

National Marine Dredging Co.

P.O.Box:3649– Abu Dhabi.

Tel: +971-2-5130000

Fax:+971-2-5130096



شركة الجرافات البحرية الوطنية

ص ب : ٣٢٤٦- ابوظبي

هاتف : ٩٧١٢-٥١٣٠٠٠٠

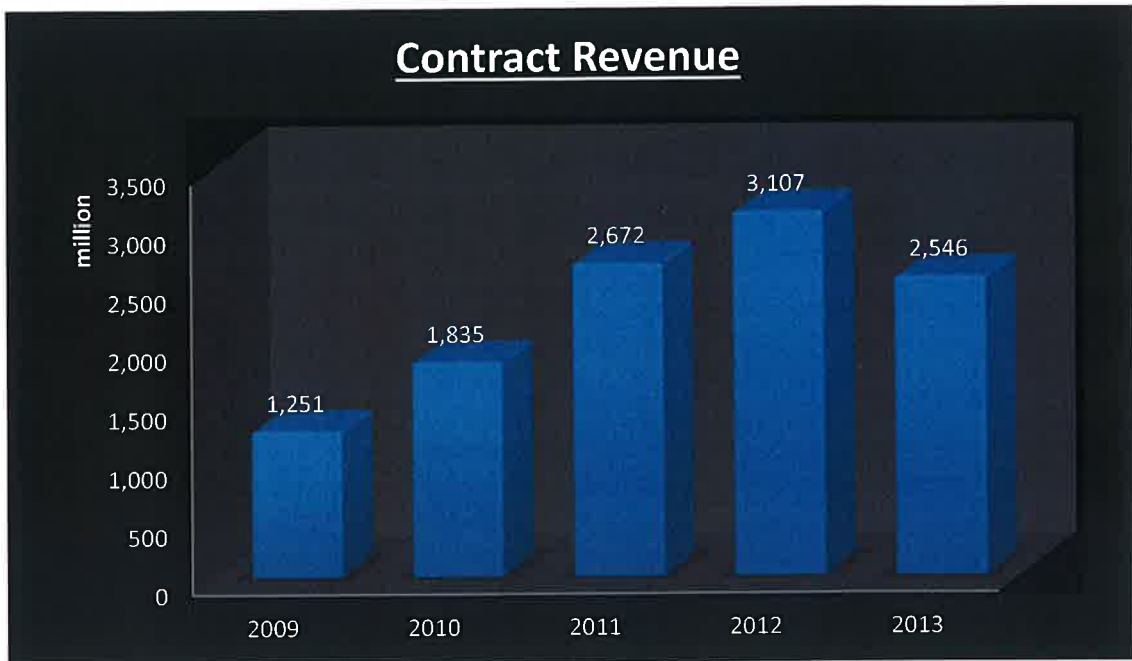
تلفكس : ٩٧١٢-٥١٣٠٠٩٦

Directors' Report

The directors of the Company have pleasure in presenting the 29th annual report along with the audited accounts for the year ended 31st December 2013.

Financial Results

Your Company achieved a turnover of AED 2,546 million and achieved a net profit of AED 207 million for the year 2013 as compared to AED 3,107 million and a net profit of AED 339 million respectively in 2012. EPS in 2013 is AED 0.91 as compared to 1.49 in 2012.



Dividend

In line with our dividend policy, your directors have recommended a dividend payment of AED 0.30 per share @ 30% for the approval of the shareholders.

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Financial Position

Your Company has a current equity of AED 3,340 million at end of the year 2013 which is higher by 8.69% YoY from AED 3,073 million at end of the year 2012. The total equity reflects a 14.76 % compound annual growth during the period 2010 to 2013.



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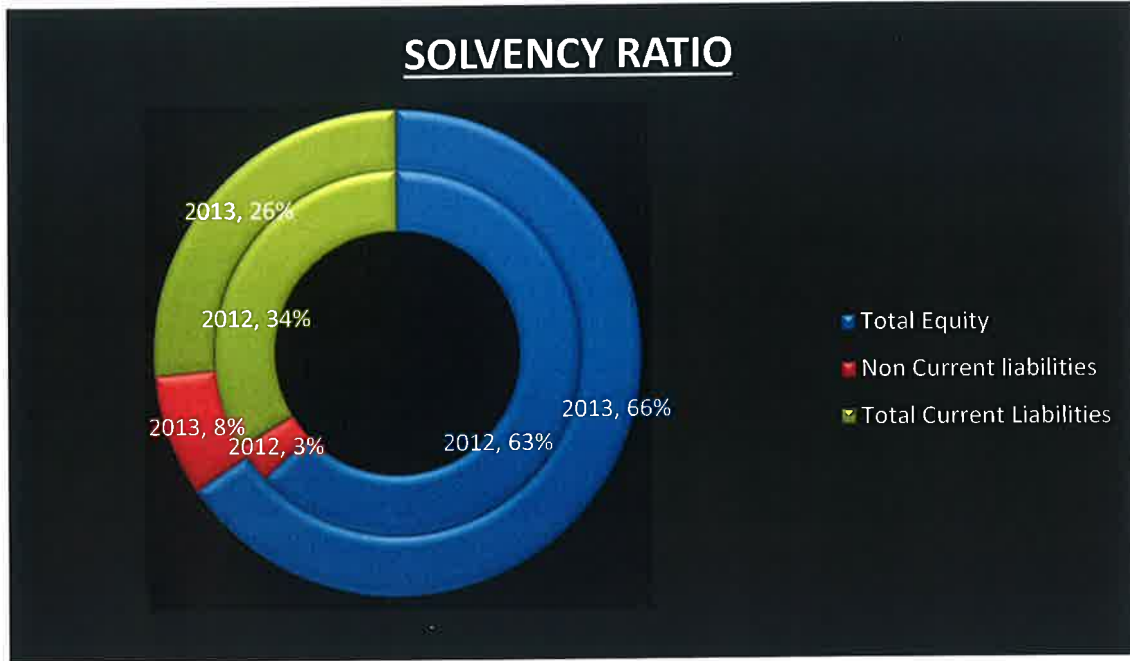
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Solvency ratio, which represents debt paying capacity of the company, stood at 66% at end of the year 2013 as against 63% at end of the year 2012. Low level of debt in capital structure is in line with the strategic decision to keep the composite leverage at an optimal level.



Relative Performance of Shares

Share price of NMDC stood at AED 8.60 at end of the year 2013 (2012: AED 10.00), which has given a decline of 14%. Last traded price of share is AED 9.00 on March 23, 2014.

Market Capitalization & Relative Valuation

At end of the year 2013, market capitalization of the company was AED 1,959 million (2012: AED 2,278 million) and the Equity to Market Value ratio stood at 1.70 (2012: 1.35).

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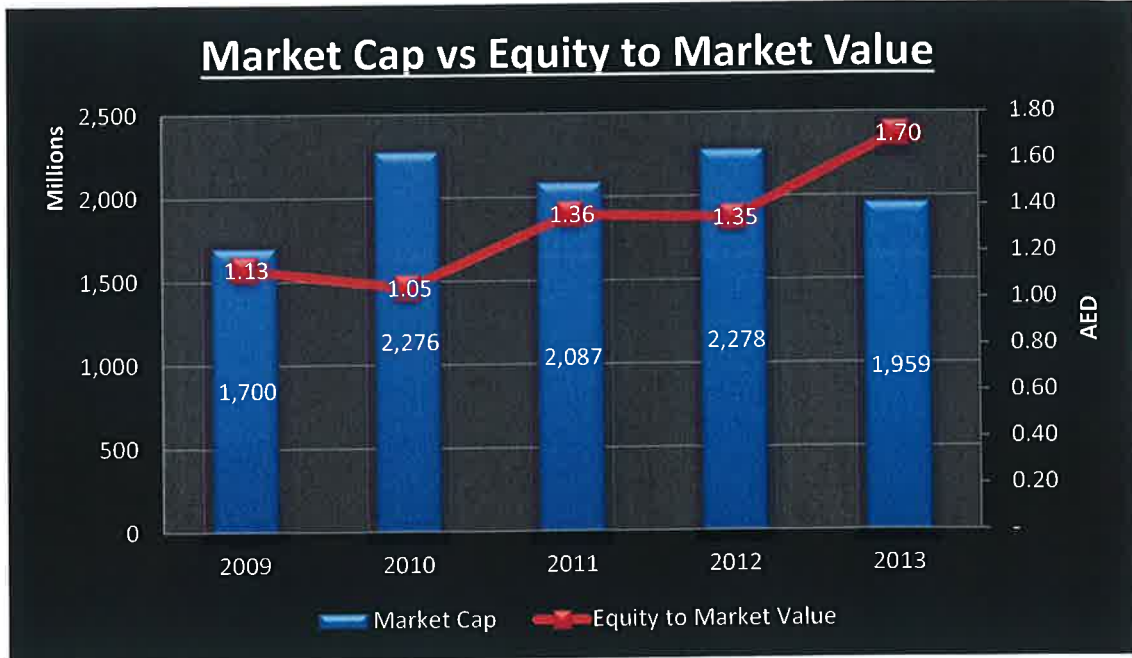


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Capital Expenditure

In order to deliver our clients with services to the highest standard, we continue to invest into latest technologies, machineries and equipment's that would support the future execution of complex projects and improves our margins. In order to accommodate work personnel and crew with a degree of comfort and safety, company has acquired Safeena – Accommodation Barge. This strategic equipment has provided a competitive advantage and improved operational efficiency in executing marine works. Accordingly, we have added Fixed Assets amounting to AED 278 million in the year 2013 as against AED 442 million in the year 2012.

Fleet

Your Company currently owns a marine fleet consisting of 17 dredgers, 3 booster stations, 1 Accommodation Barge (which can accommodate more than 300 personnel) and 70 other marine equipments such as marine tugs, fuel barge ships, support crafts and 225 earth moving equipments. With the continuous investment in its fleet, your company is currently one of the largest fleet owners in the region.

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Human Capital

Human Capital is our future and main driving force behind the success of the company. Having the same spirit in the mind, we recruit the new manpower after rigorous process of screening and we do nurture our manpower by providing required training based upon Training Need Analysis. Our aim is to attract best talented resource and retain them in the success of the Company in future. Your Company has 1,823 employees at end of year 2013 as against 2,036 employees at end of the year 2012.

Quality, Health, Safety and Environment

Quality

NMDC successfully established new Continual Improvement / Innovation Program which will be implemented in 2014 and will be monitored through planned improvement audits. This initiative will encourage innovation culture within NMDC that will result significant improvement to the organization.

During 2013, QHSE department promoted the philosophy of “DO it right first time, every time” which resulted in significant decrease of Non Conformances at projects. The effectiveness of internal audits and enhancement of Quality management system through organization allowed NMDC to increase the organizational efficiency through correct implementation of new business processes which contributed in winning one of the most recognized quality awards (SKEA Golden award).

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Health, Safety and Environment

NMDC Management gives top priority to the safety of our own employees and Subcontractor's employees and believes that "a safe worksite is a well- run worksite". The management considered commitment to QHSE as one of NMDC values and sees the compliance with QHSE requirements as one of the critical success factors.

NMDC successfully achieved incredible HSE performance by increasing HSE awareness and the evolution of HSE culture among the staff through strict implementation of HSE regulations and International standards which resulted in declining the lost time injury frequency rate (LTIFR) from 0.35 in 2010 to 0.11 in 2011 and 0.05 in both 2012 and 2013. However, the total recordable incident rate (TRIR) continued to fall in 2013, from 0.39 to 0.33.

NMDC HSE PERFORMANCE 2013

0	0	0	0	0.05	0.33
Fatalities	Heat Stress Case	Environmental Incidents	Occupational Illness	LTIFR	TRIR
12, 550, 274 Man-Hours Worked without Lost					

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MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OUTLOOK

As per the Rabo bank research report on dredging, the global dredging market is expected to continue to grow structurally mainly driven by (i) growing world population, (ii) higher energy demand, (iii) increasing seaborne trade, (iv) rising size of container vessels, and (v) rising sea level.

Following two slightly weaker years for the dredging industry (2012 and 2013), it is expected that there might be an acceleration in growth rates again, and the global dredging market is expected to increase by 5.4% per annum between 2013 and 2018. This is lower than the average growth rate between 2000 and 2011 (9.0%), primarily due to the worldwide economic recession and governmental budget cutbacks, but it is believed that the underlying growth drivers are still intact.

OUR COMPETITIVE STRENGTHS

We believe that we are well positioned to maintain and enhance our leadership position in the Dredging & Marine Construction market, on account of our competitive strengths, which are:

Leading & only Government backed dredging company in UAE

NMDC is one of the leading companies providing dredging, reclamation, and marine construction work in the Middle East. Our fleet mainly operates within the Middle East; however, our technical capabilities can be extended to any part of the Globe. Operating from modern well equipped premises, which includes multi-discipline workshops, slip ways and fully supported administration and technical departments, we are located in Mussafah.

Largest Portfolio of Dredging Assets

Our fleet consists of an array of Cutter Suction Dredgers (CSD); ranging in capacity from the small Beaver dredger Jananah (1,795 KW) to our most powerful automated dredger the Al Sadr (20,725 KW). Our dredgers are supported by our Marine Department that have tugs and multicat crafts, and ably assisted by A-Frame barges wherever necessary. It is our endeavor to keep reviewing and expanding our fleet to meet the exacting demands of our customers.

Strong relationships with Customers

Dredging is our mainstream business positioning us at the top, as one of the largest dredging players in the region. Today our dredging operation capability in a highly sophisticated business and with the help of the latest modern technology helps our customers not only meet their demands but to exceed their expectations.

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OUR STRATEGIES

As a company, we are committed to high quality growth. We strongly believe that margins and growth are equally important for an organization. We look on high margins as an output of what we do and not as a starting point for our revenue growth. To be ready for the future, we need to make all the necessary investments.

Enhancement of market share in dredging & marine construction

With the intend to enhance the market share, company has decided to expand their presence outside UAE as well as to acquire long awaiting Hopper Dredger and Backhoe dredger. Acquisition of these dredgers is expected to maintain our domestic leadership position with more customer-focused

Making foray into foreign market

Apart from consolidating the presence in the UAE market, we have already established branches in India, Qatar and Saudi Arabia and willing to create our presence in Oman as well as in Egypt as a part of strategy to foray into global market to reduce geography risk. In addition to it, our company is in advance stage of negotiation for a contract in Bahrain and expecting the same in other countries as well very soon.

Enhancement of the fleet capability

In order to accommodate work personnel and crew with a degree of comfort and safety, company has acquired Safeena – Accommodation Barge, which can accommodate more than 300 personnel. This is a strategic acquisition which is expected to generate result in terms of reduction in operational cost over a period. In continuation of the same, management has given their approval for enhancement of existing cutter suction dredger, Al Sadr, so as to increase its effectiveness and enhance their economic life.

Reducing Operational Cost

Cost reduction drive has been initiated with the intention to reduce cost without compromising the quality of services, which has resultant into improvisation of system and reduction of substantial amount of cost.

On the signs of improvement in the global economy and having regard to current level of interest rate, your Company has taken an initiative to lock the interest rate on the exiting loans over longer term period by entering into Interest Rate Swap.

Looking at the uncertainty prevailing in the Euro Zone and our exposure to EURO, your company has been striving to keep itself hedged against the volatility of EURO through suitable Foreign Exchange Products.

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Inorganic Growth

With the delighted results of acquisition of Emarat Europe as backward integration, Company has decided to strive upon the acquisition of entities on backward or forward stage of value chain as well as willing to enter into strategic alliance or acquisition to diversify the business into civil or infrastructural development.

Optimization of capacity utilization

Company is committed to continue to optimize its capacity utilization by continuous project monitoring and review, reducing equipment downtime through preventive maintenance and working with repair yards to accelerate dry dock repair periods and through a renewed focus on training,

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has reasonable system of delegation at proper levels and an adequate system of internal control commensurate with its size and nature of its business. The Company has its own independent internal audit department for conducting extensive audit of various important operational and financial matters.

To develop the culture towards zero tolerance to fraud, during the year company has set up Ethics & Compliance Department which will directly report to CEO and/ or Internal Audit Committee. Further, to increase the awareness about it, the Company has arranged lots of training sessions on Fraud Awareness.

EMIRATIZATION

The Company has devised a plan to implement emiratization in order to provide more opportunities to UAE Nationals to work with NMDC. The Company has been coordinating with government bodies like Tawteen Council. The Company do provide the needful training before getting them on board on full time basis.

ACKNOWLEDGEMENT

On behalf of the Board, I wish to express our appreciation for the support and cooperation of financial institutions, suppliers, subcontractors, business associates and government authorities and expect the same in future as well for sustaining the Company's growth rate. The Board would like to place on record its appreciation to the hard work, commitment and unstinting efforts put in by your Company's employees at all levels.


Mohamed Thani Murshed Al Rumaithi
Chairman





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Chairman's Report

I am pleased to meet you and present the Annual Report of National Marine Dredging Company for the year ended 31st December 2013. The report includes a summary of the Company's performance, final accounts and Auditor's Report.

I am glad to extend my best faithfulness and appreciation to the President His Highness Sheikh Khalifa Bin Zayed Al Nahyan and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, for their infinite support for the National companies in general and your Company in particular.

Overview

Global economy, barely pulling out of the shadow of recession, witnessed lower economic growth, especially due to uncertainty in US & Euro Zone, as a result of the same Government Bodies, Corporates etc. have taken safer route to be conservative in terms of spending over infrastructure projects. But some improvements could be seen in later part of second half, which has given hope about the revival and we hope things will be on track soon.

However, considering the macroeconomic factors, your company has performed fairly in comparison with its peers in the industry. Your organization has played a key role in the development by participating & executing key projects in marine infrastructure. The net profit for the year 2013 is AED 207 million as compared to AED 339 million in 2012; a reduction in the profit by 39%. The net profit margin in 2013 is 8% compared to 11% in 2012. The margin dilution was due to aggressive competition in the market.

But, Your Company has shown a remarkable growth from 2009 to 2013 on a cumulative basis, where Revenue has grown by 19.43%, Fixed Asset Base has grown by 17.58%, Equity has grown by 11.08% and Share Price has increased by 0.29%.

The Company achieved its revenue by delivering its services to major customers like ZADCO, GSACO, Abu Dhabi Urban Planning Council (UPC), Tourism Development & Investment Company (TDIC), Abu Dhabi Municipality, Korean Electric Company and the UAE Armed Forces.

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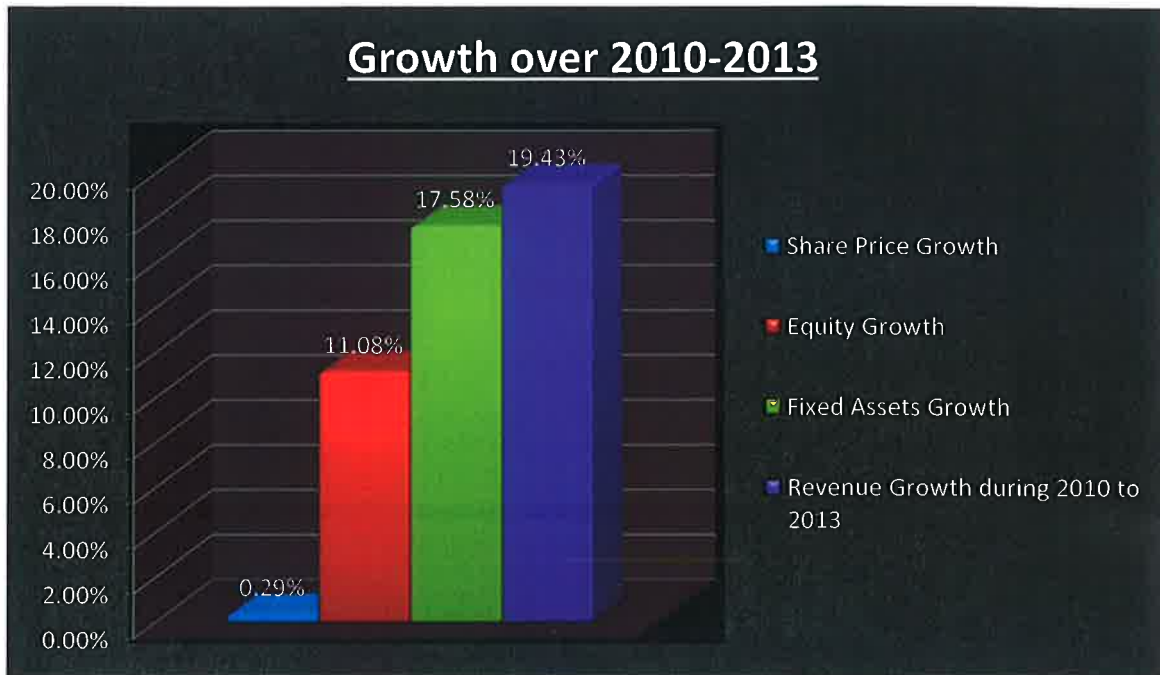


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Major Achievement

Year 2013 end has come with a great achievement for the Company, when NMDC's strive towards excellence has been endorsed by the receipt of "The Sheikh Khalifa Excellence Award – Gold Category". The award is conferred to companies that demonstrate continuous improvement empathetically. The award symbolizes commitment of excellency in all spheres of its operation and to crystalize its vision to become independent player in the Middle East market.

The company is in the process of implementing Phase II of the ERP which will automate and improve operational efficiency across the entire organization and operation.

Strategic Initiative

NMDC's growth strategy will enable to balance high-quality, industry-leading growth, with high revenue productivity and improved margin in following years.

In line with above, the board has approved major investment in production and supporting equipment including modernization of the current fleet. This is expected to improve the competitive

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edge and margins via operational efficiency. NMDC's investment in GCC and India has started showing its positive sign as NMDC is in advanced stage of bagging contracts in Bahrain and Qatar. This will reduce the concentration risk while enhancing the organizational efficiency and will enable to unlock true potential value of the company and the shareholders.

With the successful acquisition of Emarat Europe and its result, the Company is also committed to grow inorganically and will continue to remain open for such kind of acquisition or enter into some strategic alliance.

Vision

Under the wise leadership and vision of the President His Highness Sheikh Khalifa Bin Zayed Al Nahyan and His Highness Sheikh Mohammed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi, may Allah protect and save them a solid asset to our beloved country and the people of the UAE. As UAE boldly moves forward to chart out its economic destiny, your Company is committed to being a partner in the development. We are hopeful and confident to grow as always by blazing new trails and living up to our promise that WE MAKE IT HAPPEN!

Over the past four decades, our shareholders, our clients, the governments, our partners, our employees and our well-wishers have supported our strategies and decisions and have stood by us through thick and thin. At the end of this year and at the beginning of another year, we thank each one of you and look forward to your continued support, belief and trust.

We pledge to work hard to meet the elevated expectations of our stakeholders. But all of you know, there is no shortcut to success. It comes with hard work, determination and personal sacrifice. We believe in our strategy and are confident that it will lead to success.

Mohamed Thani Murshed Al Rumaithi
Chairman

