

Topaz Energy and Marine Limited and its Subsidiaries
[formerly NICO Middle East Limited]

**Reports and consolidated financial statements
for the year ended 31 December 2016**

Topaz Energy and Marine Limited and its Subsidiaries
[formerly NICO Middle East Limited]

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DIRECTORS REPORT

To the Members,

The Directors have the pleasure in presenting before you the audited consolidated financial statements of Topaz Energy and Marine Limited and its subsidiaries (together, "the Group") for the year ended 31st December 2016.

In this report, we will focus on four subjects which would summarize our current position and way forward:

- Impairment:** The impact of impairment on our 2015 and 2016 results.
- Stability:** The underlying financial strength of the business to steer the company safely through 2017 meeting all our financial obligations.
- Relationships:** The sustaining strength of our relationships with all stakeholders.
- Future:** The company's US\$1.6 billion contract backlog and two major projects driving growth with a positive impact from 2018.

Financial performance

Particulars	US\$ Million	
	2016	2015
Continuing Operations (before one-off charges)		
Revenue	282.1	362.5
EBITDA	144.9	174.5
Operating profit	70.6	104.0
Net Profit/(loss) after tax from continuing operations (before one-off charges)	(2.5)	20.9
One-Off charges (<i>Note 1</i>)	(99.6)	(79.4)
Net loss after tax from continuing operations	(102.1)	(58.5)
Net loss for the year after minority interest	(125.9)	(78.8)

Topaz is directly exposed to the ongoing oil price crisis that has adversely affected the entire Offshore Supply Vessels (OSV) industry. However, the company is sustained by long-term stable contracts, which have been further extended; and has won major new contracts that ensure a significant upturn in performance from 2018.

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Topaz Energy and Marine Limited

Registered Office
Clarendon House, 2 Church Street West, Hamilton, HM 11, Bermuda

Correspondence Office
P.O. Box 282800, Dubai, United Arab Emirates Tel +971 4 440 47 00 Fax +971 4 440 47 99

Branches
TOPAZ ENERGY AND MARINE LIMITED (ABU DHABI), TOPAZ ENERGY AND MARINE LIMITED (DUBAI), TOPAZ ENERGY AND MARINE LIMITED (QATAR)

Note 1 – Details of one-off charges are as follows

The Group has incurred the following one-off charges during the year:

Particulars	US\$ Million	
	2016	2015
Provision for impairment of vessels	(99.6)	(71.0)
Unamortized arrangement fees write-off	-	(8.4)
Total	(99.6)	(79.4)

Impairment

Oil, like all commodities, is cyclical. Any boom or bust cycle in oil price directly impacts the offshore support vessel (OSV) industry. The current oil price crisis that started with a steep decline in 2014 has stabilized in recent weeks following a production cutback agreement between OPEC and non-OPEC producers. While a current oil price above US\$50 offers some respite, it cannot change the negative impact on OSV fleet owners and operators over the last two years. While Topaz has fared better than its peers, it has not been immune.

Global OSV fleet numbers about 3,500 vessels, and today about 1,300 of those vessels are laid up and out of work. This is because oil and gas producers have cut back sharply on capital expenditure for exploration and construction, while the industry adjusts to a new price range per barrel. Topaz has a fleet of 100 vessels, and today 11 of those are out of work, while many others are competing for short-term contracts in a very difficult spot market. While this is better than the OSV industry as a whole, it nevertheless has a direct negative impact on revenue and profit.

Topaz is able to mitigate the impact due to its largely young fleet, focused primarily in longer-term contracts in the production cycle of the oil industry, but vessels on shorter-term contracts and under-utilized assets are affected.

The crisis has wiped billions of dollars in value off the global OSV fleet, and some of the older tonnages may never return to the industry. Topaz is not in that situation, but for the second year running we had to recognize an additional impairment of our fleet. Following a one-off charge of US\$71 million in 2015, we have taken a further one-off charge of US\$99.6 million in 2016.

While we do not take these charges lightly, we draw some solace from being in a far better position than most industry peers. While the loss of value hurts, it is not a cash loss and Topaz's EBITDA achievement of US\$145 million underwrites the strength and allows the company to meet all of its financial commitments throughout the prolonged crisis.



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This particular bust cycle in oil price has had an unprecedented negative impact on the industry – more so than even lower price cycles. This is because, when the oil price ranged from US\$100-147 a barrel, the industry embarked on major expansion and development of previously uneconomic oilfields. Readjustment has been painful.

We expect 2017 to be another challenging year. As the oil price stabilizes, we expect vessel utilization to improve paving the way for an improvement in rates. So whilst we feel further major impairment in 2017 is unlikely, we cannot rule out any impact at this stage. But we have reason for cautious optimism while markets reprice oil for the future. The underlying reality is that oil supplies will have to meet increasing demand at the right price over the years ahead.

Stability

The company has been sustained throughout this crisis by a solid foundation of stability: a strong balance sheet; sustainable healthy cash flows; long-term financing arrangements matched with our long-term asset profile; US\$40 million cash on the year-end balance sheet; fully funded capital expenditure programs; and well managed low counter-party risk.

Central to this financial stability have been the actions taken in anticipation of strong headwinds arising from declining oil prices. The company has in place long-term financial arrangements aligned with our cash flows, our requirements and our obligations. This includes long term facilities at competitive rates.

Our strong position in the Caspian has remained stable and the fleet there did not face the abject inactivity experienced by much of the OSV market.

All OSV operators in spot markets in the Middle-East and West Africa took tough hits to their business volumes and this has, of course, dampened our overall performance. During the year, we have laid up, on a temporary basis, 10 vessels in the Middle East and 2 vessels in Africa which we believe are the right measures to take in reaction to the lack of demand.

All our capital expenditure obligations are fully funded, either through equity and loans in place, or through inherent contract terms. This includes the entire capital expenditure requirement as we invest for growth in the TCO Project for Topaz.

While getting paid is a rising concern in the market place, we have been able to sustain the collection of our receivables through the quality and stability of our client-base.

During the year, the company successfully concluded its negotiations with Standard Chartered Private Equity regarding the 9.8% shares held by them in Topaz. The new structure reduces the guaranteed IRR from the previous 12% to 8% and extends the deadline within which the liquidity event may occur from 3 to 5-6 years, in return for granting an additional 3.7% equity position in Topaz. This outcome reflects the solid partnership and collaboration between the shareholders allowing the group to tide over the business cycle and protect value in the company.



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Relationships

The company is also sustained by the strength of its relationships with all key stakeholders: our clients and customers; our shareholders and bondholders; our bankers and other financial institutions; our professional advisors – legal, auditing, commercial, industry; government, official agencies and institutions; suppliers and service providers; the communities in which we serve; and, of course, our own people.

Our relationships remain as strong as ever, because all of these people recognize and understand the value of our company. They understand the temporary nature of the industry downturn; they recognize the stability and strength with which we are meeting all of our contractual, legal and financial obligations; and they see the same bright future that lies ahead.

On behalf of the Board of Directors, we would like to record our appreciation for all these relationships and their confidence and belief in our company.

Future

We have been sailing under dark skies for these last two years; but we have always had a clear eye on a bright future. This is not based on unfounded optimism; but rather on the relevance and potential of the businesses and markets in which we operate – backed up by a contract backlog of \$1.6 billion.

As reported earlier this year, Topaz has secured a contract to supply and operate vessels for the Tengizchevroil (TCO) project. The total TCO contract is worth in excess of US\$550 million to Topaz over a minimum contract period of three years commencing in 2018.

This important contract win has opened many opportunities for Topaz with flagship customers such as Chevron and ExxonMobil and has opened up strategic paths for achieving the company strategy of a more diversified marine platform over the longer term.

Further opportunity lurks as this highly fragmented industry consolidates. The Topaz OSV fleet is poised to be one of the strongest out of this crisis: modern, relevant, efficient, fit and ready to serve its clients. Where relevant to our strategy, the right opportunities will be thoughtfully considered. Value abounds, but risk mitigation has to be the key to any inorganic action in this very difficult environment. The company remains vigilant to opportunity within these parameters.

DIVIDEND

No dividend is proposed for the year ended 31 December 2016.



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MARKET AND OUTLOOK

Despite a strong performance in our key Caspian market, which makes up 73% of revenue, our financial results reflect subdued demand for offshore support vessels in our nascent market in Africa and rate pressure in the Middle East.

As we head into 2017, we are likely to continue to see rate pressure as clients are impacted by the lower oil price environment, particularly in the Africa and Middle East regions, where we are currently awaiting some tender decisions.

The cost efficiency drive covering procurement, administration, crew and overheads initiated in 2015 has saved US\$40 million during 2016 and we will continue to find ways to optimize our cost structure without compromising on quality and safety in the future.

Of course, there shall be more challenging times in 2017 and it will be another difficult year. There is always a time lag between improving oil price and new investment in the industry, so we remain in our stable and resilient mode for this year. However, we are already thinking and acting ahead of the curve of current reality. Our secured growth contracts and projects provide us a future to look forward to in 2018 and beyond.

Overall, we are pleased to have delivered an above-market result in such trying times and we believe this is proof of the resilience of our strategy.

ACKNOWLEDGEMENT

The Directors take this opportunity to express their thanks to all stakeholders for their continued support and their appreciation for the dedicated efforts by all the employees of the Group.


Director
Director

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INDEPENDENT AUDITOR'S REPORT

The Shareholders

Topaz Energy and Marine Limited and its Subsidiaries

[formerly NICO Middle East Limited]

Hamilton

Bermuda

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Topaz Energy and Marine Limited and its Subsidiaries** [formerly NICO Middle East Limited] (the "Group"), **Hamilton, Bermuda**, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2015, were audited by another auditor who expressed an unmodified opinion on those statements on 16 February 2016.

Other Information

Management is responsible for the other information. The other information comprises the Directors report, which we obtained prior to the date of this auditors' report and the annual report, which is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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INDEPENDENT AUDITOR'S REPORT (continued)

Other Information (continued)

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and consider whether a Reportable Irregularity exists in terms of the auditing standards, which must be reported.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Deloitte & Touche (M.E.)



Cynthia Corby
Partner
Registration No. 995
23 February 2017
Dubai
United Arab Emirates

**Consolidated statement of comprehensive income
for the year ended 31 December 2016**

	Notes	2016 USD'000	2015 USD'000
Revenue	7	282,087	362,470
Cost of revenue		(178,303)	(218,590)
Gross profit		103,784	143,880
Administrative expenses	8	(33,605)	(39,978)
Other income		453	100
Profit from operations		70,632	104,002
Finance costs - net	10	(59,576)	(69,246)
Impairment loss on vessels	9	(99,600)	(71,000)
Loss before income tax		(88,544)	(36,244)
Income tax expense	11	(13,534)	(22,248)
Loss for the year		(102,078)	(58,492)
Add: Other comprehensive income		-	-
Total comprehensive loss for the year		(102,078)	(58,492)
<i>Total comprehensive (loss)/income attributable to:</i>			
Owners of the Company		(125,914)	(78,769)
Non-controlling interests		23,836	20,277
Total comprehensive loss for the year		(102,078)	(58,492)
Basic and diluted loss per share (USD)	12	(0.44)	(0.28)


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Director


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Director

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

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**Consolidated statement of financial position
as at 31 December 2016**

	Notes	2016 USD'000	2015 USD'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	1,198,912	1,222,439
Intangible assets and goodwill	14	28,674	27,243
Long-term receivables and prepayments	15	930	1,397
Deferred tax assets	17	7,212	1,464
Total non-current assets		1,235,728	1,252,543
Current assets			
Inventories	18	5,689	3,326
Accounts receivable and prepayments	15	109,565	100,158
Due from related parties	16	16,747	16,568
Cash and cash equivalents	19	39,459	55,069
Total current assets		171,460	175,121
Total Assets		1,407,188	1,427,664
EQUITY AND LIABILITIES			
Equity			
Share capital	20	284,720	284,720
Share premium	20	46,796	46,796
Accumulated losses/(retained earnings)		(24,551)	101,363
Equity attributable to Owners of the Company		306,965	432,879
Non-controlling interests		155,912	141,076
Total equity		462,877	573,955
Liabilities			
Non-current liabilities			
Term loans	21	614,996	641,314
Loans due to Holding Company	22	73,346	76,000
Employees' end-of-service benefits	23	3,529	3,868
Accounts payable and accruals	24	112,051	574
Total non-current liabilities		803,922	721,756
Current liabilities			
Accounts payable and accruals	24	81,067	53,019
Term loans	21	30,000	30,000
Loans due to Holding Company	22	7,254	28,000
Due to a related party	16	187	564
Income tax payable	11	21,881	20,370
Total current liabilities		140,389	131,953
Total liabilities		944,311	853,709
Total Equity and Liabilities		1,407,188	1,427,664


Director


Director

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

**Consolidated statement of cash flows
as at 31 December 2016**

	2016 USD'000	2015 USD'000
Loss before income tax	(88,544)	(36,244)
Adjustments to reconcile loss before tax to net cash flows:		
Fair value changes of interest rate swaps	-	(194)
Impairment losses on property, plant and equipment	99,600	71,000
Impairment loss on trade accounts receivables	3,472	226
Provision for employees' end-of-service benefits	342	302
Finance income	-	(777)
Finance costs	59,576	70,217
Depreciation and amortisation	74,372	70,570
Amortisation of mobilisation revenue	1,924	2,890
Operating cash flows before changes in operating assets and liabilities	150,742	177,990
(Increase)/decrease in inventories	(2,363)	988
Decrease in marine vessels classified as inventories and sold during the year	-	3,609
(Increase)/decrease in accounts receivables, prepayments and other assets	(12,879)	2,365
Increase/(decrease) in accounts payable, accruals and other liabilities	139,525	(4,740)
(Decrease)/increase in due from related parties	(556)	597
Cash generated from operations	274,469	180,809
Income tax paid	(17,771)	(20,961)
Employees' end-of-service benefits paid	(681)	(513)
Net cash flows generated from operating activities	256,017	159,335
Cash flows from investing activities		
Purchase of property, plant and equipment	(152,319)	(57,511)
Purchase of intangible assets	(1,481)	(621)
Advance paid for vessels	-	(553)
Decrease/(increase) in long term receivable	467	(1,397)
Net movement in restricted cash	-	13,000
Net cash flows used in investing activities	(153,333)	(47,082)
Cash flows from financing activities		
Loans borrowed	13,000	345,884
Loans paid	(26,318)	(372,100)
Interest paid	(59,576)	(55,182)
Repayment of loan due to Holding Company	(36,400)	(2,000)
Dividends paid to the Holding Company	-	(22,000)
Dividends paid to non-controlling interests	(9,000)	(2,200)
Net cash flows used in financing activities	(118,294)	(107,598)
(Decrease)/increase in cash and cash equivalents	(15,610)	4,655
Cash and cash equivalents at 1 January	55,069	50,414
Cash and cash equivalents at 31 December (Note 19)	39,459	55,069

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

Attributable to Owners of the Company

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016**

1. Establishment and operations

Topaz Energy and Marine Limited (formerly Nico Middle East Limited) (“the Company”) is a limited liability company incorporated in Bermuda. The Company is a 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 Group as at and for the year ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as “the Group” and individually as “the Group entities”). The principal activities of the Group are provision of offshore supply vessels and other marine vessels on charter primarily to the oil and gas industry.

2. Subsidiaries

i) Subsidiaries of Topaz Energy and Marine Limited, Bermuda

<i>Company</i>	<i>Country of incorporation</i>	<i>Registered percentage shareholding</i>		<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>	
Topaz Energy and Marine DMCC	United Arab Emirates	100%	100%	Ship management services
Nico World II Limited [Refer Note 2(d)]	Vanuatu	-	100%	Charter of marine vessels
Nico Far East Pte Limited [Refer Note 2(d)]	Singapore	-	100%	Charter of marine vessels
TEAM II Limited [Refer Note 2(a)]	St. Vincent	50%	50%	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 (a)]	St. Vincent	50%	50%	Charter of marine vessels
TEAM VIII Limited	St. Vincent	100%	100%	Charter of marine vessels
TEAM X Limited [Refer Note 2(a)]	St. Vincent	50%	50%	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 [refer note 2 (a)]	St. Vincent	50%	50%	Charter of marine vessels
TEAM XVI Limited	St. Vincent	100%	100%	Charter of marine vessels

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

2. Subsidiaries (continued)

i) Subsidiaries of Topaz Energy and Marine Limited, Bermuda (continued)

<i>Company</i>	<i>Country of incorporation</i>	<i>Registered percentage shareholding</i>		<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>	
TEAM XVII Limited [refer note 2 (a)]	St. Vincent	50%	50%	Charter of marine vessels
TEAM XVIII Limited [refer note 2 (a)]	St. Vincent	50%	50%	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 XXVI Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXVII Limited [refer note 2 (a)]	St. Vincent	50%	50%	Charter of marine vessels
TEAM XXVIII Limited [refer note 2 (a)]	St. Vincent	50%	50%	Charter of marine vessels
TEAM XXIX Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXX Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXI Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXIII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXIV Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXV Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXVI Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXVII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXVIII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XXXIX Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XL Limited	Marshall Islands	100%	100%	Charter of marine vessels

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

2. Subsidiaries (continued)

i) Subsidiaries of Topaz Energy and Marine Limited, Bermuda (continued)

<i>Company</i>	<i>Country of incorporation</i>	<i>Registered percentage shareholding</i>		<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>	
TEAM XLI Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XLII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XLIII Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XLIV Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XLV Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XLVI Limited	Marshall Islands	100%	100%	Charter of marine vessels
TEAM XLVII Limited	Marshall Islands	100%	100%	Charter of marine vessels
BUE Marine Limited	Scotland	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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

2. Subsidiaries (continued)

i) Subsidiaries of Topaz Energy and Marine Limited, Bermuda (continued)

<i>Company</i>	<i>Country of incorporation</i>	<i>Registered percentage shareholding</i>		<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>	
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%	50%	Charter of marine vessels
Caspian Islay Limited [refer note 2 (a)]	St. Vincent	50%	50%	Charter of marine vessels
Caspian Jura Limited [refer note 2 (a)]	St. Vincent	50%	50%	Charter of marine vessels
Topaz Marine Saudi Arabia Limited	Saudi Arabia	100%	100%	Operation services and technical support for ships
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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

2. Subsidiaries (continued)

i) Subsidiaries of Topaz Energy and Marine Limited, Bermuda (continued)

<i>Company</i>	<i>Country of incorporation</i>	<i>Registered percentage shareholding</i>		<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>	
Heatberg Shipping Limited	Cyprus	100%	100%	Charter of marine vessels
Topaz Marine Limited	Bermuda	100%	100%	Charter of marine vessels
Topaz Marine S.A.	Luxembourg	100%	100%	Investment company

ii) Subsidiaries of Topaz Marine Limited, Bermuda

<i>Company</i>	<i>Country of incorporation</i>	<i>Registered percentage shareholding</i>		<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>	
Topaz Astrakhan 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
Topaz Marine NIG Ltd	Nigeria	60%	60%	Charter of marine vessels

iii) Subsidiaries of BUE Marine Limited, Scotland

<i>Company</i>	<i>Country of incorporation</i>	<i>Registered percentage shareholding</i>		<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>	
BUE Caspian Limited	Scotland	100%	100%	Vessel management
BUE Kazakhstan Limited	Scotland	100%	100%	Vessel management
BUE Cygnet Limited	Scotland	100%	100%	Vessel management
BUE Bulkera 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
BUE Kyran Limited	Scotland	100%	100%	Vessel management
BUE Marine Turkmenistan Limited	Scotland	100%	100%	Vessel management
[Refer Note 2(b)]				
XT Shipping Limited	Scotland	100%	100%	Vessel management
River Till Shipping Limited	Scotland	100%	100%	Vessel management

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

2. Subsidiaries (continued)

iii) Subsidiaries of Topaz Doha Holdings II Limited, St. Vincent

<i>Company</i>	<i>Country of incorporation</i>	<i>Registered percentage shareholding</i>		<i>Principal activities</i>
		<i>2016</i>	<i>2015</i>	
Doha Marine Service WLL [Refer Note 2(c)]	State of Qatar	49%	49%	Vessel management
DMS Marine SPC [Refer Note 2(d)]	State of Qatar	-	100%	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, Caspian Provider Limited, Team VII Limited, Team XV Limited, Team XVII Limited, Team XVIII Limited, Caspian Islay Limited, Caspian Jura Limited, Team II Limited, Team X Limited, Team XXVII Limited and Team XXVIII Limited have been considered as subsidiaries as the Group has control over these entities, and is exposed to, or has rights to, variable returns from its involvement with these entities and has the ability to affect those returns through its power over these entities under management agreements with the respective shareholders.
- b) BUE Caspian Limited owns the entire issued share capital of BUE Marine Turkmenistan Limited, a company incorporated and registered in Scotland.
- c) 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 control over these entities, and is exposed to, or has rights to, variable returns from its involvement with DMS and has the ability to affect those returns through its power over DMS, and therefore, DMS has been consolidated as a subsidiary in these consolidated financial statements
- d) During the year ended 31 December 2016, the Group has dissolved Nico World II Limited, DMS Marine SPC, and Nico Far East PTE Limited. During the year ended 31 December 2015, the Group has dissolved Topaz Holdings Limited, Team IX Limited, BUE Maritime Services Limited, and Roosalka Shipping Limited.

3. Application of new and revised International Financial Reporting Standards (IFRS)

3.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*.
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure Initiative.
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture: Bearer Plants*.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

3.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities.
- Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34.

3.2 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRS that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 <i>Income Taxes</i> relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018
The interpretation addresses foreign currency transactions or parts of transactions where:	
▪ there is consideration that is denominated or priced in a foreign currency; ▪ the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and ▪ the prepayment asset or deferred income liability is non-monetary.	
Amendments to IFRS 2 <i>Share Based Payment</i> regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 4 <i>Insurance Contracts</i> : Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

3. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

3.2 New and revised IFRS in issue but not yet effective (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 40 <i>Investment Property</i> : Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied
IFRS 7 <i>Financial Instruments: Disclosures</i> relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9	When IFRS 9 is first applied
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018
IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. The standard contains requirements in the following areas: • Classification and measurement: Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.	

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

3. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

3.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs

*Effective for
annual periods
beginning on or after*

IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (continued) 1 January 2018

- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 *Revenue from Contracts with Customers*

1 January 2018

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts. 1 January 2018

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

3. Application of new and revised International Financial Reporting Standards (IFRS) (continued)

3.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs

**Effective for
annual periods
beginning on or after**

IFRS 16 *Leases* specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

1 January 2019

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the year of initial application.

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2019. The application of IFRS 9 and IFRS 15 may have a significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect the Group's financial assets and financial liabilities, revenue from contracts with customers and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

4. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretation applicable to companies reporting under IFRS.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

4. Basis of preparation (continued)

Functional and presentation currency

The consolidated financial statements are presented in United States Dollars (USD) which is the Group's presentation currency. 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 denominated in USD, AED and Qatari Riyal (QR). AED and QR is currently pegged at approximately AED 3.67 equals to USD 1 and QR 3.46 equals to USD 1, respectively. All values are rounded to the nearest thousand except where otherwise indicated.

5. 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 (Refer to Note 2 to the consolidated financial statements).

Subsidiaries

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

Upon loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and other components of equity related to the subsidiary. Any surplus or deficit arising on loss of control is recognised in consolidated statement of comprehensive income. 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.

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

Transactions and balances eliminated on consolidation

Intra-group balances and transactions, and any unrealised gain arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Basis of consolidation (continued)

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.

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

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Basis of consolidation (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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 over the period of the related charter party contract.

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.

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 statement of comprehensive income. All borrowing costs are recognised in consolidated statement of comprehensive income using the effective interest rate method. However, borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of that asset, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

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 statement of comprehensive income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests. When the Group disposes of only part of its interest in an associate or a joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to consolidated statement of comprehensive income.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Income tax (continued)

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.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Chief Operating Decision Maker (CODM) i.e. the Company's Board of Directors. All operating segments' operating results are reviewed regularly by the CODM to make decisions about the resources to be allocated to the segment and to assess its performance and for which discrete financial information is available.

Segment results that are reported to the Company's Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and head office expenses.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Earnings per share

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

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:

	Useful life in years
Buildings	5 to 25
Plant, machinery, furniture, fixtures and office equipment	3 to 15
Marine vessels acquired (including boats)	15 to 30
Expenditure on marine vessel dry docking (included as a component of marine vessels)	3

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 the consolidated statement of comprehensive income as incurred.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Property, plant and equipment (continued)

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 the consolidated statement of comprehensive income.

The Company disposes of 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, which ordinarily is within 2 to 3 years.

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.

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 recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Any negative goodwill is immediately recognised in profit or loss. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Intangible assets (continued)

Goodwill (continued)

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 recognised 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 capitalised 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 recognised 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial assets (continued)

Classification (continued)

i) 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.

ii) 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.

iii) 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Financial instruments (continued)

Non-derivative financial assets (continued)

iii) Available-for-sale financial assets (continued)

Recognition and measurement (continued)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated 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 consolidated statement of comprehensive income as part of finance income. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Non-derivative financial liabilities

All 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 consolidated 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.

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 the consolidated statement of comprehensive income.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

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 the consolidated statement of comprehensive income 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 the consolidated statement of comprehensive income.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

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

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 consolidated 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

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

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

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 consolidated statement of comprehensive income over the period of the borrowings on an effective interest basis.

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

Employees' benefits

A provision is made for the estimated liability for employees for their entitlement to annual leave and leave passage as a result of services rendered by employees up to the end of the reporting period based on applicable labour laws in jurisdictions where the Group operates.

The provision relating to annual leave and leave passage is disclosed as a current liability, while that relating to employees' end-of-service benefits is disclosed as a non-current liability.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

5. Significant accounting policies (continued)

Leases

Group as a lessee

Leased assets

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.

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 the consolidated statement of comprehensive income.

Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income 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 board of directors.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

6. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgments in applying the Group's accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Accounting for investments

The Group reviews its investment in entities to assess whether the Group has control, joint control or significant influence over the investee. This includes consideration of the level of shareholding held by the Group in the investee as well as other factors such as representation on the Board of Directors of the investee, terms of any agreement with the other shareholders etc. Based on the above assessment the Group decides whether the investee needs to be consolidated or equity accounted in accordance with the accounting policy of the Group (also refer to Note 5 to the consolidated financial statements).

Leases

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

Management have based this 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 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

6. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

The Group determines on an annual basis whether goodwill is impaired or not. 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 2016 was USD 26,174 thousand (2015: USD 26,174 thousand). Details of the impairment assessment are set out 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 *Impairment of assets*. This requires an estimation of the value in use of the cash-generating unit which is the vessel owning and chartering segment. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from this cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying value of the vessels as at 31 December 2016 was USD 1,052,813 thousand (2015: USD 1,179,787 thousand).

The recoverable amount of all vessels has been determined based on value in use calculations where the fair value less cost to sell was lower than the carrying amount. These calculations use pre-tax cash flow projections based on the financial budgets approved by the management covering a period of 5 years based on the expected utilization rates of the individual vessels using a discount rate of 11.80% (2015: 11.70%). Cash flows beyond five years are estimated using a nil growth rate.

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 99,099 thousand (2015: USD 93,168 thousand) and the provision for doubtful debts was USD 4,538 thousand (2015: USD 8,627 thousand). Any difference between the amounts actually collected in future periods and the amounts expected to be impaired will be recognised in the consolidated statement of comprehensive income.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

6. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

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 5,689 thousand (2015: USD 3,326 thousand) with provisions for old and obsolete inventories of USD Nil (2015: USD Nil). Any difference between the amounts actually realised in future periods and the amounts provided will be recognised in the consolidated statement of comprehensive income.

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 current tax and deferred tax

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

7. Revenue

	2016	2015
	US\$'000	US\$'000
Charter and other revenues from marine vessels	278,274	351,935
Income from mobilization of marine vessels	3,813	8,035
Sale of marine vessels	-	2,500
	282,087	362,470

8. Administrative expenses

	2016	2015
	US\$'000	US\$'000
Employees' salaries and benefits	18,979	24,523
Consultancy and professional fees	2,463	3,145
Rent and utilities	1,412	1,769
Legal fees and expenses	1,128	1,967
Depreciation of property, plant and equipment	949	1,287
Travel expenses	835	1,150
Communication expense	755	949
Vehicle expense	736	898
Amortisation of intangible assets	50	66
Impairment loss on accounts receivable (Note 15)	3,472	226
Others	2,826	3,998
	33,605	39,978

9. Impairment loss on vessels

	2016	2015
	US\$'000	US\$'000
Impairment loss on marine vessels (Note 13)	99,600	71,000

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

10. Finance income and costs

	2016 US\$'000	2015 US\$'000
<i>Recognised in consolidated statement of comprehensive income</i>		
Exchange gain	-	777
Fair value changes of derivative financial instruments (refer (i) below)	-	194
Finance income	-	971
Interest expense	59,576	70,217
Finance costs	59,576	70,217

- (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 recognised in the consolidated statement of comprehensive income.

11. Income tax

	2016 US\$'000	2015 US\$'000
<i>Current taxation</i>		
Foreign tax	19,014	20,722
Corporation tax	268	422
Total current tax	19,282	21,144
<i>Deferred tax</i>		
Current year	(1,471)	983
Prior year	(4,277)	121
Total deferred tax (Note 17)	(5,748)	1,104
Tax expense for the year	13,534	22,248
Tax liabilities	21,881	20,370

The Group's consolidated effective tax rate is (14%) for 2016 (2015: 46%), calculated based on profit for the year from continuing operations.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

11. Income tax (continued)

The charge for the period can be reconciled to the profits of the Group attributable to entities registered in the United Kingdom (UK), Nigeria, Angola and Qatar as follows:

	2016	2015
	US\$'000	US\$'000
(Loss)/profit before income tax of Group entities operating in taxable jurisdictions	(119,339)	16,680
Less: Non-taxable loss/(profits) earned by these entities	88,567	(2,066)
(Loss)/profit subject to tax included in the consolidated statement of comprehensive income for the year	(30,772)	14,614
Tax at the applicable average tax rate of 7.8% (2015: 29.3%) based on profits generated by Group entities registered in UK	2,409	4,296
Tax effect of expenses that are not deductible in determining taxable profit	(158)	89
Effect of different tax rates of subsidiaries operating in jurisdictions other than UK	6,284	17,741
Unrelieved foreign tax	5,662	-
Provision for foreign tax	3,288	-
Effect of change in deferred tax recognition	326	-
Adjustment to prior year's deferred tax	(4,277)	122
Tax expense for the year	13,534	22,248

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. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2016 is based on the loss attributable to the shareholders of the Company of USD 125,914 thousand (2015: loss attributable to shareholders of the Company of USD 78,769 thousand) and a weighted average number of ordinary shares outstanding of 284,719 thousand (2015: 284,719 thousand).

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

13. Property, plant and equipment

	Buildings US\$'000	Plant, machinery, furniture, fixtures and office equipment US\$'000	Marine vessels US\$'000	Motor vehicles US\$'000	Capital work-in- progress US\$'000	Total US\$'000
Cost						
As at 1 January 2015	3,958	13,243	1,594,784	840	64,962	1,677,787
Additions	-	785	36,092	149	20,486	57,512
Transfers	-	24	48,970	-	(48,994)	-
Transfer to current assets	-	-	(1,628)	-	-	(1,628)
Disposals/write offs	-	(2)	(4,720)	-	-	(4,722)
As at 31 December 2015	3,958	14,050	1,673,498	989	36,454	1,728,949
Additions	-	465	32,205	-	119,649	152,319
Transfers	-	-	25,518	-	(25,518)	-
As at 31 December 2016	3,958	14,515	1,731,221	989	130,585	1,881,268
Accumulated depreciation						
As at 1 January 2015	754	10,002	351,717	758	-	363,231
Charge for the year	159	1,027	69,217	101	-	70,504
Impairment (Note 9)	-	-	61,200	-	9,800	71,000
Eliminated on disposals	-	(2)	(1,113)	-	-	(1,115)
Amortisation of mobilisation costs	-	-	2,890	-	-	2,890
As at 31 December 2015	913	11,027	483,911	859	9,800	506,510
Charge for the year	159	688	73,373	102	-	74,322
Transfer	-	-	9,800	-	(9,800)	-
Amortisation of mobilisation costs	-	-	1,924	-	-	1,924
Impairment (Note 9)	-	-	99,600	-	-	99,600
As at 31 December 2016	1,072	11,715	668,608	961	-	682,356
Carrying amount						
As at 31 December 2016	2,886	2,800	1,062,613	28	130,585	1,198,912
As at 31 December 2015	3,045	3,023	1,189,587	130	26,654	1,222,439

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

13. Property, plant and equipment (continued)

Marine vessels with a net book value of USD 666,726 thousand (2015: USD 815,816 thousand) are mortgaged against bank loans obtained.

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

During the year, the Group has not capitalised any borrowing cost (2015: USD 210 thousand borrowing cost capitalised). In 2015, borrowing costs were capitalised at the weighted average rate of 4.1%.

During the year an impairment charge of USD 99,600 thousand (2015: USD 71,000 thousand) has been recognised for 29 (2015: 19) marine vessels (Note 9).

The depreciation charge has been allocated as follows:

	2016	2015
	US\$'000	US\$'000
Cost of revenue	73,373	69,429
Administrative expenses (Note 8)	949	1,075
	<u>74,322</u>	<u>70,504</u>

14. Intangible assets and goodwill

	Goodwill	2016 Computer software	Total		2015 Computer software	Total
	USD'000	USD'000	USD'000		USD'000	USD'000
At 1 January	26,174	1,069	27,243	26,174	514	26,688
Additions	-	1,481	1,481	-	621	621
Amortisation	-	(50)	(50)	-	(66)	(66)
At 31 December	<u>26,174</u>	<u>2,500</u>	<u>28,674</u>	26,174	1,069	27,243
Cost (gross carrying amount)	26,174	4,049	30,223	26,174	2,568	28,742
Accumulated amortisation	-	(1,549)	(1,549)	-	(1,499)	(1,499)
Net carrying amount	<u>26,174</u>	<u>2,500</u>	<u>28,674</u>	26,174	1,069	27,243

Amortisation of intangible assets has been allocated to administrative expenses in the consolidated statement of comprehensive income.

Goodwill comprises 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

14. Intangible assets and goodwill (continued)

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:

	2016 US\$'000	2015 US\$'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.

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 used in 2016 is 11.80% (2015: 11.70%).

Terminal value calculations

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

Growth rate

The growth rate used for value in use calculation in 2016 is 3% (2015: 3%).

Sensitivity to changes in assumptions

Management believes that there is adequate headroom, particularly with reference to the recent fall in oil prices as some of the key assumptions are conservative, particularly the expected growth rate. For the year ended 31 December 2016, there have been no events or changes in circumstances to indicate that the carrying values of goodwill of the above three cash-generating units may be impaired.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

15. Accounts receivable and prepayments

	2016	2015
	US\$'000	US\$'000
Trade accounts receivable	99,099	93,168
Allowance for trade accounts receivable	(4,538)	(8,627)
	94,561	84,541
Prepaid expenses	3,692	2,941
Advance to suppliers	2,768	5,197
Retention receivable	1,998	1,934
Other receivables	7,476	6,942
	110,495	101,555
Less: Non-current portion	(930)	(1,397)
	109,565	100,158

At 31 December 2016, trade receivables with a nominal value of USD 4,538 (2015: USD 8,627 thousand) were impaired. Movement in the allowance for trade accounts receivables is as follows:

	2016	2015
	US\$'000	US\$'000
At 1 January	8,627	8,668
Charge for the year (Note 9)	3,472	268
Amounts written off	(7,561)	(309)
At 31 December	4,538	8,627

The impaired receivables are outstanding for more than 120 days (2015: outstanding for more than 120 days).

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

	2016	2015
	US\$'000	US\$'000
GCC	6,135	18,754
Caspian	81,076	55,484
Others	7,350	10,303
At 31 December	94,561	84,541

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

15. Accounts receivable and prepayments (continued)

As at 31 December, the ageing of un-impaired trade receivables is as follows:

	Total USD'000	Neither past due nor impaired USD'000	Past due but not impaired				
			<30 days USD'000	30-60 days USD'000	61-90 days USD'000	91-120 days USD'000	>120 days USD'000
2016	94,561	76,485	5,228	4,296	4,348	2,742	1,462
2015	84,541	52,009	14,393	6,362	4,109	1,051	6,617

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 is, therefore, unsecured. The other classes within trade and other receivables do not contain impaired assets. Fair value of trade and other receivables approximate to their carrying value.

16. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in IAS 24 *Related Party Disclosures*. Related parties comprise companies and entities under common ownership and/or common management and control, shareholders and key management personnel. The terms and conditions of such transactions are decided by management.

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

	2016 Interest USD'000	2015 Interest USD'000
Related party - Ultimate Holding Company	7,896	8,684

Compensation of key management personnel

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

	2016 US\$'000	2015 US\$'000
Short term benefits	3,433	3,419
Employees' end-of-service benefits	134	123
	3,567	3,542

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

16. Related party transactions (continued)

	2016 US\$'000	2015 US\$'000
<i>Due from related parties</i>		
Topaz Energy & Marine Limited – Holding Company	16,740	16,481
Topaz Energy and Marine Plc, UK – subsidiary of the Holding Company	-	83
Directors	6	-
Tawoos – subsidiary of the Ultimate Holding Company	1	4
	16,747	16,568
<i>Due to a related party</i>		
Renaissance Services SAOG – Ultimate Holding Company	187	564
	187	564

These are unsecured, interest-free and do not have any fixed repayment term.

17. Deferred tax assets

	2016 US\$'000	2015 US\$'000
At 1 January	1,464	2,568
Credit/(debit) to profit or loss	5,748	(1,104)
	7,212	1,464

The deferred tax balance at 31 December 2016 comprises depreciation in excess of capital allowances of USD 1,826 thousand (2015: USD 617 thousand) and short term temporary differences of USD 5,386 thousand (2015: USD 847 thousand).

The UK corporation tax rate will reduce from 20% to 17% over a period of 4 years from 2016. The next reduction in the UK corporation tax rate from 20% to 19% is effective from 1 April 2017, followed by a reduction from 19% to 17% effective 1 April 2020. As the rate change from 19% to 17% had been substantively enacted before the reporting date, deferred tax is recognised at a rate of 17%.

18. Inventories

	2016 US\$'000	2015 US\$'000
Stores, spares and consumables	5,689	3,326
	5,689	3,326

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

19. Cash and cash equivalents

	2016 US\$'000	2015 US\$'000
Cash in bank		
- Short-term deposits	15,000	-
- Current accounts	24,387	55,037
	39,387	55,037
Cash on hand	72	32
	39,459	55,069

The short-term deposits earn interest of 0.63% per annum.

20. Share capital

	2016 US\$'000	2015 US\$'000
<i>Authorised</i>		
400,000,000 shares of USD 1 each (2015: 400,000,000 shares of USD 1 each)	400,000	400,000
<i>Issued and fully paid</i>		
284,719,616 shares of USD 1 each (2015: 284,719,616 shares of USD 1 each)	284,720	284,720

In 2014, the Holding Company entered into a Subscription Agreement with another party, consisting of the issue and sale of 27,902,522 common shares (from authorised but unissued capital stock) of the Company at a price of USD 2.68 per share for total proceeds of USD 75 million, which resulted in a share premium balance of USD 46.8 million. As part of the sale of the shares, the Holding Company entered into a Shareholders Agreement, where the Holding Company and the Ultimate Holding Company have agreed to certain conditions which are accounted for, and disclosed, in their own financial statements. These conditions do not affect the Company itself and therefore the financial impact has not been reflected in these consolidated financial statements.

On 19 December 2016, the Holding Company has transferred 10,534,626 shares from its shareholding in the Company's authorised but unissued capital stock (amounting to 3.7% of the share capital) to the other party, thereby increasing the total holding of the other party from 9.8% to 13.5%.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

21. Term loans

	2016	2015
	US\$'000	US\$'000
Term loan, at LIBOR plus 2.75% p.a. [Note 21(i)]	300,093	328,852
\$ 350M, 8.625% Senior Notes due in 2018 [Note 21(ii)]	344,903	342,462
	644,996	671,314
Current portion	(30,000)	(30,000)
Non-current portion	614,996	641,314

(i) In 2015, the Group successfully refinanced its existing bank debt amounting to USD 313,659 thousand under various facilities. As a result of this refinancing on 30 April 2015, the Group entered into an agreement with a syndicate of banks for a financing facility of USD 550 million. The existing liabilities under the target restructure loans were prepaid and were replaced by a new term loan amounting to USD 350 million. The new term loan carries interest at the rate of three-month LIBOR plus 2.75% and is repayable in quarterly instalments till April 2022. The Group recognised a charge on extinguishment of debt of USD 8.4 million in 2015 in relation to the prepayment of these term loans. The amount was included as part of finance cost in the consolidated statement of comprehensive income.

(ii) On 4 November 2013 the Group issued USD 350 million aggregate principal amount of 8.625% senior notes (the "Senior Notes") that will mature on 1 November 2018. The Senior Notes pay interest semi-annually in arrears on 1 May and 1 November of each year, commencing 1 May 2014. Interest has been accrued from the issue date. On and after 1 November 2016, the Group may redeem some or all of the Senior Notes at the redemption prices (expressed as percentages of principal amount) equal to 104.3125% for the twelve month period beginning 1 November 2016, 102.15625% for the twelve month period beginning 1 November 2017 and 100% beginning 1 October 2018, plus accrued and unpaid interest and additional amounts, if any, to the redemption date. No redemption has been made as of year-ended 31st December 2016. The Senior Notes have been issued by Topaz Marine S.A., a wholly-owned subsidiary of Nico Middle East Ltd., incorporated in Luxembourg. The Senior Notes have been admitted for trading on the Global Exchange Market of the Irish Stock Exchange.

In conjunction with the Senior Notes offering, USD 12.06 million in debt issuance costs were incurred and has been accounted as per IFRS and is amortised into finance cost over the life of the Senior Notes using the effective interest rate basis. USD 120 million, out of the proceeds from the issuance of the Senior Notes, were used to prepay amounts outstanding under some of the senior secured bank borrowings and the balance proceeds have been used for acquisition of new vessels.

As at 31 December 2016, the fair value of the Senior Notes is approximately USD 342 million (2015: USD 320 million).

(iii) The term loans of the Group are denominated either in USD or AED 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

21. Term loans (continued)

The term loan and Senior Notes are repayable as follows:

	2016 US\$'000	2015 US\$'000
Due within one year	30,000	30,000
Due between two to five years	489,999	466,317
Due after five years	124,997	174,997
	<u>644,996</u>	<u>671,314</u>

The borrowing arrangements include undertakings to comply with various covenants including net debt to EBITDA ratio and EBITDA to debt service ratio as well as an undertaking to maintain a minimum tangible net worth which shall not be less than USD 400 million and minimum total free liquidity which shall not be less than USD 30 million.

At the reporting date, the Group is in compliance with all financial covenants.

22. Loans due to Holding Company

	2016 US\$'000	2015 US\$'000
Term loan (refer (i) below)	80,600	104,000
Current portion	(7,254)	(28,000)
Non-current portion	<u>73,346</u>	<u>76,000</u>

The loan is repayable as follows:

	2016 US\$'000	2015 US\$'000
Due within one year	7,254	28,000
Due between two to five years	52,134	76,000
Above five years	21,212	-
	<u>80,600</u>	<u>104,000</u>

- (i) This represents loans obtained from the Holding Company for the purpose of financing the acquisition of certain vessels. It also includes a subordinated loan payable in four equal instalments of USD 26 million, starting from November 2014 carrying a mark-up at the rate of 8.5% per annum compounded on a quarterly basis. During the current year the Group has successfully refinanced the loans resulting in an extended repayment term and standard rate of interest of 8.5% per annum.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

23. Employees' end-of-service benefits

Provision for employees' end-of-service benefits is made in accordance with the labour laws of the respective countries in which the Group operates, and is based on current remuneration and cumulative years of service as at the reporting date.

The movement in the provision is recognised in the consolidated statement of financial position is as follows:

	2016 US\$'000	2015 US\$'000
At 1 January	3,868	4,079
Provided during the year	342	302
End-of-service benefits paid	(681)	(513)
	3,529	3,868
At 31 December	3,529	3,868

24. Accounts payable and accruals

	2016 US\$'000	2015 US\$'000
<i>Current</i>		
Trade accounts payables	41,055	6,675
Accrued expenses	27,297	33,480
Other payables	12,715	12,864
	81,067	53,019
<i>Non-current</i>		
Advanced from customers	112,051	-
Others	-	574
	112,051	574

25. Dividends

The dividend paid in 2016 for the year ended 31 December 2015 was USD Nil.

The dividend paid in 2015 for the year ended 31 December 2014 was USD 22 million (USD 0.08 per share).

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

26. Summarised financial information on subsidiaries with material non-controlling interests

Set out below is the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group. The combined financial information of the subsidiaries that has non-controlling interests in the Caspian Region has been presented, as the non-controlling interest for all these subsidiaries is the same party. The information below is the amount before inter-company eliminations.

Summarised statement of financial position

	Caspian Region Subsidiaries	
	2016	2015
	US\$'000	US\$'000
Current		
Assets	116,982	106,595
Liabilities	169,451	195,281
Total current net liabilities	(52,469)	(88,686)
Non-current		
Assets	494,964	516,008
Liabilities	131,236	145,374
Total non-current net assets	363,728	370,634
Net assets	311,259	281,948

Summarised statement of comprehensive income

	2016	2015
	US\$'000	US\$'000
Revenue	99,082	98,915
Profit before income tax	47,420	41,249
Income tax expense	(110)	(695)
Profit for the year from continuing operations	47,310	40,554
Other comprehensive income	-	-
Total comprehensive income for the year	47,310	40,554
Total comprehensive income allocated to non-controlling interests	23,836	20,277
Dividends paid to non-controlling interests	9,000	2,200

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

**26. Summarised financial information on subsidiaries with material non-controlling interests
(continued)**

Summarised statement of cash flows

	Caspian Region Subsidiaries	
	2016	2015
	US\$'000	US\$'000
Cash flows from operating activities		
Cash generated from operations	76,510	30,155
Income taxes paid	(232)	(273)
Interest paid	(21,297)	(26,443)
Net cash generated from operating activities	54,981	3,439
Net cash used in investing activities	(2)	(1,452)
Net cash used in financing activities	(57,675)	(13,239)
Net decrease in cash and cash equivalents	(2,696)	(11,252)
Cash and cash equivalents at 1 January	2,697	13,949
Cash and cash equivalents at 31 December	1	2,697

27. Contingencies

Contingent liabilities

	2016	2015
	US\$'000	US\$'000
Letters of credit	-	9,000
Letters of guarantee	23,150	22,243
	23,150	31,243

These are non-cash banking instruments such as bid bonds, performance bonds, refund guarantees, retention bonds, 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 that certain terms of contracts with customers/suppliers are not met.

28. Commitments

	2016	2015
	US\$'000	US\$'000
<i>Capital expenditure commitment:</i>		
Purchase of marine vessels	346,841	141,300

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

29. Non-cancellable leases

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:

	2016 US\$'000	2015 US\$'000
Within one year	210,530	200,706
Between two to five years	1,087,970	257,809
More than five years	266,339	-
	<u>1,564,839</u>	<u>458,515</u>

30. Operating segments

Management has determined the operating segments based on the information reviewed by the 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:

- Caspian
- MENA
- Africa

The above segments is after consideration of an internal reorganisation implemented in 2015 due to changes in the composition of the various segments disclosed in 2014 consolidated financial statements on account of transfer of the operating decisions relating to various vessels from Global to MENA and Africa.

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. Inter-segment pricing is determined on an arm's length basis.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

30. Operating segments (continued)

The following table presents segmental information about these businesses:

Operating segment - 2016

	Caspian USD'000	Mena USD'000	Africa USD'000	Corporate USD'000	Elimination USD'000	Total USD'000
Revenue	206,030	61,800	14,257	-	-	282,087
Direct costs	(96,470)	(65,806)	(15,708)	(178)	(141)	(178,303)
Gross profit (loss)/segment results	109,560	(4,006)	(1,451)	(178)	(141)	103,784
Administrative expenses	(11,716)	(10,263)	(4,677)	(6,969)	20	(33,605)
Impairment loss	(6,900)	(67,500)	(25,200)	-	-	(99,600)
Other income	2	28	423	-	-	453
Finance costs, net	(26,666)	(8,888)	(10,522)	(13,500)	-	(59,576)
Income tax expense	(9,990)	(2,098)	(1,446)	-	-	(13,534)
Profit/(loss) from continuing operations	54,290	(92,727)	(42,873)	(20,647)	(121)	(102,078)
Profit/(loss) for the year	54,290	(92,727)	(42,873)	(20,647)	(121)	(102,078)
Depreciation and amortisation	41,207	27,909	4,739	376	141	74,372
Assets	1,114,327	311,519	114,572	629,132	(762,363)	1,407,188
Liabilities	(700,057)	(316,734)	(195,466)	(390,063)	658,010	(944,311)

Operating segment - 2015

	Caspian USD'000	Mena USD'000	Africa USD'000	Corporate USD'000	Elimination USD'000	Total USD'000
Revenue	227,985	105,647	28,838	-	-	362,470
Direct costs	(109,968)	(74,184)	(33,088)	(1,360)	10	(218,590)
Gross profit (loss)/segment results	118,017	31,463	(4,250)	(1,360)	10	143,880
Administrative expenses	(15,061)	(9,765)	(5,902)	(9,250)	-	(39,978)
Impairment loss	(24,000)	(30,000)	(7,200)	(9,800)	-	(71,000)
Other income	19	18	63	-	-	100
Finance costs, net	(32,003)	(12,765)	(9,882)	(14,596)	-	(69,246)
Income tax expense	(15,327)	(3,653)	(3,268)	-	-	(22,248)
Profit/(loss) for the year	31,645	(24,702)	(30,439)	(35,006)	10	(58,492)
Accumulated depreciation and amortisation	37,257	25,562	6,838	923	(10)	70,570
Assets	772,978	403,726	148,629	71,144	31,187	1,427,664
Liabilities	(205,077)	(157,182)	(32,663)	(458,836)	49	853,709

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

31. Financial instruments by category

	Note	2016 US\$'000	2015 US\$'000
Loans and receivables			
Non-current			
Trade and other receivables	15	930	1,397
Current			
Trade and other receivables (excluding prepayments and advances)	15	103,105	92,020
Due from related parties	16	16,747	16,568
Cash and cash equivalents	19	39,459	55,069
Total current assets		159,311	163,657
Total Assets		160,241	165,054
Other financial liabilities at amortised cost			
Non-current			
Term loans	21	614,996	641,314
Loans due to Holding Company	22	73,346	76,000
Total non-current liabilities		688,342	717,314
Current			
Accounts payable and accruals	24	81,067	53,019
Term loans	21	30,000	30,000
Loans due to Holding Company	22	7,254	28,000
Due to related parties	16	187	564
Total current liabilities		118,508	111,583
Total Liabilities		806,850	828,897

32. Fair values of financial instruments

Financial instruments comprise financial assets and financial liabilities. The fair values of financial instruments is not materially different from their carrying values.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

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 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.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

33. Risk management (continued)

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 29% (2015: 36%) of the Group's revenue is attributable to sales transactions with a single customer. The Group's ten largest customers account for 83% (2015: 84%) of the outstanding trade accounts receivable as at 31 December 2016. Geographically the credit risk is significantly concentrated in the MENA region and the Caspian region.

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

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

Balances with banks

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

Guarantees

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

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:

	2016 US\$'000	2015 US\$'000
Trade accounts receivable - net	94,561	84,541
Other receivables and retention receivable	9,474	8,876
Due from related parties	16,747	16,568
Cash and cash equivalents	39,387	55,037
	<u>160,169</u>	<u>165,022</u>

Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)

33. Risk management (continued)

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 2016, the Group had undrawn facilities of USD 100 million (2015: USD 240.0 million).

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2016, based on contractual undiscounted payments:

	Carrying amount USD'000	Contractual cash flows			
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 2016					
Non-derivative financial liabilities					
Accounts payable and accruals	81,067	81,067	81,067	-	-
Term loans	644,996	761,753	72,100	563,251	126,402
Loan due to Holding Company	80,600	104,611	13,794	67,685	23,132
Due to related parties	187	187	187	-	-
Total	806,850	947,618	167,148	630,936	149,534
At 31 December 2015					
Non-derivative financial liabilities					
Accounts payable and accruals	53,019	53,019	53,019	-	-
Term loans	671,314	829,466	72,777	574,987	181,702
Loan due to Holding Company	104,000	143,180	61,735	81,445	-
Due to related parties	564	564	564	-	-
Total	828,897	1,026,229	188,095	656,432	181,702

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

33. Risk management (continued)

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 used to hedge underlying debt obligations. At 31 December 2016, approximately 57% of the Group's borrowings are at a fixed rate of interest (2015: 57%). Since this meets the Group's policy of maintaining at least 40% of its borrowings at fixed rates, no interest rate swaps were transacted in 2015 and 2016.

Profile

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

	Carrying amount	
	2016	2015
	USD'000	USD'000
<i>Fixed rate instruments</i>		
Financial assets	-	32
Financial liabilities	425,503	446,462
<i>Variable rate instruments</i>		
Financial liabilities	300,093	328,852

Fair value sensitivity analysis for fixed rate instruments

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

Cash flow sensitivity for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and 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 2015.

	Profit or loss	
	100 bp increase	100 bp Decrease
	USD'000	USD'000
<i>31 December 2016</i>		
Variable rate instruments	3,001	(3,001)
<i>31 December 2015</i>		
Variable rate instruments	3,289	(3,289)

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

33. Risk management (continued)

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 or currencies which are pegged to USD.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Figures are in USD'000								
	EUR	AZN	KZT	RUB	GBP	NOK	NGN	JPY	SGD
31 December 2016									
Bank balances	37	4	22	673	8	10	61	-	-
Trade accounts payables	(711)	(281)	(52)	(33)	(99)	(10)	(30)	(46)	1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net statement of financial position exposure	<u>(674)</u>	<u>(277)</u>	<u>(30)</u>	<u>640</u>	<u>(91)</u>	<u>-</u>	<u>31</u>	<u>(46)</u>	<u>1</u>
31 December 2015									
Bank balances	7	12	13	579	1	1	613	-	-
Trade accounts payables	(478)	(297)	(34)	(1)	(148)	(22)	(157)	(11)	(1)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net statement of financial position exposure	<u>(471)</u>	<u>(285)</u>	<u>(21)</u>	<u>578</u>	<u>(147)</u>	<u>(21)</u>	<u>456</u>	<u>(11)</u>	<u>(1)</u>

The following significant exchange rates applied during the year:

	Average rate (to 1 USD)		Reporting date spot rate (to 1 USD)	
	2016	2015	2016	2015
Euro (EUR)	0.933	0.869	0.950	0.915
Azerbaijan New Manat (AZN)	1.666	0.916	1.771	1.049
Kazakhstan Tenge (KZT)	336.65	259.59	333.29	338.85
Russian Rouble (RUB)	66.793	64.87	60.657	73.29
Great Britain Pound (GBP)	0.742	0.659	0.810	0.675
Norwegian Kroner (NOK)	8.336	8.093	8.623	8.75
Japanese Yen (JPY)	114.63	120.18	116.97	120.36
Singapore Dollars (SGD)	1.397	1.367	1.446	1.41
Nigerian Naira (NGN)	250.75	189.14	305.00	197.29
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

33. Risk management (continued)

Currency risk (continued)

Sensitivity analysis

A strengthening of the USD, as indicated below, against the Euro, Azerbaijan New Manat, Kazakhstan Tenge, Russian Rouble, Great Britain Pound, Norwegian Kroner, Japanese Yen, Nigerian Naira and Singapore Dollars at 31 December would have increased/(decreased) the comprehensive losses 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 2015.

	<i>Effect on profit before tax</i>	
	Strengthening by 5% USD'000	Weakening by 5% USD'000
2016		
Euro (EUR)	34	(34)
Azerbaijan New Manat (AZN)	14	(14)
Great Britain Pound (GBP)	5	(5)
Kazakhstan Tenge (KZT)	2	(2)
Russian Rouble (RUB)	(32)	32
Norwegian Kroner (NOK)	-	-
Japanese Yen (JPY)	2	(2)
Singapore Dollars (SGD)	-	-
Nigerian Naira (NGN)	(2)	2
2015		
Euro (EUR)	24	(24)
Azerbaijan New Manat (AZN)	14	(14)
Great Britain Pound (GBP)	7	(7)
Kazakhstan Tenge (KZT)	1	(1)
Russian Rouble (RUB)	(29)	29
Norwegian Kroner (NOK)	1	(1)
Japanese Yen (JPY)	1	(1)
Singapore Dollars (SGD)	-	-
Nigerian Naira (NGN)	(23)	23

Capital management

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2016 (continued)**

33. Risk management (continued)

Capital management (continued)

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 capital ratio at the end of the reporting period was as follows:

	2016 US\$'000	2015 US\$'000
Interest bearing loans and borrowings	725,596	775,314
Less: Cash and short term deposits	(39,459)	(55,069)
Net debt	<u>686,137</u>	<u>720,245</u>
Equity	<u>462,877</u>	<u>573,955</u>
Capital and net debt	<u>1,149,014</u>	<u>1,294,200</u>
Gearing ratio	<u>59.72%</u>	<u>55.65%</u>

There were no changes in the Group's approach to capital management during the year. As disclosed in Note 21 to the consolidated financial statements, the Group is subject to certain financial covenants from its borrowing arrangements.

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

34. Non-cash transactions

During the year the Group entered into the following non-cash transactions which are not reflected in the consolidated statement of cash flows:

	2016 US\$'000	2015 US\$'000
Increase in deferred tax asset	5,748	1,104
Dividend to non-controlling interest set off against receivables	<u>-</u>	<u>12,700</u>

35. Comparative figures

Certain comparative figures for the previous year have been reclassified, where necessary, in order to conform to the current year's presentation. Such reclassifications did not result in changes to previously reported total comprehensive income or equity.

36. Approval of consolidated financial statements

The consolidated financial statements were approved for issuance and signed by the Board of Directors on behalf of the shareholders on 23 February 2017.