable that future economic benefits associated with the expenditure will flow to the Group. All other expenditure is recognised in profit or loss as incurred.

Gains and losses on disposal of an item of property, plant and equipment, other than vessels, are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised within other income or other expense in profit or loss.

The company disposes off vessels in the normal course of business. Vessels that are held for sale are transferred to inventories at their carrying value. The sale proceeds are accounted for subsequently under revenue.

Capital work in progress

Capital work in progress is stated at cost until the construction is complete. Upon the completion of construction, the cost of such assets together with cost directly attributable to construction, including capitalized borrowing cost are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

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.

Vessel refurbishment costs

Leased assets

Costs incurred in advance of charter to refurbish vessels under long-term charter agreements are capitalised within property, plant and equipment and depreciated in line with the use of the refurbished vessel. Where there is an obligation to incur future restoration costs under charter agreements which would not meet the criteria for capitalisation within property, plant and equipment, the costs are accrued over the period to the next vessel re-fit to match the use of the vessel and the period over which the economic benefits of its use are realised.

Owned assets

Cost 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 with acquisition of subsidiaries mentioned in note 2 to the combined financial statements 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 the existing equity interest in the acquiree less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any negative goodwill is immediately recognized 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 acquiree are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or groups of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or groups of cash-generating units) is less than the carrying amount, an impairment loss is recognized in profit or loss. An impairment loss in respect of goodwill is not reversed. Where goodwill forms part of a cash-generating unit (or groups 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.

Intangible assets

Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill, is recognized in profit or loss as incurred.

Computer software costs represent expenditure incurred on implementing an ERP solution for the Group. Amortization is charged on a straight line basis over the estimated useful life of five years, from the date the asset is available for use. Amortisation method, useful lives and residual values are reviewed at each reporting date.

Inventories

Inventories are measured at lower of cost and net realizable value after making due allowance for any obsolete or slow moving items. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise and indications that a debtor or issuer will enter bankruptcy, adverse changes in payment status of borrowers or issuer and economic conditions that correlate with defaults. The Group considers evidence of impairment of financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than goodwill, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to that cash generating unit and then to reduce the carrying amounts of the other assets in that cash generating unit on a pro rata basis.

The recoverable amount of an asset or its cash generating unit is the greater of its value in use over its useful life 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 or cash generating unit. For the purpose of impairment testing, assets that cannot be tested individually 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.

Employees' end of service benefits

Pursuant to IAS 19 "Employee benefits", end of service benefit obligations are measured using the projected unit credit method. The objective of the method is to spread the cost of each employee's benefits over the period that the employee is expected to work for the Group. The allocation of the cost of benefits to each year of service is achieved indirectly by allocating projected benefits to years of service. The cost allocated to each year of service is then the value of the projected benefit allocated to that year.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past services costs and fair values of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed periodically by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Employees' end of service benefits

Defined benefit plans

The Group recognizes all actuarial gains and losses arising from defined benefit plans in other comprehensive income and all expenses related to defined benefit plans in personnel expenses in profit or loss.

The Group recognizes gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, change in the present value of defined benefit obligation, any related actuarial gains and losses and past service cost that had not previously been recognised.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Provisions

A provision is recognised if, as a result of past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Revenue recognition

Marine charter

Revenue comprises operating lease rent from charter of marine vessels, mobilization income, and revenue from 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 mobilization or demobilization of the vessel to or from the location of charter under the vessel charter agreement is recognised when the mobilization or demobilization service has been rendered.

Sale of vessels

Revenue from sale of vessels is recognized in profit or loss when pervasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated cost and possible return of goods can be estimated reliably, there is no continuing management involvement with the vessels and the amount of revenue can be measured reliably.

Finance income and expenses

Finance income comprises interest income on funds invested and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized in profit or loss as it accrues, using the effective interest rate method.

Finance expense comprises interest expense on borrowings and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest rate method. However, borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalized as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

to get ready for its intended use or sale. Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

Dividend

Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Leases

Group as a lessee

Leased asset

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.

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.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and are not recognized in the Group's statement of financial position.

Leased payments

In respect of finance leases, 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 reflected in profit or loss.

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as lease rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items that are recognized directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of prior years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax

Deferred tax is provided in respect of temporary differences at the reporting date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the temporary differences reverse, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for all deductible temporary differences, unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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 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 law and prior experience. This assessment 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.

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are issued but not effective for accounting period starting 1 January 2010, have not been early adopted in preparing these combined financial statements:

- Amendments to IAS 32—Financial Instruments Presentation, effective from 1 February 2010;
- IFRIC 19—Extinguishing Financial Liabilities with Equity Instruments, effective from 1 July 2010;
- IAS 24 (Revised)—Related Party Disclosures, effective from 1 January 2011;
- Amendments to IFRIC 14 and IAS 19—The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction, effective from 1 January 2011;
- **Improvements to IFRS 2010 which comprises 11 amendments to 7 standards. Effective dates, early applications and transitional requirements are addressed on a standard by standard basis, however the majority of the amendments will be effective 1 January 2011; and**
- IFRS 9 Financial Instruments, effective from 1 January 2013.

Management has assessed the impact of the new standards, amendments to standards and interpretations and amendments to published standards, and concluded that they are either not relevant to the Group or their impact is limited to the disclosures and presentation requirement in the financial statements except for IFRS 9 Financial Instruments, which become mandatory for the Group's 2015 financial statements and could change the classification and measurement of financial assets. The Group does not intend to adopt this standard early and the extent of the impact has not been determined.

5 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 that asset or liability.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Forward exchange contracts and interest rate swaps

The fair value of forward exchange contracts is based on their quoted price, if available, If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a credit-adjusted risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

Other non-derivative financial liabilities

Fair value which is determined for disclosure purposes, is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

6 REVENUE

	2010 USD'000
Charter and other revenues from marine vessels	227,413
Income from mobilization of marine vessels	14,961
Sale of marine vessels.....	1,425
	<u>243,799</u>

7 OTHER INCOME

	2010 USD'000
Gain on disposal of property, plant and equipment	216
Excess provision written back	3,432
Unclaimed balances written back	1,022
Miscellaneous income	677
	<u>5,347</u>

8 OTHER EXPENSES

	2010 USD'000
Impairment loss on accounts receivable (refer to note 15)	803

9 FINANCE INCOME AND COSTS

	2010 USD'000
Recognized in profit or loss	
Interest income.....	321
Reversal of provision for derivative used for hedging (refer note 31).....	479
Finance income	<u>800</u>
Interest expense	16,693
Exchange loss	430
Finance costs	<u>17,123</u>
Recognized in other comprehensive income	
Foreign currency translation differences.....	42

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Effective portion of changes in the fair value of cash flow hedges (refer note 31).....	(372)
Finance costs	(330)

10 INCOME TAX

Tax expense relates to corporation tax payable on the profits earned by certain Group entities which operate in taxable jurisdictions, as follows:

	2010 USD'000
Current tax	
Foreign tax	8,059
Corporation tax	137
Total current tax.....	8,196
Deferred tax	
Current year	2,202
Prior year	(238)
Total deferred tax.....	1,964
Tax expense for the year	10,160
Tax liabilities	2,264

The Group's combined effective tax rate is 13.6% for 2010.

The charge for the period can be reconciled to the profits of the Group attributable to entities in the United Kingdom and Qatar as follows:

	2010 USD'000
Profit before income tax of Group entities operating in taxable jurisdictions	43,195
Less: Non-taxable profits earned by these entities.....	(17,901)
Profit subject to tax included in the profit for the year	25,294
Tax at the applicable average UK tax rate of 28% based on profits generated by Group entities registered in UK	5,814
Tax effect of expenses that are not deductible in determining taxable profit	130
Effect of different tax rates of subsidiaries operating in jurisdictions other than UK.....	3,393
Prior year movement on deferred tax.....	(238)
Foreign tax amounts provided but not paid	1,018
Effect of change in rate of deferred tax recognition	43
Tax expense for the year	10,160

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

11 PROFIT FOR THE YEAR

Profit for the year is stated after charging:

	2010 USD'000
Staff costs	56,683
Rental-operating leases	24,215

12 PROPERTY, PLANT AND EQUIPMENT

	Buildings USD'000	Plant, machinery furniture, fixtures and office equipment USD'000	Marine vessels USD'000	Motor vehicles USD'000	Capital work in progress USD'000	Total USD'000
Cost:						
At 1 January 2010 (unaudited)	24	8,733	639,895	1,092	32,522	682,266
Additions	—	2,007	167,315	—	124,583	293,905
Transfers	—	—	105,202	—	(105,202)	—
Transfer from current assets	—	—	16,833	—	—	16,833
Disposals/write offs/ transfer to current assets	—	(301)	(8,271)	(29)	(2,101)	(10,702)
At 31 December 2010	24	10,439	920,974	1,063	49,802	982,302
Depreciation:						
At 1 January 2010 (unaudited)	22	4,693	134,618	864	—	140,197
Charge for the year	—	1,666	34,557	138	—	36,361
Relating to disposals/write offs/ transfer to current assets	—	(204)	(5,393)	(58)	—	(5,655)
At 31 December 2010	22	6,155	163,782	944	—	170,903
Net carrying amount						
At 31 December 2010	2	4,284	757,192	119	49,802	811,399

Marine vessels with a net book value of USD 600,157 thousand are pledged against bank loans obtained. Refer note 21.

Certain vessels are subject to commercial agreements with third parties whereby those third parties have a call option to purchase each of the relevant vessels owned by the Group at a predetermined price. As at the reporting date, the Group has not been notified of any intention to exercise such a call option and consequently the call option and associated implications are not reflected in these combined financial statements. Included in the above are vessels for which the option was exercisable at the year end and would potentially result in an impairment loss, if the option is exercised. However, the management, based on their discussions with the customers are confident that such option is only a protective clause inserted to safeguard the customer's interests, and that the customer has no intention of exercising such option in a manner that may result in a loss to the Group. Subsequent to the year end, one of the third parties has exercised the call option in respect of two vessels. The book value of these vessels on the date the options were exercised were USD 2.98 million and USD nil as against their option price of USD 5.89 million and USD 1 respectively. Accordingly, the Group has recognized a gain on disposal of these vessels of USD 2.91 million in profit or loss during the year 2013.

During the year, the Group has reviewed the useful life and residual values of its marine vessels and has revised the useful life of certain vessels from 25 years to 30 years, and reassessed their residual values. The revisions have been treated as a change in accounting estimate under IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and applied prospectively. Had there been no change in the useful life and residual values of marine vessels, the depreciation charge for the current year would have been higher by USD 4,470 thousand and profit for the year would have been lower by the same amount.

Capital work in progress includes costs incurred for construction of marine vessels.

During the year 2010, the Group has capitalized borrowing cost amounting to USD 3,188 thousand.

Transfer from current assets represents capitalization of advances given for the acquisition of vessels.

The depreciation charge has been allocated in the combined statement of comprehensive income as follows:

	2010 USD'000
Direct costs	35,610

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Administrative expenses	751
	<u>36,361</u>

13 INTANGIBLE ASSETS AND GOODWILL

	Goodwill USD'000	2010 Computer software USD'000	Total USD'000
At 1 January (unaudited).....	26,174	80	26,254
Additions	—	389	389
Amortization	—	(35)	(35)
At 31 December	26,174	434	26,608
Cost (gross carrying amount).....	26,174	1,569	27,743
Accumulated amortization	—	(1,135)	(1,135)
Net carrying amount	26,174	434	26,608

Amortization of intangible assets has been allocated to administrative expenses in the combined statement of comprehensive income.

Goodwill comprise of the following:

- a) goodwill arising from the acquisition of BUE Marine Limited with effect from 1 July 2005.
- b) goodwill arising from the acquisition of Doha Marine Services WLL with effect from 8 May 2008.

Goodwill has been allocated to two individual cash-generating units for impairment testing as follows:

- BUE Marine cash-generating unit; and
- Doha Marine Services cash generating unit.

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

	2010 USD'000
BUE Marine Limited Unit	18,383
Doha Marine Services Unit.....	7,791
	<u>26,174</u>

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 senior management.

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 for each cash-generating unit is a pre tax measure estimated, based on past experience, and industry average weighted average cost of capital, which is based on a possible range of debt leveraging of 70% at a market interest rate of 6%.

Nico Middle East Limited and its marine subsidiaries
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Terminal value growth rate

All the cash generating units have five years of cash flows included in their discounted cash flow models. A long-term growth rate to perpetuity of 2% has been considered for calculating terminal value.

Budgeted EBITDA growth

Budgeted EBITDA is based on financial budgets approved by senior management. The anticipated annual revenue growth included in the cash flow projections for the years 2011 - 2015 has been based on past experience and adjusted for the expected growth in established and new markets.

Sensitivity to changes in assumptions:

Management believe that no reasonably possible change in any of the key assumptions would cause the recoverable amount of the unit to reduce below its carrying value. Changing the growth rate assumptions by 10% reduce headroom by 56%, but still results in adequate headroom.

For the year ended 31 December 2010, 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.

14 INVENTORIES

	2010 USD'000
Stores, spares and consumables	5,667
Provision for slow moving inventories	(114)
	<u>5,553</u>

15 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	2010 USD'000
Trade accounts receivable.....	59,822
Allowance for impairment of receivable	(3,390)
	56,432
Value Added Tax (VAT) recoverable.....	8,855
Prepaid expenses.....	6,529
Advance to suppliers.....	20,741
Retention receivable	8
Other receivables	12,787
	<u>105,352</u>

At 31 December 2010, trade accounts receivables with a nominal value of USD 3,390 thousand were impaired. Movement in the allowance for impairment of receivables were as follows:

	2010 USD'000
At 1 January (unaudited).....	2,983
Charge for the year (refer to note 8)	803
Amounts written off.....	(396)
At 31 December	<u>3,390</u>

The maximum exposure to credit risk for trade accounts receivables at the reporting date by geographic region was:

	2010 USD'000
GCC	17,760

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Caspian.....	24,978
Others.....	13,694
At 31 December	<u>56,432</u>

At 31 December, the ageing of unimpaired trade accounts receivables is as follows:

	Total USD'000	Neither past due nor impaired USD'000	Past due but not impaired				
			<30 days USD'000	31-60 days USD'000	61-90 days USD'000	91-120 days USD'000	>120 days USD'000
2010	56,432	42,974	7,981	1,908	1,115	1,142	1,312

Unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Group to obtain collateral over receivables and the vast majorities are, therefore, unsecured.

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the combined statement of cash flows include the following:

	2010 USD'000
Cash at bank	
—Fixed deposit accounts (refer note (i) below)	1,139
—Current accounts	<u>15,305</u>
	16,444
Cash in hand	<u>167</u>
Cash and bank balances	<u>16,611</u>

- (i) Fixed deposits and call accounts are placed with commercial banks in the UAE. These are denominated in United Arab Emirates Dirhams and United States Dollars, short-term in nature and carry interest rate ranging between 1% to 3% p.a.
- (ii) Working capital facilities for one of the subsidiaries are secured against pari-passu mortgage over its property, plant and equipment.

17 SHARE CAPITAL

	2010 USD'000
Authorised	
400,000,000 shares of USD 1 each.....	<u>400,000</u>
Issued and fully paid	
241,817,094 shares of USD 1 each.....	<u>241,817</u>

During the year, the Company issued 100,000,000 shares of USD 1 each.

18 HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges related to hedged transactions that have not yet affected profit or loss.

19 TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

20 DIVIDEND

During the year, dividend of USD 31,652 thousand was declared and paid by the Company and its subsidiaries.

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

21 TERM LOANS

	2010 USD'000
Term loan, at LIBOR plus 0.75% p.a. repayable by December 2014.....	5,313
Term loan, at LIBOR plus 0.75% p.a. repayable by March 2015.....	5,625
Term loan, at EIBOR plus 3.50% p.a. repayable by April 2014.....	6,688
Term loan, at LIBOR plus 5% p.a. repayable by September 2016.....	7,639
Term loan, at LIBOR plus 3.75% p.a. repayable by December 2014.....	33,470
Term loan, at LIBOR plus 3% p.a. repayable by August 2016.....	36,640
Term loan, at LIBOR plus 1.35% p.a. repayable by April 2013.....	69,000
Term loan, at 5.87% p.a. repayable by August 2014.....	5,420
Term loan, at 5.90% p.a. repayable by March 2015.....	9,330
Term loan, at 5.90% p.a. repayable by March 2015.....	9,330
Term loan, at LIBOR plus 1.10% p.a. repayable by June 2015.....	8,500
Term loan, at LIBOR plus 1.10% p.a. repayable by February 2011.....	199
Term loan, at LIBOR plus 0.30% p.a. repayable by October 2016.....	9,552
Term loan, at LIBOR plus 1.25% p.a. repayable by December 2013.....	10,800
Term loan, at LIBOR plus 3.5% p.a. repayable by July 2017.....	77,331
Term loan, at LIBOR plus 1.00% p.a. repayable by July 2013.....	2,744
Term loan, at LIBOR plus 0.35% p.a. repayable by January 2017.....	20,561
Term loan, at LIBOR plus 0.75% p.a. repayable by July 2015.....	3,589
Term loan, at 7.37% p.a. repayable by September 2012.....	4,436
Term loan, at 5.75% p.a. repayable by June 2012.....	886
Term loan at LIBOR plus 4% p.a. repayable by July 2017.....	53,318
	<u>380,371</u>
Current portion.....	<u>(66,726)</u>
Non-current portion.....	<u>313,645</u>

The term loans of the Group are denominated either in United States Dollars or United Arab Emirates Dirham and are secured by a first preferred mortgage over selective assets of the Group, the assignment of marine vessel insurance policies, corporate guarantees and the assignment of the marine vessel charter lease income. (refer note 12).

The term loans are repayable as follows:

	2010 USD'000
Due within one year.....	66,726
Due between two to five years.....	257,036
Due after five years.....	56,609
	<u>380,371</u>

During the year, the Group has prepaid the outstanding amount of a term loan taken from a commercial bank amounting to USD 33,722 thousand, with the proceeds of a new term loan from the same bank.

The borrowing arrangements include undertakings to comply with various covenants like senior interest cover, current ratio, debt to EBITDA ratio, gearing ratio, tangible debt to net worth ratio, total assets to tangible net worth ratio and equity ratio including an undertaking to maintain a minimum net worth which, at no time, shall be less than US\$ 225 million.

22 LOANS DUE TO HOLDING COMPANY

	2010 USD'000
Term loan, at 7.25% p.a. repayable by October 2012.....	6,367
Term loan at 5% p.a. repayable by January 2011.....	13,000
Term loan at 8.50% p.a. repayable by September 2017 (refer (ii) below).....	50,998
	<u>70,365</u>

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

Current portion.....	(16,184)
Non-current portion	54,181

The loans are repayable as follows:

	2010 USD'000
Due within one year	16,184
Due between two to five years.....	28,864
Due after five years.....	25,317
	70,365

- (i) Loans from Holding Company represents financing obtained by the Group for the purpose of liquidity management and vessel acquisitions.
- (ii) This represents a subordinated loan payable in four equal installments of USD 26 million, starting from November 2014 carrying mark up at the rate of 8.5% p.a. compounded on a quarterly basis.

23 EMPLOYEES' END OF SERVICE BENEFITS

The Group provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. This is an unfunded defined benefit scheme.

Principal actuarial assumptions at the reporting date are as follows:

- Normal retirement age : 60-65 years
- Mortality, withdrawal and retirement: 5% turnover rate. Due to the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used for mortality, withdrawal and retirement.
- Discount rate: 5.25% p.a.
- Salary increases: 3%–5% p.a.

Movement in the provision recognised in the combined statement of financial position is as follows:

	2010 USD'000
Provision as at 1 January (unaudited)	979
Provided during the year	602
End of service benefits paid	(38)
Transfer to a related party	6
Provision as at 31 December	1,549

24 ACCOUNTS PAYABLE AND ACCRUALS

	2010 USD'000
<i>Current</i>	
Trade accounts payables	15,210
Accrued expenses	14,277
Deferred income	2,344
Other payables	6,959
	38,790
<i>Non-current</i>	
Deferred income	5,442

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

25 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Group, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Group's management.

Transactions with related parties included in combined statement of comprehensive income are as follows:

	2010 Revenue USD'000	2010 Purchases USD'000
Related parties	<u>957</u>	<u>56</u>

Compensation of key management personnel

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

	2010 USD'000
Short term benefits.....	2,771
Employees' end of service benefits	411
	<u>3,182</u>

Investment in Engineering Division entities

	2010 USD'000
Adyard Abu Dhabi LLC	5,618
Nico International LLC.....	390
Dart Automation Inc.	137
Kyran Holdings Limited	10
	<u>6,155</u>

Investment in Engineering Division entities is carried at cost in these combined financial statements. The principal activities of these entities include offshore and onshore projects and fabrication, marine and onshore automation, boat building, ship repair, marine boiler repair and other ship engineering activities. Also refer note 3.

	2010 USD'000
Long-term receivables from Engineering Division entities	
Nico Middle East Limited—Dubai Branch	6,870
Kyran Holdings Limited	2,203
Nico Middle East Limited—Fujairah Branch	327
Dart Automation Inc.	137
	<u>9,537</u>

	2010 USD'000
Due from related parties	
Directors	51
Nico Middle East Limited—Dubai Branch	17,942
Mangistau Oblast Boat Yard LLP.....	1,615
Topaz Energy and Marine Services DMCC	1,205
	<u>20,813</u>

Nico Middle East Limited and its marine subsidiaries
Notes to the combined financial statements (continued)

	2010 USD'000
Due to related parties	
Nico Middle East Limited—Fujairah Branch	15,728
Adyard Abu Dhabi LLC	5,792
Nico Craft LLC	5,252
Nico Middle East Limited—Topaz Energy and Marine—Dubai Branch	5,241
Dart Automation Inc.	4,141
Jaya Holdings Limited	1,816
Renaissance Services SAOG	444
Nico International LLC	391
Tawoos LLC	18
	<u>38,823</u>

26 INVESTMENT IN JOINTLY CONTROLLED ENTITIES

The income, expenses, assets and liabilities at 31 December 2010 of the jointly controlled entities described in note 2, not adjusted for the percentage ownership held by the Group, are set out below:

	2010 USD'000
Current assets	12,421
Current liabilities	(1,605)
Non-current assets	8,675
Non-current liabilities	(6,997)
Net assets	12,494
Revenue	6,057
Cost of sales	(3,239)
Administrative expenses	(26)
Finance cost	(332)
Finance income	1
Profit before tax	2,461
Tax	(101)
Profit for the year	<u>2,360</u>

27 DEFERRED TAX ASSETS

	2010 USD'000
At 1 January (unaudited)	3,128
Charge to profit or loss (refer note 10)	(1,964)
At 31 December	<u>1,164</u>

The deferred tax balance at 31 December 2010 comprises depreciation in excess of capital allowances of USD 839 thousand and short-term timing differences of USD 325 thousand.

28 CONTINGENCIES AND CLAIMS

Contingent liabilities

	2010 USD'000
Letters of guarantee	<u>6,634</u>

These are non-cash banking instruments like bid bond, performance bond, refund guarantee, retention bonds, etc. which are issued by banks on behalf of group companies to customers/suppliers under the non-funded working capital lines with the banks. These lines are secured by corporate guarantee from various group entities. The amounts are payable only in the event when certain terms of contracts with customers/suppliers are not met.

Claims

Claims by Trustees of the Merchant Navy Officer's Pension Fund

- (i) During the year ended 31 December 2010, the Group has received an invoice of USD 214,695 from Trustees of the Merchant Navy Officer's Pension Fund ("MNOF") seeking payment in respect of 2003 and 2006 valuations of pension deficit arising in respect of seafarers allegedly employed on board vessels managed by the Group during the period from 1995 to 1999. The invoice was unpaid by the Group as at the year end and was not actively pursued by the MNOF, although solicitors have been appointed to recover the debt.

Subsequent to the year end, the Group has settled the invoice. The Group received an indemnity in the sum of USD 193,000 against the payment made by it to MNOF, which was available in favour of the Group's Immediate Holding Company from the erstwhile owners of the Group, whereas, the remaining balance of USD 21,695 was taken to profit or loss during the year ended 31 December 2011.

- (ii) Subsequent to the reporting date, during the year ended 31 December 2011, the Group has received an invoice of USD 228,359 from Trustees of the Merchant Navy Officer's Pension Fund ("MNOF") seeking payment on a joint and several basis from both the Group and Guernsey Ship Management Limited ("GSM"), in respect of 2009 valuations of pension deficit arising in respect of seafarers allegedly employed on board vessels managed by BUE during the period 1995 to 1999. The said invoice was unpaid by the Group at the year end and was not actively pursued by the MNOF, although solicitors have been appointed to recover this debt. Interest is claimed to accrue on the invoice at a rate of 10% per annum on a compounding basis. The worst case scenario for the Group would be commencement of legal proceedings by MNOF Trustees for USD 228,359 plus interest at the rate of 10% p.a. on a compounding basis plus any legal costs. The management of the Group is seeking suitable legal advice in relation to the merits and entitlements of the MNOF Trustees to pursue these claims and the prospects to recover these claims from the erstwhile owners of the Group.

Claims by Trustees of Merchant Navy Ratings Pension Fund

The Group has a possible exposure of shortfall in the pension fund contributions towards Merchant Navy Ratings Pension Fund. As at the year end, the liability of the Group is dependent upon a test case due to be heard at the Court of Appeal in London.

Subsequent to the year end, the result of the test case of this matter was issued by the Court of Appeal in London in May 2011, which confirmed the ability of the Trustees of the Ratings Pension Fund to seek to amend their Trust Deed to require contributions from former employers, said to include the Group as well. No quantification of this exposure is yet available, therefore, no provision has been made by the Group.

Other claims

Subsequent to the reporting date, one of the Group entities has received three monetary claims from a customer amounting to approximately USD 8.4 million for reimbursements of withholding taxes, alleged tax savings and off hire

Nico Middle East Limited and its marine subsidiaries
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claims that the customer believes it is entitled to receive from that Group entity. The Group entity has also received four “procedural claims” relating to contract compliance. The claims pertain to the financial years 2008 and 2009.

The Group management is in advanced stage of negotiations with the customer and based on these negotiations is confident that the claims will be settled for an amount of USD 1,964 thousand and has made provision for this amount in the year 2011.

29 NON-CANCELLABLE LEASES

a) Operating leases—receivable

The Group leases its marine vessels under operating leases. The leases typically run for a period between 3 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 non-cancellable operating leases as of 31 December are as follows:

	2010 USD'000
Within one year.....	193,598
Between one and five years	356,790
More than five years	188,153
	<u>738,541</u>

b) Operating leases—payable

The Group has commitments for future minimum lease payments under non-cancellable operating leases for marine vessels as follows:

	2010 USD'000
Within one year.....	19,262
Between one and five years	55,310
More than five years	28,069
	<u>102,641</u>

During the year, an amount of USD 24,215 thousand was recognized as an expense in profit or loss in respect of bareboat charter of marine vessels obtained on operating lease.

30 COMMITMENTS

	2010 USD'000
Capital expenditure commitment:	
Purchase of property, plant and equipment.....	<u>59,763</u>

31 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analyzed by the term to maturity. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2010

Notional amounts by term to maturity

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	Negative fair value USD'000	Notional amount total USD'000	Within 1 year USD'000	Between 1 year to 5 years USD'000	Over 5 years USD'000
Interest rate swaps.....	<u>7,548</u>	<u>183,460</u>	<u>14,888</u>	<u>149,224</u>	<u>19,348</u>

The term loan facilities of the Group bear interest at US LIBOR plus applicable margins (refer note 21). In accordance with the financing documents, the Group has fixed the rate of interest through Interest Rate Swap Agreements (“IRS”) as follows:

- USD 55,000 thousand at a fixed interest rate of 3.95% per annum, excluding margin;
- USD 10,700 thousand at a fixed interest rate of 4.89% per annum, excluding margin;
- USD 50,000 thousand at the rate of 2% per annum, excluding margin;
- An amount of USD 8,400 thousand at the rate of 3.25% per annum, excluding margin; and
- An amount of USD 59,300 thousand at the rate of 1.97% per annum, excluding margin.

At 31 December 2010 the US LIBOR was approximately 0.46% per annum. Accordingly, the gap between US LIBOR and fixed rate under IRS was approximately 3.49%, 4.43%, 1.54%, 2.79% and 1.51% per annum.

Based on the interest rates gap, over the life of the IRS, the indicative losses were assessed at approximately USD 7,548 thousand by the counter parties to IRS. Consequently, in order to comply with International Accounting Standard 39 *Financial Instruments: Recognition and Measurement* fair value of the hedge instruments’ indicative losses in the amount of approximately USD 7,548 thousand has been recorded under current and non-current liabilities and the impact for the year amounting to USD 479 thousand has been recorded under finance income (refer note 9) and USD 372 thousand has been recognized in the hedging reserve.

32 RISK MANAGEMENT

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.

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 analyze 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.

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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 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 balance and cash, long-term receivables and due from related parties which arise directly from its operations.

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

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 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 25% of the Group's revenue is attributable to sales transactions with a single customer. The Group's ten largest customers account for 81% of the outstanding trade accounts receivable as at 31 December 2010. Geographically the credit risk is significantly concentrated in the Middle East and North Africa (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.

More than 25% of the Group's customers have been transacting with the Group for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. As a result of the deteriorating economic circumstances in 2008 and 2009, certain purchase limits have been redefined for the Group's customers.

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 banks of good repute. Given the profile of its bankers, management does not expect any counterparty to fail to meet its obligations.

Nico Middle East Limited and its marine subsidiaries
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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.

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:

	2010 USD'000
Trade accounts receivable.....	56,432
Other receivables and accrued income.....	12,795
Due from related parties	20,813
Long-term receivable from Engineering Division entities.....	9,537
Cash at bank.....	16,444
	116,021

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. In addition, the Group maintains the following lines of credit:

—Short term loans USD 15,000 thousand

—Overdraft facilities USD 14,499 thousand

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010, based on contractual undiscounted payments.

At 31 December 2010

		Contractual cashflows			
	Carrying amount USD'000	Total USD'000	Due within 1 year USD'000	Due in 1 to 5 years USD'000	Due after 5 years USD'000
<i>Non-derivative financial liabilities</i>					
Trade accounts payables and accruals	36,604	(36,604)	(36,604)	—	—
Term loans	380,371	(416,666)	(79,445)	(282,928)	(54,293)
Loans due to Holding Company	70,365	(96,088)	(20,928)	(45,845)	(29,315)
Due to related parties	38,823	(38,823)	(38,823)	—	—
Total.....	526,163	(588,181)	(175,800)	(328,773)	(83,608)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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.

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The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by the Board of Directors. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

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 with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to keep between 40% and 70% of its borrowings at fixed rates of interest. To manage this, the Group enters into interest rate swaps, 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 designated to hedge underlying debt obligations. At 31 December 2010, after taking into account the effect of interest rate swaps, approximately 64% of the Group's borrowings are at a fixed rate of interest of which 15% is also hedge accounted for.

Profile

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

	Carrying amount 2010 USD'000
Fixed rate instruments	
Financial assets	1,139
Financial liabilities.....	<u>(99,767)</u>
Variable rate instruments	
Financial liabilities.....	<u>(350,969)</u>

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 profit or loss, 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 profit or loss.

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 profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Profit or loss		Equity	
	100 bp increase USD'000	100 bp decrease USD'000	100 bp increase USD'000	100 bp decrease USD'000
31 December 2010				
Variable rate instruments	3,510	(3,510)	3,510	(3,510)

Currency risk

The Group is exposed to currency risk on sales and purchases denominated in currencies other than USD which is the functional currency of the Group or currencies which are pegged to USD. At any point in time the Group hedges 100% of its estimated foreign currency exposure in respect of its forecast capital commitments. The Group uses forward currency contracts to hedge its currency risk, with a maturity of less than one year from the reporting date.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

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	EUR	AZN	KZT	GBP	NOK	JPY	SGD
31 December 2010							
Bank balances	—	70	2,167	—	—	—	—
Trade account payables.....	(752)	(802)	(108,895)	(421)	(1,756)	(11,733)	(1,062)
Net statement of financial position exposure	(752)	(732)	(106,728)	(421)	(1,756)	(11,733)	(1,062)

The following significant exchange rates applied during the year:

	Reporting period average rate 2010	Reporting date spot rate 2010
Euro (EUR).....	0.755	0.754
Azerbaijan New Manat (AZN)	0.802	0.797
Kazakhstan Tenge (KZT)	147.356	145.081
Great Britain Pound (GBP).....	0.647	0.646
Norwegian Kroner (NOK)	6.044	5.897
Japanese Yen (JPY)	87.785	81.541
Singapore Dollars (SGD).....	1.363	1.291

Sensitivity analysis

A strengthening of the USD, as indicated below, against the Euro, Azerbaijan New Manat, Kazakhstan Tenge, Great Britain Pound, Norwegian Kroner, Japanese Yen and Singapore Dollars at 31 December 2010 would have increased (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Effect on profit before tax	
	Strengthening by 5% USD'000	Weakening by 5% USD'000
2010		
Euro (EUR).....	50	(50)
Azerbaijan New Manat (AZN)	50	(50)
Kazakhstan Tenge (KZT)	37	(37)
Great Britain Pound (GBP).....	33	(33)
Norwegian Kroner (NOK)	15	(15)
Japanese Yen (JPY)	7	(7)
Singapore Dollars (SGD).....	41	(41)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

	2010 USD'000
Interest bearing loans and borrowings	450,736
Less: cash and short-term deposits	(16,611)
Net debt	434,125
Equity	462,830
Add: cash flow hedge reserve included in equity	600
Adjusted equity	463,430
Capital and net debt	897,555
Gearing ratio	48.37%

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Notes to the combined financial statements (continued)

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its marine subsidiaries are subject to externally imposed capital requirements.

33 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise financial assets and financial liabilities.

The fair value of derivatives is set out in note 31. The fair values of other financial instruments are not materially different from their carrying values.

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).

	<u>Level 1</u> <u>USD'000</u>	<u>Level 2</u> <u>USD'000</u>	<u>Level 3</u> <u>USD'000</u>	<u>Total</u> <u>USD'000</u>
31 December 2010				
Derivative financial liabilities.....	<u>—</u>	<u>(7,548)</u>	<u>—</u>	<u>(7,548)</u>

34 KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimation uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the combined financial statements are as follows:

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. The carrying amount of goodwill at 31 December 2010 was USD 26,174 thousand. Further details are given in note 13.

Impairment of vessels

The Group determines whether its vessels are impaired when there are indicators of impairment as defined in IAS 36. 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 2010 was USD 757,192 thousand.

Impairment of accounts receivable

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

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which are not individually significant, but which are past due, are assessed collectively and a provision is applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross trade accounts receivable were USD 59,822 thousand and the provision for doubtful debts was USD 3,390 thousand. Any difference between the amounts actually collected in future periods and the amounts expected to be impaired will be recognised in profit or loss.

Impairment of inventories

Inventories are held at the lower of cost and net realizable value. When inventories become old or obsolete, an estimate is made of their net realizable value. For individually significant amounts this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision is applied according to the inventory type and the degree of ageing or obsolescence, based on historical selling prices, consumption trend and usage.

At the reporting date, gross inventories were USD 5,667 thousand with provision for old and obsolete inventories of USD 114 thousand. Any difference between the amounts actually realised in future periods and the amounts provided will be recognised in profit or loss.

Useful lives of property, plant and equipment

The useful lives, residual values and methods of depreciation of property, plant and equipment 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 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.

Effectiveness of hedge relationship

At the inception of the hedge, the management documents the hedging strategy and performs hedge effectiveness testing to assess whether the hedge is effective. This exercise is performed at each reporting date to assess whether the hedge will remain effective throughout the term of the hedging instrument. As at the reporting date the cumulative fair value of the interest rate swap was USD 7,548 thousand.

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 combined, proportionately combined or equity accounted in accordance with the accounting policy of the Group (also refer note 2).

Leases

Management exercises judgments in estimating whether a lease is a finance lease or an operating lease by assessing whether in substance the risks and rewards of ownership of the assets have been transferred or not. In the instances where management estimates that the risks and rewards have actually been transferred the lease is considered as a finance lease, otherwise it is accounted for as an operating lease.

35 SUBSEQUENT EVENTS

Formation of Topaz Energy and Marine Plc, UK

Subsequent to the reporting date, the Holding Company established a new wholly owned subsidiary Topaz Energy and Marine Plc, UK with the objective of listing it in the London Stock Market and raising equity capital from the public markets. The Holding Company mandated J.P. Morgan Cazenove as Sponsor and Global Co-ordinator and Bank of America Merrill Lynch as Joint Book runners to manage the process. However, due to the negative market sentiment arising as a result of various global and regional geopolitical issues, the Holding Company decided to indefinitely postpone the proposed listing.

Reorganization of Group structure

Subsequent to the year-end, the Group has undertaken a reorganization of its operations with the intention of distinctly separating the Marine and Engineering divisions. As at the year ended 31 December 2010, both the divisions are owned and operated through a single holding company Nico Middle East Limited (“NMEL”) which in turn is wholly owned by Topaz Energy and Marine Limited (“Topaz”).

Effective 1 January 2012, the Group has decided to transfer the entire business, assets and liabilities of Topaz Engineering division from NMEL to another wholly owned subsidiary of Topaz namely Topaz Engineering Limited under the terms of a Business Transfer Agreement (“BTA”). Management expects that the reorganization will result in optimal performance and structural efficiencies for both the divisions. Since the transaction is between entities which are under common control, it is outside the scope of IFRS 3 “Business Combinations”. Hence the transfer of assets and liabilities is proposed to be accounted for at book values and no goodwill will be recognized thereon.

Refinancing of term loans

Subsequent to the year-end, the Group has successfully restructured its existing liabilities amounting to USD 129,430 thousand under various facilities. As a result of this restructuring, on 16 May 2012, the Group has entered into an agreement with a syndicate of banks for a financing facility of USD 203 million. The existing liabilities under the target restructure loans were prepaid and replaced by a new term loan amounting to USD 171,816 thousand. The new term loan carries interest at the rate of three-months LIBOR plus 4% and is repayable in quarterly installments by August 2017.

Moreover, in December 2012, the Group has signed a bilateral term sheet for facility of USD 125 million. The Group intends to use part of this facility to refinance certain term loan facilities and the balance to finance vessels under construction.