National Marine Dredging Company PJSC

BOARD OF DIRECTORS' REPORT AND
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

NATIONAL MARINE DREDGING COMPANY PJSC

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion
We have audited the consolidated financial statements of National Marine Dredging Company (the "Company") and its subsidiaries (together referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis For Qualified Opinion
Trade and other receivables at 31 December 2018 include unbilled receivables relating to certain contracts with the Government of Abu Dhabi, its departments or its related parties. We were unable to obtain sufficient and appropriate evidence to support the recoverability of amounts totalling AED 769,313 thousand (verbal contracts) and AED 156,997 thousand (signed contracts) included in these balances, due to the absence of signed contracts and/or significant delays in the billing and collection. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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 Company in accordance with the *International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, 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.

Emphasis of matters

- As stated in note 12 to the accompanying consolidated financial statements, unbilled receivables include an amount of AED 600,000 thousand recognized on the basis of claims submitted to a customer in prior periods. The final amount of the claims is still under negotiation and is subject to a review by a consultant, the finalization of which could have a significant impact on the amount of receivables recognized. Our opinion is not qualified in respect of this matter.

- We refer to note 2.5 to the consolidated financial statements, which discloses the significant judgement made by management in relation to the recognition of revenue over time from unsigned contracts in accordance with the requirements of IFRS 15 "Revenue from Contracts with Customers". Our opinion is not qualified in respect of this matter.

Other matters

- The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed a qualified opinion on those consolidated financial statements on 20 March 2018.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

NATIONAL MARINE DREDGING COMPANY PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Project revenue recognition

The Group recognised AED 1,532 million of project revenue for the year ended 31 December 2018.

Project revenue recognition is significant to the financial statements based on the quantitative materiality and the degree of management judgement required for revenue recognition. Revenue is recognized according to the stage of completion of the respective projects, which is measured using the "cost-to-cost method" and surveys of work performed.

Due to the contracting nature of the business, revenue recognition involves a significant degree of judgement, with estimates being made to:

- assess the total contract costs;
- assess the stage of completion of the contract;
- assess the proportion of revenues, including variation orders, to recognize in line with contract completion;
- forecast the profit margin on each contract incorporating appropriate allowances for technical and commercial risks; and
- appropriately identify, estimate and provide for onerous contracts.

There is a range of acceptable outcomes resulting from these judgements that could lead to different revenue or income being reported in the Consolidated Financial Statements.

Management has also considered this area to be a key accounting estimate as disclosed in the 'accounting estimates and management judgements' note to the consolidated financial statements.

How our audit addressed the area of focus

We obtained an understanding of the key internal controls and IT systems which support the project management and accounting. These included controls in the policies and procedures concerning determination of the percentage of completion, estimates to complete for both revenue and costs and provisions for loss making projects.

We enquired of management for a selection of major projects to gain an understanding of the progress of developments, any material contract variations and the projected financial performance of projects against feasibility reports.

We verified a sample of contracts with customers and assessed project costs to date, estimates of revenue and costs to complete. We also agreed a sample of costs incurred to invoice and/or payment, including testing whether they were allocated to the appropriate project. We also evaluated subsequent payments made after the reporting date to assess whether the costs were accrued in the correct reporting period.

We also evaluated the accounting principles for revenue recognition, which form the basis for the recognition of unbilled receivables. In addition, we evaluated the adequacy of the Company's disclosures regarding trade receivables and unbilled receivables on projects, the related risks such as credit risk and the aging of trade receivables as disclosed in note 12 of the consolidated financial statements.

We also inspected the governance around approval of project budgets and held discussions with management where significant variances against the approved budgets were noted.

In addition, we performed procedures to ensure that the revenue recognition criteria adopted by the Group is appropriate and is in line with Group's accounting policy.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL MARINE DREDGING COMPANY PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

Valuation of trade receivables and Unbilled receivables (including the provision for impairment)	***How our audit addressed the area of focus***
As at 31 December 2018, the gross trade receivables and the gross unbilled receivables on projects amounted to AED 325 million and AED 2,652 million respectively, out of which, AED 279 million and AED 1,465 million related to signed contracts and AED 1,232 million to unsigned/ verbal contracts. Such receivables are significant to the Group as these represent approximately 59% of the balance sheet total. Furthermore, the balance of trade and unbilled receivables aged more than 1 year is 56% of the trade receivables account. Hence, collectability of receivables is considered to be a key matter for the Group. As for the provision for impairment of trade and unbilled receivables from customers, it is considered to be a key matter of significance as it requires the application of judgement by management. This involves judgement as the expected credit losses must reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money. The Group's disclosures are included in Note 3 and Note 8 to the consolidated financial statements, which outlines the accounting policy for determining the provision for impairment. The Group early adopted IFRS 9, effective from 1 January 2017. In relation to the impairment of financial assets IFRS 9 requires an Expected Credit Loss model as opposed to an incurred credit loss model under IAS 39. As a result, a forward-looking expected loss impairment model was applied by the Group.	We performed detailed procedures on individually significant projects, such as, substantiating transactions with underlying documentation, including contracts and third party correspondence, to obtain evidence for the accuracy and collectability. We examined the Group's assessment of the customers' financial circumstances and ability to repay the debt and considered the customers' historical payment habits along with other macroeconomic information. We requested and assessed legal opinions in situations where the outcome of project results or the recoverability of (un)billed receivables was dependent on the outcome of legal proceedings or arbitration.
Going concern assessment	***How our audit addressed the area of focus***
The consolidated financial statements has been prepared on a going concern basis. Management's assessment of whether the Group will be able to continue meeting its working capital requirements and its project commitments were important for the going concern assumption and, as such, was a significant aspect of our audit. This assessment was largely based on the availability of sufficient funding through financing arrangement, significant advances to be received from new projects and the timely recovery of unbilled receivables.	We also evaluated the Group's capability to meet its current requirements, which are less than one year via existing access to unused credit facilities such as the revolving facilities and other facilities in place. We evaluated the assumptions and forecasts made by management in the 2019 cash flow projections. We have evaluated the assumptions made with respect to the recovery of unbilled receivables, project related expenditure, the operating results and the cash flows considered by management, in order to assess the Group's ability to continue meeting its payment obligations and its obligations under the financing arrangements in the year ahead.

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF

NATIONAL MARINE DREDGING COMPANY PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Other information
Other information consists of the information included in the Group's 2018 Annual Report and Board of Director's report, other than the consolidated financial statements and our auditors' report thereon. We obtained the Board of Directors' report, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2018 Annual Report after the date of our auditors' report. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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 auditors' 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.

Responsibilities of management and Board of Directors for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the applicable provisions of the Company's Articles of Association and the UAE Federal Law No. (2) of 2015, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors and audit committee are responsible for overseeing the Group's financial reporting process.

Report on the Audit of the Consolidated Financial Statements continued

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 ISAs, we exercise professional judgment 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 for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company 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 represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the 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.

We also provide Audit Committee and the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Audit of the Consolidated Financial Statements continued

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

From the matters communicated with Audit Committee and the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that:

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 and the Company's Articles of Association;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Directors' report is consistent with the books of account and records of the Company;

v) investments in shares and stocks are included in note 8 and 9 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2018;

vi) note 25 reflects the disclosures relating to related party transactions and the terms under which they were conducted; and

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2018, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2018; and

viii) note 21 reflects the social contributions recorded during the year.

Signed by
Raed Ahmad
Partner
Ernst & Young
Registration No. 811

31 March 2019
Abu Dhabi

National Marine Dredging Company PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Notes	*2018* *AED '000*	*2017* *AED '000*
ASSETS			
Non-current assets			
Property, plant and equipment	4	**1,052,584**	1,069,627
Goodwill and other intangible assets	6	**49,805**	50,601
Investment in a joint venture	7	**16,869**	-
Financial assets at fair value through other comprehensive income	8	**46,645**	58,429
Retentions receivable		**19,109**	53,822
Total non-current assets		**1,185,012**	1,232,479
Current assets			
Inventories	11	**238,640**	224,451
Deferred tax assets	10	**5,410**	-
Trade and other receivables	12	**3,122,843**	2,476,745
Financial assets at fair value through profit or loss	9	**26,000**	26,664
Cash and bank balances	13	**106,933**	183,412
		3,499,826	2,911,272
Non-current assets classified as held for sale	5	**56,553**	86,899
Total current assets		**3,556,379**	2,998,171
TOTAL ASSETS		**4,741,391**	4,230,650
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	**250,000**	250,000
Share premium	15	**341,500**	341,500
Reserves	16	**682,109**	695,062
Retained earnings		**2,105,332**	2,044,373
Proposed dividend		**55,000**	50,000
Total equity		**3,433,941**	3,380,935
Non-current liabilities			
Provision for employees' end of service benefits	17	**97,641**	91,438
Current liabilities			
Trade and other payables	18	**881,149**	626,691
Bank overdrafts	13	**328,660**	131,586
Total current liabilities		**1,209,809**	758,277
Total liabilities		**1,307,450**	849,715
TOTAL EQUITY AND LIABILITIES		**4,741,391**	4,230,650

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NATIONAL MARINE DREDGING CO.

Mohamed Thani Murshed Al Rumaithi	**Yasser Nasr Zaghloul**	**Sreemont Prasad Barua**
CHAIRMAN	CHIEF EXECUTIVE OFFICER	CHIEF FINANCIAL OFFICER

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2018

	Notes	2018 AED '000	2017 AED '000
Revenue from contracts with customers	19	**1,532,069**	1,418,110
Contract costs	20	**(1,303,190)**	(1,220,920)
GROSS PROFIT		**228,879**	197,190
Share of profit of a joint venture	7	**14,713**	-
General and administrative expenses	21	**(126,426)**	(98,122)
Foreign currency exchange loss		**(1,024)**	(3,740)
Fair value loss on financial assets at fair value through profit or loss	9	**(664)**	(4,467)
Finance costs	22	**(9,844)**	(2,400)
Finance income	22	**5,681**	1,263
Other income	23	**20,712**	11,408
Profit before tax		**132,027**	101,132
Income tax expense on foreign operations	10	**(11,068)**	-
PROFIT FOR THE YEAR		**120,959**	101,132
Basic and diluted earnings per share (in AED) attributable to equity holder of the Company	24	**0.48**	0.40

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	Notes	***2018*** ***AED '000***	*2017* *AED '000*
PROFIT FOR THE YEAR		**120,959**	101,132
Other comprehensive income (loss)			
Items that will not be reclassified to the consolidated statement of profit or loss in subsequent periods:			
Fair value loss on financial assets through other comprehensive income	8	**(11,784)**	(43,789)
Items that may be subsequently reclassified to the consolidated statement of profit or loss in subsequent periods:			
Exchange differences arising on translation of foreign operations		**(1,169)**	1,058
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(12,953)**	(42,731)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**108,006**	58,401

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

	Share capital AED '000	*Share premium AED '000*	*Reserves AED '000*	*Retained earnings AED '000*	*Proposed dividends AED '000*	*Total equity AED '000*
Balance at 1 January 2017	250,000	341,500	743,405	1,987,629	37,500	3,360,034
Profit for the year	-	-	-	101,132	-	101,132
Other comprehensive loss	-	-	(42,731)	-	-	(42,731)
Total comprehensive (loss) income for the period	-	-	(42,731)	101,132	-	58,401
Transfer from investment revaluation reserve to retained earnings on application on IFRS 9	-	-	(5,612)	5,612	-	-
Dividends paid (note 18.3)	-	-	-	-	(37,500)	(37,500)
Proposed dividend	-	-	-	(50,000)	50,000	-
Balance at 31 December 2017	250,000	341,500	695,062	2,044,373	50,000	3,380,935
Balance at 1 January 2018	250,000	341,500	695,062	2,044,373	50,000	3,380,935
Profit for the year	-	-	-	120,959	-	120,959
Other comprehensive loss	-	-	(12,953)	-	-	(12,953)
Total comprehensive (loss) income for the period	-	-	(12,953)	120,959	-	108,006
Dividends (note 18.3)	-	-	-	(5,000)	(50,000)	(55,000)
Proposed dividend	-	-	-	(55,000)	55,000	-
Balance at 31 December 2018	**250,000**	**341,500**	**682,109**	**2,105,332**	**55,000**	**3,433,941**

The attached notes 1 to 31 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	Notes	*2018* *AED '000*	*2017* *AED '000*
OPERATING ACTIVITIES			
Profit before tax		**132,027**	101,132
Adjustments for:			
Depreciation of property, plant and equipment	4	**154,044**	156,841
Amortisation of intangibles	6	**796**	796
Gain on disposal of property, plant and equipment		**(13,493)**	(3,111)
Impairment of assets held for sales	5	**1,968**	-
Gain on sale of financial assets through other comprehensive income	8	-	(4,329)
Fair value gain on financial assets at fair value through profit or loss	9	**664**	4,467
Share of profit of a joint venture	7	**(14,713)**	-
Dividend income	23	**(1,950)**	(1,406)
Allowance for expected credit losses charge/ (credit)		**90,408**	(21,062)
Other provisions	18.2	**17,300**	(4,941)
Finance costs, net	22	**4,163**	1,137
Provision for employees' end of service benefits	17	**9,691**	25,616
		380,905	255,140
Income tax paid		**-**	-
Interest received		**5,681**	1,263
Employees' end of service benefit paid		**(3,488)**	(14,460)
		383,098	241,943
Working capital changes:			
Change in inventories		**(14,189)**	3,220
Change in trade and other receivables		**(707,946)**	302,690
Change in trade and other payables		**232,556**	(312,766)
Net cash (used in) from operating activities		**(106,481)**	235,087
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(120,535)**	(195,638)
Investments in joint venture	7	**(2,156)**	-
Purchase of investments	8	-	(100,089)
Proceeds from disposal of investments	8,9	-	8,580
Proceeds from disposal of property, plant and equipment		**27,382**	3,739
Dividend received		**1,950**	1,406
Net cash used in investing activities		**(93,359)**	(282,002)
FINANCING ACTIVITIES			
Dividends paid	18.3	**(58,972)**	(38,801)
Interest paid		**(11,911)**	(2,400)
Net cash used in financing activities		**(70,883)**	(41,201)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(270,723)**	(88,116)
Cash and cash equivalents at 1 January		**50,165**	137,223
Foreign exchange translation adjustment		**(1,169)**	1,058
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	13	**(221,727)**	50,165

The attached notes 1 to 31 form part of these consolidated financial statements.

1 GENERAL INFORMATION

National Marine Dredging Company (the "Company") is a public shareholding company incorporated in the Emirate of Abu Dhabi. The Company was incorporated by Law No. (10) of 1979, as amended by Decree No. (3) and (9) of 1985 issued by His Highness Sheikh Khalifa Bin Zayed Al Nahyan, who was then the Deputy Ruler of the Emirate of Abu Dhabi. The registered address of the Company is P.O. Box 3649, Abu Dhabi, United Arab Emirates.

The Company is primarily engaged in the execution of dredging contracts and associated land reclamation works in the territorial waters of the UAE, principally under the directives of the Government of Abu Dhabi (the "Government"), a major shareholder. The Group also operates in other jurisdictions in the region including Bahrain, Egypt, Saudi Arabia and India through its subsidiaries, branches and joint operations.

The consolidated financial statements of the Group, as at and for the year ended 31 December 2018 include the financial performance and position of the Company and its below mentioned subsidiaries, joint venture and branches (together referred to as the "Group").

Name	*Country of incorporation*	*Percentage holding*		*Principal activities*
		2018	*2017*	
Subsidiaries				
Emarat Europe Fast Building Technology System Factory L.L.C. (Emarat Europe)	UAE	**100%**	100%	Manufacturing and supply of precast concrete
National Marine Dredging Company (Industrial)	UAE	**100%**	100%	Manufacturing of steel pipes and steel pipe fittings and holding 1% investment in the Group's subsidiaries to comply with local regulations
ADEC Engineering Consultancy L.L.C.	UAE	**100%**	100%	Consultancy services in the fields of civil, architectural, drilling and marine engineering along with related laboratory services
Abu Dhabi Marine Dredging Co S.P.C.	Bahrain	**100%**	100%	Offshore reclamation contracts, services for fixing water installation for marine facilities and excavation contracts
National Marine and Infrastructure India Private Limited	India	**100%**	100%	Dredging and associated land reclamation works, civil engineering, port contracting and marine construction
Branches				
National Marine Dredging Company	Saudi Arabia	Branch		Dredging and associated land reclamation works, civil engineering, port contracting and marine construction
National Marine Dredging Company	Egypt	Branch		Dredging and associated land reclamation works, civil engineering, port contracting and marine construction
National Marine Dredging Company	Maldives	Branch		Dredging and associated land reclamation works, civil engineering, port contracting and marine construction
Joint Venture				
The Challenge Egyptian Emirates Marine Dredging Company	Egypt	**49%**	-	Dredging and associated land reclamation works, civil engineering, port contracting and marine construction

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements are presented in UAE Dirham (AED), which is the functional currency of the primary economic environment in which the Company operates. Each entity in the Group determines its own functional currency. All financial information presented in AED has been rounded to the nearest thousand except as otherwise stated.

The consolidated financial statements have been prepared on a historical cost basis, except for investments in financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, that have been measured at fair value.

Unbilled receivables represent 55% (2017: 42%) of the total assets of the Group and 73% (2017: 59%) of the total current assets of the Group as at 31 December 2018. The consolidated financial statements have been prepared under the going concern assumption considering the Group is expecting the recovery of the unbilled receivables and has secured a financing facility to ensure short term and long term liquidity to meet its working capital requirements and project commitments. Management believes that all unbilled receivables are recoverable within twelve months from the reporting date and accordingly these balances are classified under current assets.

2.2 Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. When the Group has less than a majority of the voting, or similar, rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES continued

2.2 Basis of consolidation continued

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

2.3 New And Amended International Financial Reporting Standards (IFRS) and Interpretations

a) <u>Effective and adopted in the current year</u>

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2018 which did not have a material impact on the consolidated financial statements of the Group:

- IFRS 15 Revenue from Contracts with Customers;
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations;
- Amendments to IAS 40 Transfers of Investment Property;
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions;
- Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice; and
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters.

The Group applied IFRS 15 for the first time.. The Group has not early adopted any standards, interpretations or amendments during the year that have been issued but are not yet effective.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Group adopted IFRS 15 using the modified retrospective approach. The application of this new standard had no material impact on the current and prior year consolidated financial statements.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES continued

2.3 New And Amended International Financial Reporting Standards (IFRS) and Interpretations continued

b) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

	Effective for annual periods beginning on or after
Standards, interpretation and amendments	
• IFRS 16 Leases	1 January 2019
• IFRS 17, Insurance Contracts: IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005	1 January 2021
• Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
• Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	-
• Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
• Amendments to IAS 28: Long term investment in associates and joint ventures	1 January 2019
Annual Improvements 2015-2017 Cycle	
• IFRS 3 Business Combinations - Previously held interests in a joint operation	1 January 2019
• IFRS 11 Joint Arrangements - Previously held interests in a joint operation	1 January 2019
• IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity	1 January 2019
• IAS 23 Borrowing Costs - Borrowing costs eligible for capitalisation	1 January 2019

Management anticipates that the adoption of the standards, interpretations and amendments issued but not yet effective will have no material impact on the consolidated financial statements of the Group. The Group plans to adopt IFRS 16 on the required effective date. The Group is currently in the process of assessing the potential impact of IFRS 16 on its consolidated financial statements.

2.4 Critical accounting judgments and key sources of estimation uncertainty

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES continued

2.4 Critical accounting judgments and key sources of estimation uncertainty continued

Judgements continued

Determining whether unsigned (verbal) agreements meet the definition of contract under IFRS 15:
Certain projects for the Government of Abu Dhabi, its departments or related parties, and for customers in Egypt, are executed on the basis of verbally agreed terms (including estimates of total project cost and timelines) in line with the Group's historical business practice. Management has determined such unsigned verbal agreements meet the definition of a 'contract with customer' under IFRS 15 on the basis of external legal opinion. Based on legal opinion, management considers such unsigned verbal agreements to meet the definition of a 'contract with customer' under IFRS 15 since the Group and the customer agree upon the essential elements of a contract and any other lawful conditions, though matters of detail are left to be agreed upon at a later date, and the contract is deemed to be made and binding even in the absence of agreement on these matter of detail. In addition, under Article 132 of the UAE Civil code and under the Supreme Administrative Court Ruling in Case no. 134 of 42 Judicial Year dated 22 July 1997 a contract can be oral or written, a contract can also result from acts which demonstrate the presence of mutual consent between the relevant parties.

Joint arrangement
For assessing joint control, the Group has considered the contractual agreement of sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. For the purpose of assessing whether a joint arrangement is a joint venture or joint operation, the Group has considered whether it has joint control on the rights to the net assets of the arrangements, in which case these are treated as joint ventures, or rights to the assets and obligations for the liabilities relating to the arrangement, in which case these are treated as joint operations.

The Group has concluded that the incorporation of a joint stock company *"The Challenge Egyptian Emirates Marine Dredging Company"*, to execute dredging and related works, and other engineering consulting services inside and outside the Arab Republic of Egypt, is a joint venture because each party has equal representation in the board and unanimous consent of the Board of Directors is required for any resolution to be passed and the Group has rights to the net assets of the joint arrangement established by contractual agreement.

Assets classified as held for sale
The Group's fleet plan include certain dredgers and vessels earmarked for sale where a number of assets are under negotiation with potential buyers are in progress. During the year, the Group has reactivated certain dredgers and marine equipment to meet growing operational requirements, and certain assets were sold during the year. Certain remaining assets are still not sold. Management has continued to classify these assets as held for sale based on the fact that Group is still committed to the plan, the assets are available for immediate sale in its present condition and an active programme to locate a buyer and complete the plan have been initiated.

Estimates and assumptions
The key estimates and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES continued

2.4 Critical accounting judgments and key sources of estimation uncertainty continued

Estimates and assumptions continued

Contract revenue

Revenue from construction contracts is recognised in statement of profit or loss when the outcome of the contract can be reliably estimated. The measurement of contract revenue is affected by a variety of uncertainties (including cost estimation and surveys of work performed) that depend on the outcome of future events.

As stated in note 3 to the consolidated financial statements, revenue is recognised in the statement of comprehensive income on the basis of stage of completion of the contracts. The stage of completion can be measured by various methods. The management uses one of the following methods that measures reliably the actual work performed on the contract, depending on the nature of the contract:

- surveys of work performed; or
- the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

The above estimates often need to be revised as events occur and uncertainties are resolved. Therefore, the amount of contract revenue recognised may increase or decrease from period to period.

Contract variations and claims

Contract variations are recognised as revenues only to the extent that it is probable that they will result in revenue which can be reliably measured. This requires the exercise of estimating the value of variations based on management's prior experience, application of contract terms and the relationship with the customers.

Contract claims are recognised as revenue only when management believes that an advanced stage of negotiation has been reached and the revenue can be estimated with reasonable certainty. Management reviews the judgement related to these contract claims periodically and adjustments are made in the future periods, if assessments indicate that such adjustments are appropriate.

Impairment losses on receivables

In measuring the expected credit loss allowance for financial assets measured at amortised cost, management uses the Expected Credit Loss (ECL) model and assumptions about future economic conditions and credit behavior such as likelihood of customer defaulting. Management consider the following judgements and estimates:

- Development of ECL model, including formula and choice of inputs;
- Determining the criteria if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessments;
- The segmentation of financial assets when the ECL is assessed on a collective basis; and
- Determination of associations between macroeconomic scenarios and, economic inputs, and their effect on probability of default (PDs), exposure at default (EADs) and loss given default (LGD); and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into ECL models.

The Group recognises lifetime expected credit loss (ECL) for trade and unbilled receivables using the simplified approach (note 12). Allowance for impairment losses on trade receivables is AED 130,728 thousand (2017: AED 48,700 thousand).

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES continued

2.4 Critical accounting judgments and key sources of estimation uncertainty continued

Estimates and assumptions continued

Unbilled receivables

Unbilled receivables represent amounts relating to work performed which is yet to be billed to customers. Unbilled receivables are measured by applying the minimum recoverable rates expected, to the actual quantities dredged or the related works performed. Management believes that all unbilled receivables are collectible within twelve months from the reporting date and accordingly the balance is classified under current assets. Significant judgments are involved in management's assessment of the amounts of revenue and unbilled receivables recognised and the recoverability of these amounts. These judgments are reviewed as events occur and accordingly any changes thereon may have an impact on the amount of revenue recognised and unbilled receivables in these consolidated financial statements.

The Group receives lump sum payments from certain clients in settlement of outstanding invoices and as advances for several projects. The allocation of proceeds against invoices and unbilled receivables is determined based on management's judgment.

Allowance for expected credit losses on unbilled receivables is AED 49,245 thousand (2017: AED 40,865 thousand).

Useful life of property, plant and equipment and intangible assets

Management assigns useful lives and residual values to the items of property, plant and equipment and intangibles based on the intended use of the assets and the expected economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from the initial estimates. Management has reviewed the residual values and useful lives of the major items of property, plant and equipment and intangibles and determined that no adjustment is necessary.

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and other limits on the use of the asset. The revision is based on the technical assessment carried by the Group's engineers. Management determined that the current year expectations do not differ from previous year estimates based on its review.

Allowance for slow moving and obsolete inventory

The Group reviews the underlying costs, ageing and movements of its inventories to assess losses due to any deterioration in the market and obsolescence on a regular basis. In determining whether an allowance should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is any future market for the product and the net realisable value for such product. Accordingly, management has determined that allowance for slow-moving and obsolete inventories at 31 December 2018 is AED 30,576 thousand (2017: AED 30,576 thousand).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating unit to which the goodwill has been allocated. The value-in-use calculation for goodwill requires the Group to calculate the net present value of the future cash flows for which certain assumptions are required, including management's expectations of:

- long term growth rates in cash flows;
- timing and quantum of future capital expenditure; and
- the selection of discount rates to reflect the risks involved.

The key assumptions used and sensitivities are detailed on Note 6 to the consolidated financial statements. A change in the key assumptions or forecasts might result in an impairment of goodwill.

2 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES continued

2.4 Critical accounting judgments and key sources of estimation uncertainty continued

Estimates and assumptions continued

Impairment of goodwill continued

The carrying amount of Precast concrete division (CGU) is AED 104,060 thousands that includes goodwill, intangible assets, fair value adjustments on property, plant and equipment and net assets amounted to AED 36,276 thousand, AED 13,529 thousand, AED 10,731 thousand and AED 43,524 thousand, respectively. Based on the detailed impairment assessment performed by management, there were no impairment losses recognized on goodwill and intangible assets as at 31 December 2018 and 2017.

Impairment of property, plant and equipment and other intangible assets

The Group assesses for indicators of impairment of other intangible assets at each reporting period. In determining whether impairment losses should be recorded, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Uncertain tax positions

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long term nature and complexity of existing contractual agreements, differences may arise between the actual results and adjustments to tax income and expense already recorded. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Assessing the recoverability of deferred income tax assets requires the Group to make significant assumptions related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted. As of 31 December 2018, the Group has recognised a balance of AED 5,410 thousand as a deferred tax asset. The uncertain tax positions, for example tax disputes, have been accounted for by the applying the most likely amount. The most likely amount is the single most likely amount in a range of realistically possible options.

Fair value of assets classified as held for sale

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Fair value less cost to sell for these assets is generally derived from valuation assessment carried out by third party and/or prices agreed with potential buyers less cost. For the assessment carried out by third party or by the management, a degree of judgement is required in establishing fair values. The judgements include consideration of market demand for these assets and nature of the assets. Changes in assumptions about these factors could affect the reported fair value of the assets classified as held for sale.

Legal claims and contingencies

When assessing the possible outcomes of legal claims and contingencies, the Group rely on the opinions of the legal counsel. The opinions of the Group's legal counsel are based on their professional judgment and take into consideration the current stage of proceedings and legal experience accumulated with respect to various matters. As the results of the claims may ultimately be determined by courts or otherwise settled, they may be different from such estimates.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in consolidated statement of profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

A contingent liability recognized in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognized in accordance with the requirements for provisions in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or the amount initially recognized less (when appropriate) cumulative amoritsation recognized in accordance with the requirements for revenue recognition.

Investments in joint venture
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint venture are accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Investments in joint venture continued
The consolidated statement of profit or loss reflects the Group's share of the results of operations of the joint venture. Any change in other comprehensive income of the joint venture is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognises the loss as 'Share of results of joint ventures' in the consolidated statement of profit or loss.

Revenue from contracts with customers
IFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to a customer. The five steps are:

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

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

a) The Company's performance does not create an asset with an alternate use to the Company and the Company has as an enforceable right to payment for performance completed to date.
b) The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
c) The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. 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 above. 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.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Revenue from contracts with customers continued

Contract revenue

Contract revenue comprises revenue from execution of contracts relating to dredging activities and associated land reclamation works. Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, and incentive payments, to the extent that it is probable that they will result in revenue, they can be measured reliably and will be approved by the customers. Claims are recognised when negotiations have reached an advanced stage such that it is probable that the customer will accept the claim and the amount can be measured reliably. Contract revenue also includes revenue from securing the award of significant projects for dredging and reclamation works. These amounts are recognised when all significant service obligations arising from the related services have been discharged.

If the outcome of a contract can be estimated reliably, contract revenue is recognised in statement of profit or loss in proportion to the stage of completion of the contract. Based on the method that most reliably measures the actual work performed on each contract, the stage of completion is determined either on the basis of surveys of work performed or in the proportion of the contract costs incurred for work performed to date as compared to the estimated total contract costs. Losses on contracts are assessed on an individual contract basis and a provision is recorded for the full amount of any anticipated losses, including losses relating to future work on a contract, in the period in which the loss is first foreseen.

In case of contracts, where revenue is recognised on the basis of surveys of work performed, revenue is measured by applying contractual rates, or the minimum recoverable rates expected, to the actual quantities dredged or the related works performed. Revenue is adjusted subsequently based on final customer approval if rates approved are different from those originally used.

When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs should be recognised as an expense in the period in which they are incurred.

Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Cost to obtain and costs to fulfill a contract

The Group applied the practical expedient to immediately expense contract acquisition costs when the asset that would have resulted from capitalising such costs would have been amortised within one year or less. The Group does not incur any costs to obtain a contract and costs to fulfil a contract that are eligible for capitalisation.

Finance income

Finance income comprises interest income on bank deposits. Interest income is recognised as it accrues in statement of profit or loss.

Finance costs

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in statement of profit or loss using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Other income

Sale of scrap

Income from the sale of scrap is recognized at the time customers take delivery and risk and rewards are transferred to customers as per agreed terms and conditions.

Dividend income

Dividend income is recognised in statement of profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Foreign currencies

Transactions in foreign currencies are translated to AED at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to AED at the exchange rate at that date.

The foreign currency gain or loss on monetary items is the difference between the amortised cost in AED at the beginning of the year, adjusted for effective interest and payments during the period and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are retranslated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to AED at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in statement of profit or loss, except for the exchange differences arising on the retranslation of equity instruments at fair value through OCI and qualifying cash flow hedges to the extent the hedge is effective, which are recognised in other comprehensive income. Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into AED using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign currency translation reserves.

Taxation

Income tax (expense) / benefit comprises current and deferred tax. Current and deferred taxes are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

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

The Group has determined that interest and penalties related to income taxes do not meet the definition of income taxes, and therefore accounted for these under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Taxation continued

Deferred tax continued

In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, unused tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which the temporary difference 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.

Value added tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except:

- When VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of VAT included

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are stated at cost, less accumulated depreciation and impairment losses, if any.

Cost includes expenditures that are directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials, direct labor and any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Cost also may include transfer from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency for purchase of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Vessel overhaul and dry-docking costs are capitalised as a separate component of dredgers when incurred. The costs of day to day servicing of property, plant and equipment are recognised in statement of profit or loss as incurred

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Property, plant and equipment continued

Depreciation

Depreciation is recognised in statement of profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Vessel overhaul and dry docking costs are depreciated over the period up to next dry-docking, which is generally four years. The estimated useful lives for other items of property plant and equipment for the current and comparative years are as follows:

	Years
Building and base facilities	25
Dredgers	5 - 25
Support vessels, boosters and pipelines	1 -10
Plant, machinery and motor vehicles	2 - 15
Office equipment and furniture	3 - 5

Depreciation methods, useful lives and residual values are reviewed at each financial year end, with the effect of any changes in estimate accounted for on a prospective basis.

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 completed and ready for use.

Capital work in progress

The Group capitalises all costs relating to the construction of tangible fixed assets as capital work-in-progress, up to the date of completion of the asset. Such costs are transferred from capital work-in-progress to the appropriate asset category upon completion, and are depreciated over their estimated useful economic lives from the date of such completion.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Insurance claim proceeds, if any, against an insured item of property, plant and equipment are recognised in "other income" in profit or loss.

Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Amortization is recognised in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets, from the date that they are available for use. Intangible assets includes fair value of operating lease rights and customers' order backlog which principally relates to the acquisition of a subsidiary in 2011. The estimated useful life of these assets is 24 years.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end date, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Assets classified as held for sale
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a complete sale within one year from the date of classification.

An extension of the period required to complete a sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Inventories
Inventories comprise stores and consumable spares and are measured at the lower of cost and net realisable value. The costs of inventories are based on the weighted average method, and include 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 selling expenses.

Provision for slow moving and obsolete inventories is established based on expected usage as assessed by management.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that asset is (or those assets are) explicitly specified in an arrangement.

A lease is classified at inception as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between 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 recognised in finance costs in the consolidated statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Financial instruments
Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets
Initial recognition and measurement
Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

a) Financial assets at amortised cost (debt instruments, cash and cash equivalents and trade receivables)
b) Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
c) Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
d) Financial assets at fair value through profit or loss

The Group has the following financial assets:

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Financial assets continued
Cash and cash equivalents
Cash and cash equivalents which include cash on hand, cash at banks, bank overdrafts and deposits held at call with banks with original maturities of three months or less, are classified as financial assets at amortised cost.

Financial assets at amortised cost
The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

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

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

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

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes listed equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on listed equity investments are also recognised as other income in the statement of profit or loss when the right of payment has been established.

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses on financial assets measured at amortised cost, lease receivables, trade receivables, as well as on loan commitments and financial guarantee contracts. No impairment loss is recognised for investments in equity instruments. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognises lifetime ECL for trade receivables, using the simplified approach. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Financial assets continued
Impairment of financial assets continued
For all other financial instruments, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12 months ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition instead of on evidence of a financial asset being credit-impaired at the end of the reporting period or an actual default occurring.

i) Significant increase in credit risk
In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the end of the reporting period with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if i) the financial instrument has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

ii) Definition of Default
The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are highly doubtful of collection, unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate:

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

iii) Credit – impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued
Financial assets continued
iv) Measurement and recognition of expected credit losses
The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

Where lifetime ECL is measured on a collective basis to cater for cases where evidence of significant increases in credit risk at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognises an impairment gain or loss in the consolidated statement of profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset.

Financial liabilities
Trade and other payables are classified as 'financial liabilities' and are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short term liabilities when the recognition of interest is immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

Fair value of financial instruments
The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs.

For financial instruments not traded in an active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis or other valuation models.

Provision for staff terminal benefits
The Group provides end of service benefits to its employees. The entitlement to these benefits is based on the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Monthly pension contributions are made in respect of UAE National employees, who are covered by the Law No. 2 of 2000. The pension fund is administered by the Government of Abu Dhabi, Finance Department, represented by the Abu Dhabi Retirement Pensions and Benefits Fund.

Dividend
Dividend is recognised as a liability in the period in which the dividends are approved by the Company's shareholders and are recognised as distributions within equity.

Provisions
Provisions are recognised if, as a result of past events, 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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the 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.

The provisions are reviewed and adjusted at each reporting date, and if outflow is no longer probable, the provision is reversed to income.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Contingent liabilities
Unless the possibility of any outflow in settlement is remote, the Group discloses each class of contingent liability at the end of the reporting period on brief description of the nature of the contingent liability. Where practicable, the Group discloses an estimate of its financial effect; an indication of the uncertainties relating to the amount or timing of any outflow; and the possibility of any reimbursement.

Contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the consolidated financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Segment information
The Group's operating segments information is in accordance with IFRS 8 Operating Segments. IFRS 8 requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the Group's chief operating decision maker and used to allocate resources to the segments and to assess their performance.

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle,
- Held primarily for the purpose of trading,
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

Fair value measurement
The Group measures financial instruments such as financial assets at fair value through profit or loss at each reporting date.

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

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

Fair value measurement continued
The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in note 28.

4 PROPERTY, PLANT AND EQUIPMENT

	Building and base facilities AED	*Dredgers AED*	*Support vessels, boosters and pipelines AED*	*Plant, machinery and motor vehicles AED*	*Office equipment and furniture AED*	*Capital work in progress AED*	*Total AED*
2018							
Cost:							
At 1 January 2018	182,945	1,066,557	1,249,278	489,691	65,168	222,276	3,275,915
Additions	321	14,949	27,157	9,758	7,649	62,778	122,612
Transfers	-	255,774	-	3,137	-	(258,911)	-
Disposal	(2,903)	(828)	(51,813)	(142,963)	(2,718)	-	(201,225)
Assets reclassified (note 5)	-	63,468	-	-	-	-	63,468
Exchange difference	(41)	-	-	(7)	15	-	(33)
At 31 December 2018	**180,322**	**1,399,920**	**1,224,622**	**359,616**	**70,114**	**26,143**	**3,260,737**
Accumulated depreciation:							
1 January 2018	90,863	855,987	794,157	413,118	52,163	-	2,206,288
Charge for the year	9,185	60,239	52,501	26,126	5,993		154,044
Disposal	(1,825)	(760)	(47,590)	(134,759)	(2,402)	-	(187,336)
Assets reclassified (note 5)	-	35,153	-	-	-	-	35,153
Exchange difference	(6)	-	(280)	280	10	-	4
At 31 December 2018	**98,217**	**950,619**	**798,788**	**304,765**	**55,764**	-	**2,208,153**
Net carrying amount							
At 31 December 2018	**82,105**	**449,301**	**425,834**	**54,851**	**14,350**	**26,143**	**1,052,584**

Cost of Arzana dredger was transferred during the year from capital work in progress and capitalised under dredgers. Capital work in progress relates to dredgers and related equipment under construction as at 31 December 2018 and 2017.

4 PROPERTY, PLANT AND EQUIPMENT continued

	Building and base facilities AED	*Dredgers AED*	*Support vessels, boosters and pipelines AED*	*Plant, machinery and motor vehicles AED*	*Office equipment and furniture AED*	*Capital work in progress AED*	*Total AED*
2017							
Cost:							
At 1 January 2017	176,600	1,217,114	1,248,294	507,529	57,936	77,916	3,285,389
Additions	6,325	1,372	119	3,198	3,085	181,539	195,638
Transfers	30	(60,723)	91,279	1,033	5,560	(37,179)	-
Disposal	-	(2,012)	(3,236)	(15,616)	(1,265)	-	(22,129)
Assets reclassified as held for sale (note 5)	(10)	(89,194)	(87,178)	(6,453)	(148)	-	(182,983)
At 31 December 2017	182,945	1,066,557	1,249,278	489,691	65,168	222,276	3,275,915
Accumulated depreciation:							
1 January 2017	81,769	901,695	745,660	394,231	43,677	-	2,167,032
Charge for the year	8,186	52,384	52,241	38,703	5,327	-	156,841
Transfers	916	(48,711)	45,584	(2,039)	4,250	-	-
Disposal	-	(2,012)	(3,678)	(14,806)	(1,005)	-	(21,501)
Assets reclassified as held for sale (note 5)	(8)	(47,369)	(45,650)	(2,971)	(86)	-	(96,084)
At 31 December 2017	90,863	855,987	794,157	413,118	52,163	-	2,206,288
Net carrying amount							
At 31 December 2017	92,082	210,570	455,121	76,573	13,005	222,276	1,069,627

5 NON CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	2018 *AED'000*	*2017* *AED'000*
As at 1 January	**86,899**	-
Transfers from property, plant and equipment	-	86,899
Transfers to property, plant and equipment (note 4)	**(28,315)**	-
Disposals	**(63)**	-
Fair value loss for the year	**(1,968)**	-
At 31 December	**56,553**	86,899

As at 31 December 2018, the Group transferred back certain dredgers and marine equipment to property, plant and equipment with a net book value of AED 28,315 thousand (2017: AED Nil), to meet growing operational requirements.

For remaining assets, the Group is locating buyers willing to buy at market price. Group is still committed to the plan, the assets are available for immediate sale in its present condition and an active programme to locate a buyer and complete the plan have been initiated.

6 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill *AED'000*	*Other intangible assets* *AED'000*	*Total* *AED'000*
Cost			
At 1 January 2018	**36,276**	**19,313**	**55,589**
Amortization			
1 January 2018	-	**4,988**	**4,988**
Charge for the year	-	**796**	**796**
	-	**5,784**	**5,784**
At 31 December 2018	**36,276**	**13,529**	**49,805**
At 31 December 2017	36,276	14,325	50,601

Other intangible assets include fair value of operating lease rights amounting to AED 19,101 thousand and customers' order backlog amounting to AED 212 thousand, which principally relate to the acquisition of a subsidiary in 2011. During the year, amortisation on these assets of AED 796 thousand (2017: AED 796 thousand) was charged to general and administrative expenses in the consolidated statement of profit or loss.

6 GOODWILL AND OTHER INTANGIBLE ASSETS continued

Impairment testing for cash generating units containing goodwill
For the purpose of impairment testing, goodwill is allocated to the precast concrete division. The recoverable amount of the precast concrete CGU (Emarat Europe) was based on its value in use, determined by discounting the future pre-tax three-year cash flows to be generated from the continuing use of the CGU. The carrying amount of the CGU was determined to be lower than its recoverable amount, therefore no impairment loss was recognised.

Key assumptions used in the calculation of value in use were discount rate, terminal value growth rate and the EBIDTA growth rate. These assumptions were as follows:

	2018	*2017*
Discount rate (pre-tax)	**10.4%**	10%
Terminal value growth rate	**4.1%**	3%
Budgeted EBITDA growth rate	**5%**	5%

The discount rate was based on the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market and in the same currency as the cash flows, adjusted for a risk premium to reflect both the increase risk of investing in equities generally and the systemic risk of the specific CGU.

7 INVESTMENT IN A JOINT VENTURE

	2018 AED'000	*2017 AED'000*
Initial investment	**2,156**	-
Share of profit for the year	**14,713**	-
At 31 December	**16,869**	-

In November 2017, the Company entered into a Memorandum of Agreement with Canal Harbour and Great Projects Company, an affiliated company of the Suez Canal Authority in Egypt, for the incorporation of a joint stock company (the "Joint Venture") to execute dredging and related works, and other engineering consulting services inside and outside the Arab Republic of Egypt. During the year, the legal process for incorporating the joint venture in the Suez Canal Economic Zone in the name of "The Challenge Egyptian Emirates Marine Dredging Company" has been completed with the shareholding of the Group at 49% and equal representation in Board of Directors of the Joint Venture. The Joint Venture is formed for an initial period of five years with automatic renewal upon approval of both parties.

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 AED'000	*2017 AED'000*
At 1 January	**58,429**	-
Reclassification	-	6,380
Purchase	-	100,089
Disposal	-	(4,251)
Fair value adjustments	**(11,784)**	(43,789)
At 31 December	**46,645**	58,429

8 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME continued

The financial assets at fair value through OCI at the end of reporting date are detailed below.

	2018 ***AED'000***	*2017* *AED'000*
Investment in quoted UAE equity securities	**46,645**	58,429

The fair value of the quoted UAE equity securities is based in quoted market prices at the end of the year as per Level 1 valuation.

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 ***AED'000***	*2017* *AED'000*
At 1 January	**26,664**	28,713
Change in fair value	**(664)**	(4,467)
Reclassification	**-**	2,418
At 31 December	**26,000**	26,664

The financial assets at fair value through profit or loss (FVTPL) at the end of reporting date are detailed below.

	2018 ***AED'000***	*2017* *AED'000*
Investment in quoted UAE equity securities	**25,057**	25,721
Investment in unquoted UAE equity securities	**943**	943
At 31 December	**26,000**	26,664

The fair value of the quoted UAE equity securities is based in quoted market prices at the end of the year as per Level 1 valuation. The fair value of unquoted non-UAE securities has been arrived at based on the fair market value as per Level 3 valuation.

10 TAXATION

	2018 *AED'000*	*2017* *AED'000*
The components of foreign income tax credit/(expense) are:		
Current tax:		
Current tax on profits for the year	**11,068**	-
Adjustments in respect of previous years	**-**	-
Total current tax	**11,068**	-
Deferred tax:		
Origination and reversal of temporary differences	**5,410**	-
Total deferred tax	**5,410**	-
Income tax credit	**16,478**	-
The income tax credit for the year can be reconciled to the accounting profit as follows:		
Profit before income tax	**73,236**	-
Tax calculated at domestic tax rates applicable to profits in respective tax jurisdictions	**22.50%**	-
Income tax credit	**16,478**	-

Income tax credit

The tax rates used for the reconciliation above are rates applicable to the profits in the respective foreign tax jurisdictions, mainly in Egypt.

The movement of the deferred tax assets is as follows:

	2018 *AED'000*	*2017* *AED'000*
Deferred tax assets		
At 1 January	-	-
Credited to profit or loss during the year	-	-
Other temporary and translation differences	5,410	-
At 31 December	5,410	-

Deferred tax mainly arise from temporary differences relating to tax benefits on expenses incurred in Egypt. The Group has recognized a deferred tax asset to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

11 INVENTORIES

	2018 AED'000	2017 AED'000
Spare parts and consumable stores	**262,764**	249,827
Raw materials	**1,337**	1,577
Finished goods	**5,115**	3,623
Less: allowance for slow moving and obsolete inventories	**(30,576)**	(30,576)
	238,640	224,451

As at 31 December 2018, an amount of AED 30,576 thousand (2017: AED 30,576) is recognised as an allowance for slow moving and obsolete inventories.

12 TRADE AND OTHER RECEIVABLES

	2018 AED'000	2017 AED'000
Trade receivables, net of allowance for expected credit loss	**206,067**	542,210
Retention receivables – current portion	**14,312**	42,698
Unbilled receivables, net of allowance for expected credit loss	**2,602,448**	1,756,925
Deposits and prepayments	**15,080**	26,894
Other receivables	**284,936**	108,018
	3,122,843	2,476,745

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

During the year, the Group terminated its operations under a contract with a customer due to an ongoing dispute in relation to the scope of work and the Group's performance obligations under the contract. The Group had previously issued a performance guarantee in relation to the contract and has certain outstanding receivable balances from the customer in relation to work performed under the contract. Final settlement with the customer for the recovery of the outstanding balances is at advanced stages.

Unbilled receivables, net of allowance for expected credit loss, are analysed as follows:

	2018 AED'000	2017 AED'000
Unsigned contracts		
- Government of Abu Dhabi and its related entities	**975,278**	803,024
- Joint venture	**12,578**	-
	987,856	803,024
Signed contracts		
- Government of Abu Dhabi and its related entities	**1,057,218**	890,443
- Joint venture	**509,089**	-
- Other entities	**48,285**	63,458
	1,614,592	953,901
	2,602,448	1,756,925

12 TRADE AND OTHER RECEIVABLES continued

Unbilled receivables include AED 769,313 thousand (2017: AED 627,708 thousand) and AED 904,247 thousand (2017: AED 780,183 thousand), outstanding for a period exceeding one year, from unsigned and signed contracts respectively.

Unbilled receivables include AED 218,165 thousand (2017: 175,077) and AED 851,328 (2017: 148,237) thousand recognised as revenue during the year from unsigned and signed contracts respectively. Management has determined that these receivables are fully recoverable on the basis that these are approved via letter of awards and considering that there are not long outstanding.

Unbilled receivables include an amount of AED 600,000 thousand (AED 2017: AED 600,000 thousand) recognized on the basis of claims submitted to a customer in prior periods. The final amount of the claims is still under negotiation and is subject to a review by a consultant, the finalization of which could have a significant impact on the amount of receivables recognized. Our conclusion is not qualified in respect of this matter. While the final amount of the claims is still under negotiation and is subject to a review by the customer, management confirms that the final amount expected to be realized upon settlement of the claim will be in excess of the amounts of receivables recognized in the books.

Allowance for expected credit loss
The Group recognises lifetime expected credit loss (ECL) for trade and unbilled receivables using the simplified approach. To determine the expected credit losses all debtors are classified into four categories:

- Category I – billed receivables and unbilled receivables from government of Abu Dhabi and related companies;
- Category II – private companies with low credit risk;
- Category III – private companies with high credit risk; and
- Category IV – debtors at default.

These are adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money, where appropriate.

Trade and retention receivables as at 31 December 2018

	Categories				
	I	*II*	*III*	*IV*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Expected credit loss rate	**0 to 1%**	**1 to 20%**	**20 to 99%**	**100%**	
Estimated total gross carrying amount	**139,760**	**93,375**	**93,160**	**43,921**	**370,216**
Lifetime expected credit loss	**(418)**	**(1,868)**	**(84,521)**	**(43,921)**	**(130,728)**
Net trade and retention receivables	**139,342**	**91,507**	**8,639**	**-**	**239,488**

Trade and retention receivables as at 31 December 2017

	Categories				
	I	*II*	*III*	*IV*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Expected credit loss rate	0 to 1%	1 to 20%	20 to 99%	100%	
Estimated total gross carrying amount	581,258	68,558	116	37,498	687,430
Lifetime expected credit loss	(1,743)	(9,428)	(31)	(37,498)	(48,700)
Net trade and retention receivables	579,515	59,130	85	-	638,730

12 TRADE AND OTHER RECEIVABLES continued

Unbilled receivables as at 31 December 2018

	Categories				
	I	*II*	*III*	*IV*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Expected credit loss rate	**0 to 1%**	**1 to 20%**	**20 to 99%**	**100%**	
Estimated total gross carrying amount	**2,598,188**	**9,024**	**17,484**	**26,997**	**2,651,693**
Lifetime expected credit loss	**(7,791)**	**(180)**	**(14,277)**	**(26,997)**	**(49,245)**
Net unbilled receivables	**2,590,397**	**8,844**	**3,207**	**-**	**2,602,448**

Unbilled receivables as at 31 December 2017

	Categories				
	I	*II*	*III*	*IV*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Expected credit loss rate	0 to 1%	1 to 20%	20 to 99%	100%	
Estimated total gross carrying amount	1,741,210	24,317	5,621	26,642	1,797,790
Lifetime expected credit loss	(6,965)	(4,863)	(2,395)	(26,642)	(40,865)
Net unbilled receivables	1,734,245	19,454	3,226	-	1,756,925

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Trade receivables are considered past due once they have passed their contracted due date. Management has not recognised an expected credit loss in respect of delays in recovery of receivables expected to be recovered in full in the future as these are expected to be recovered these are expected to recovered in short term and therefore no discounting adjustment is required.

Movement in lifetime Expected Credit Losses on trade receivables is as follows:

	2018	*2017*
	AED'000	*AED'000*
At 1 January	**48,700**	49,449
Charge during the year	**90,301**	4,601
Reversal	**(8,273)**	(5,350)
At 31 December	**130,728**	48,700

Movement in lifetime Expected Credit Losses on unbilled receivables is as follows:

	2018	*2017*
	AED'000	*AED'000*
At 1 January	**40,865**	61,178
Charge during the year	**14,765**	-
Reversal	**(6,385)**	(20,313)
At 31 December	**49,245**	40,865

12 TRADE AND OTHER RECEIVABLES continued

12.1 GROSS AMOUNT DUE FROM CUSTOMERS ON CONSTRUCTION CONTRACTS

	2018 *AED'000*	*2017* *AED'000*
Contracts in progress at end of the reporting year		
Amount due from contract customers included in trade and other receivable (gross) (note 12)	**2,651,693**	1,797,790
Contract cost incurred plus recognised profits less recognised losses to date	**9,219,212**	7,994,543
Less: Progress billings	**(6,567,519)**	(6,196,753)
	2,651,693	1,797,790

13 CASH AND CASH EQUIVALENTS

	2018 *AED'000*	*2017* *AED'000*
Cash in hand	**1,765**	844
Cash at banks		
- Current accounts	**53,847**	166,602
- Short term deposits	**51,321**	15,966
Cash and bank balances	**106,933**	183,412
Less: bank overdrafts	**(328,660)**	(131,586)
Less: cash margin	**-**	(1,661)
Cash and cash equivalents	**(221,727)**	50,165

Short-term deposits have original maturities less than three months. These deposits, and the bank overdraft facilities, carry interest at prevailing market interest rates.

14 SHARE CAPITAL

	2018 *AED'000*	*2017* *AED'000*
Authorised, issued and fully paid		
250,000,000 (2015: 250,000,000) ordinary shares of AED 1 each	**250,000**	250,000

15 SHARE PREMIUM/ ADDITIONAL SHARE CAPITAL

On 4 February 2010, the Company and Tasameem Real Estate LLC ("Tasameem") entered into an agreement according to which the Company had issued 50,000,000 convertible bonds to Tasameem convertible to 50,000,000 equity shares of the Company at AED 7.83 per share over a period of four years.

The Company issued 50,000 thousand convertible bonds to Tasameem from 2010 and 2013, for a total consideration of AED 391,500 thousand. These bonds were converted to 50,000 thousand equity shares of the Company at the face value of AED 1 per share resulting in an increase in the Company's share capital by AED 50,000 thousand as at 31 December 2014.

The excess of the consideration over the face value of the equity shares issued, amounting to AED 341,500 thousand had been recorded as share premium.

Pursuant to the Ministerial Decree No. (71) of 2014 and the Board of Directors decision circulated on 22 January 2014, the Company's Board of Directors approved the increase of its share capital from 227,848,502 shares to 250,000,000 shares. Accordingly, the share capital of the Company has increased by 22,151,498 shares with AED 1 par value which were authorised, issued and fully paid. These additional shares were subsequently listed on the Abu Dhabi Stock Exchange.

16 RESERVES

	Legal reserve AED'000	*Asset replacement reserve AED'000*	*Regulatory reserve AED'000*	*Foreign, exchange reserve AED'000*	*Unrealised gain/(loss) on financial assets at FVTOCI AED'000*	*Total AED'000*
At 1 January 2017	125,000	595,000	20,000	(4,335)	7,740	743,405
Change in fair value of financial assets at fair value through other comprehensive income (note 8)	-	-	-	-	(43,789)	(43,789)
Transfer from investment revaluation reserve to retained earnings on application of IFRS 9	-	-	-	-	(5,612)	(5,612)
Cumulative translation adjustment on foreign operations	-	-	-	1,058	-	1,058
At 31 December 2017	125,000	595,000	20,000	(3,277)	(41,661)	695,062
At 1 January 2018	**125,000**	**595,000**	**20,000**	**(3,277)**	**(41,661)**	**695,062**
Change in fair value of financial assets at fair value through other comprehensive income (note 8)	-	-	-	-	**(11,784)**	**(11,784)**
Cumulative translation adjustment on foreign operations	-	-	-	**(1,169)**	-	**(1,169)**
At 31 December 2018	**125,000**	**595,000**	**20,000**	**(4,446)**	**(53,445)**	**682,109**

16 RESERVES continued

Legal reserve
In accordance with UAE Federal Law No. (2) of 2015, 10% of the annual profit of the Company is transferred to a non-distributable legal reserve. Transfers to this reserve are required to be made until such time as it equals 50% of the paid up share capital of the Company. There were no transfers made during the year as reserves equal to 50% of the paid up share capital.

Asset replacement reserve
This reserve represents an appropriation from the annual profit, at the discretion of the Board of Directors with the approval of the General Assembly, to facilitate the financing of dredgers and support craft and other major items of property, plant and equipment. No appropriation was made from the current or prior year profit.

Regulatory reserve
Transfers to and from the regulatory reserve are made at the discretion of the Board of Directors with the approval of the General Assembly and in accordance with the powers granted by the Articles of Association. This reserve may be used for such purposes as the Board of Directors deem necessary for the Company's activities. No appropriation was made from the current or prior year profit.

17 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2018 ***AED'000***	*2017* *AED'000*
At 1 January	**91,438**	73,286
Charge for the year	**9,691**	25,616
Paid during the year	**(3,488)**	(6,224)
Reclassified to accrued expense	**-**	(1,240)
At 31 December	**97,641**	91,438

During the year, the Group has contributed a total amount of AED 2,802 thousand (2017: AED 2,470 thousand) towards Abu Dhabi Pension and Retirement Benefits Fund.

18 TRADE AND OTHER PAYABLES

	2018 ***AED'000***	*2017* *AED'000*
Trade payables	**191,960**	143,018
Accrued liabilities	**304,075**	276,514
Advances from customers (Note 18.1)	**166,383**	100,565
Provisions (Note 18.2)	**52,922**	41,816
Dividends payable (Note 18.3)	**28,006**	31,978
Gross amount due to customers on construction contracts (Note 18.4)	**1,771**	3,870
Retentions payable	**12,384**	14,591
Other payables	**123,648**	14,339
	881,149	626,691

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. No interest is payable on the outstanding balances.

18 TRADE AND OTHER PAYABLES continued

18.1 ADVANCES FROM CUSTOMERS

These represent amounts received in advance from customers for certain projects which will be adjusted against future billing during the course of the projects as per contractual terms

18.2 PROVISIONS

	2018 *AED'000*	*2017* *AED'000*
Provision for liquidated damages	-	16,894
Provision for Board remuneration and employee bonus	**28,104**	-
Provision for unused vacations	**10,277**	7,232
Provision for warranty	**7,981**	7,981
Other provisions	**6,560**	9,709
	52,922	41,816

18.3 DIVIDENDS PAYABLE

	2018 *AED'000*	*2017* *AED'000*
At 1 January	**31,978**	33,279
Dividends declared during the year	**55,000**	37,500
Payments during the year	**(58,972)**	(38,801)
	28,006	31,978

At the annual general meeting held on 15 April 2018, the shareholders approved a dividend of AED 0.22 per share for a total dividend amounting to AED 55 million (2017: AED 37.5 million) and remuneration of the Board of Directors amounting to AED 10.1 million (2017: AED 5.67 million relating to year ended 31 December 2016), relating to year ended 31 December 2017.

The Board of Directors at the meeting held on 19 March 2019, recommended a dividends of AED 0.22 per share, of AED 55 million for the year ended 31 December 2018. This is subject to approval by the shareholders in the Annual General Meeting expected to be held on 21 April 2019.

18.4 GROSS AMOUNT DUE TO CUSTOMERS ON CONSTRUCTION CONTRACTS

	2018 *AED'000*	*2017* *AED'000*
Contracts in progress at end of the reporting year		
Amount due to contract customers included in trade and other payables (note 18)	**1,771**	3,870
Contract cost incurred plus recognised profits less recognised losses to date	**1,703**	309,317
Less: Progress billings	**(3,474)**	(313,187)
	1,771	3,870

19 REVENUE FROM CONTRACTS WITH CUSTOMERS

19.1 REVENUE BY PROJECT TYPE

	2018 UAE AED'000	***2018 International AED'000***	***2018 Group AED'000***
Energy	**71,852**	**60,091**	**131,943**
Environment	**164,892**	**173,302**	**338,194**
Seaborne trade	**331,240**	**370,627**	**701,867**
Tourism	**92,129**	**18,783**	**110,912**
Urban development	**131,188**	**35,319**	**166,507**
Other	**82,646**	**-**	**82,646**
Total	**873,947**	**658,122**	**1,532,069**

	2017 UAE AED'000	*2017 International AED'000*	*2017 Group AED'000*
Energy	125,902	231,883	357,785
Environment	128,105	-	128,105
Seaborne Trade	345,638	160,427	506,065
Tourism	-	49,655	49,655
Urban development	154,947	142,626	297,573
Other	78,927	-	78,927
Total	833,519	584,591	1,418,110

19.2 REVENUE BY ACTIVITY

	2018 UAE AED'000	***2018 International AED'000***	***2018 Group AED'000***
Dredging and reclamation	**519,612**	**547,944**	**1,067,556**
Marine construction	**271,689**	**110,122**	**381,811**
Other	**82,646**	**56**	**82,702**
Total	**873,947**	**658,122**	**1,532,069**

	2017 UAE AED'000	*2017 International AED'000*	*2017 Group AED'000*
Dredging and reclamation	401,325	338,397	739,722
Marine construction	347,929	226,728	574,657
Other	84,265	19,466	103,731
Total	833,519	584,591	1,418,110

19 REVENUE FROM CONTRACTS WITH CUSTOMERS continued

19.3 TIMING OF REVENUE RECOGNITION

	2018 AED'000	*2017 AED'000*
Services transferred at a point in time	-	-
Services transferred over time	**1,532,069**	1,418,110
Total revenue from contracts with customers	**1,532,069**	1,418,110

19.4 OTHER INFORMATION

The following table provides information relating to the Group's major customers who individually contribute more than 10% of Group revenue:

	Dredging & Reclamation AED'000	*Marine Construction AED'000*	*Other AED'000*	*Total AED'000*
Year ended 31 December 2018				
Customer 1	**443,089**	**112,840**	-	**555,929**
Customer 2	**134,689**	**179,482**	-	**314,171**
Customer 3	**240,297**	**48,142**	-	**288,439**
	818,075	**340,464**	-	**1,158,539**
Year ended 31 December 2017				
Customer 1	199,665	132,011	1,266	332,942
Customer 2	150,739	75,743	1,668	228,150
Customer 3	177,662	24,749	17,386	219,797
Customer 4	45,206	98,155	2,076	145,437
Customer 5	55,766	86,858	-	142,624
	629,038	417,516	22,396	1,068,950

20 CONTRACT COSTS

	2018 AED'000	*2017 AED'000*
Direct project costs	**861,799**	793,465
Cost of operating dredgers, support craft and boosters	**310,285**	318,182
Cost of workshop and stores	**26,647**	35,673
Other operating costs	**104,382**	73,600
	1,303,190	1,220,920

21 GENERAL AND ADMINISTRATIVE EXPENSES

	2018 *AED'000*	*2017* *AED'000*
Salaries and other benefits	**42,600**	54,345
Board remuneration and employee bonus*	**56,208**	15,667
Depreciation	**5,652**	3,557
Others	**21,966**	24,553
	126,426	98,122

Included in other expenses is AED 1,462 thousand (2017: AED 500 thousand) towards social contributions made during the year.

**Board remuneration and employee bonus*

	2018 *AED'000*	*2017* *AED'000*
Employee bonus (relating to 2016)*	-	10,000
Board remuneration (relating to 2016)*	-	5,677
Employee bonus (relating to 2017)**	**18,004**	-
Board remuneration (relating to 2017)**	**10,100**	-
Employee bonus (relating to 2018)**	**17,104**	-
Board remuneration (relating to 2018)**	**11,000**	-
	56,208	15,677

*At the Annual General Meeting held on 15 April 2018, the Shareholders approved board remuneration amounting to AED 10,100 relating to 2017 (2017: AED 5,667 thousand relating to 2016). Employee bonus and board remuneration relating to 2017 was paid in 2018.

**The 2018 figure comprises board remuneration and employee bonus for 2017 approved and paid in 2018 (AED 10.1 million and AED 18 million respectively) and a provision for board remuneration and employee bonus for 2018 (AED 11 million and AED 17.1 million respectively), recommended by the Board of Directors.

22 FINANCE COSTS AND FINANCE INCOME

Finance costs
Finance costs mainly include bank interest on overdraft facilities and other bank transaction charges. Overdraft facilities carry interest at prevailing market rates.

Finance income
Finance income comprises income from short term deposits, which carry interest at variable market rates plus a spread.

23 OTHER INCOME

	2018	*2017*
	AED'000	*AED'000*
Gain on disposal of property, plant and equipment	**13,557**	3,111
Gain on disposal of financial assets at FVTPL (note 8)	**-**	4,329
Dividend income	**1,950**	1,406
Miscellaneous income	**5,205**	2,562
	20,712	11,408

24 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The weighted average number of ordinary shares outstanding at the end of the reporting year was 250,000,000 shares (2017: 250,000,000 shares). There are no potentially dilutive instruments therefore the basic and diluted earnings per share are the same.

25 RELATED PARTY T RANSACTIONS AND BALANCES

Related parties include the Government of Abu Dhabi, joint ventures, Directors and key management personnel, management entities engaged by the Group and those enterprises over which the Government of Abu Dhabi, Directors, the Group or its affiliates can exercise significant influence, or which can exercise significant influence over the Group. In the ordinary course of business, the Group provides services to, and receives services from, such enterprises on terms agreed by management. The Group derives significant portion of its UAE revenue from the Government of Abu Dhabi, its departments and related entities and its joint venture, "The Challenge Egyptian Emirates Marine Dredging Company".

Balances with related parties included in the consolidated statement of financial position are as follows:

	2018	*2017*
	AED'000	*AED'000*
Balances with Government of Abu Dhabi and related entities:		
Trade and other receivables	**2,171,840**	2,019,790
Balance with shareholders (excluding Government of Abu Dhabi and related entities):		
Trade and other receivables	**13,452**	11,442
Trade and other payables	**1,000**	32,247
Due from joint venture for project related work:		
Trade and other receivables	**554,090**	-

25 RELATED PARTY T RANSACTIONS AND BALANCES continued

Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	2018 AED'000	2017 AED'000
Government of Abu Dhabi and related entities		
Revenue earned during the year	**704,891**	887,716
Joint venture		
Revenue earned during the year	**556,390**	-

Transactions with key management personnel
Compensation of key management personnel is as follows:

	2018 AED'000	2017 AED'000
Salaries and other short-term benefits	**4,393**	4,700
Employees' end of service benefits	**395**	375
	4,788	5,075

Directors' remuneration
At the Annual General Meeting (AGM) held on 15 April 2018, the Shareholders approved a Board remuneration amounting to AED 10,100 (2017: AED 5,667 thousand relating to 31 Dec 2016) relating to 31 December 2017 that were paid in 2018. Provision for Board remuneration for the year 2018 amounting AED 11,000 thousands have been created in 2018. These amounts are included in General and administrative expense. Please refer note 21 for further details.

Other related party transactions
In 2018, Abu Dhabi Municipality granted the Company the right to use the land at the Company's base facilities in Musaffah for an annual charge of AED 1,799 thousand (2017: 1,799 thousand) per annum for a period of 24 years.

The below table provides the detail of dealings by the Company with companies related to the members of the board. All transactions with such related parties were carried out in the normal course of business, on arm's length transactions, and as per established policies and procedures.

Name of company	*Nature of transactions*	***Transactions in 2018 (AED'000)***	*Transactions in 2017 (AED '000)*
Al Khazna Insurance Company	Insurance services	**1,818**	285
Al Jazira Sports and Cultural Club	Sponsorships	-	4,750
Arabtec Holdings PJSC	Investment	-	100,089

26 CONTINGENCIES AND COMMITMENTS

	2018 *AED'000*	*2017* *AED'000*
Bank guarantees	**1,034,801**	1,065,756
Letters of credit	**17,332**	75,412
Capital commitments	**3,792**	54,208

The above letters of credit and bank guarantees issued in the normal course of business.

Capital commitments comprise mainly of capital expenditure which has been contractually agreed with suppliers for future periods for new build vessels or the refurbishment of existing vessels.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk, foreign currency risk, equity risk and credit risk. The Group's management reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk
The Group is mainly exposed to interest rate risk on bank overdrafts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit for one year.

There is no impact on the Group's equity.

	Effect on profit *AED '000*
2018	
+100 increase in basis points	**(2,623)**
-100 decrease in basis points	**2,623**
2017	
+100 increase in basis points	(693)
-100 decrease in basis points	693

Credit risk
The Group seeks to limit its credit risk with respect to customers by dealing with good reputation and financially sound customers and monitoring outstanding receivables. Its 5 largest customers account for 61% (2017: 62%) of outstanding accounts receivable at 31 December 2018. The maximum exposure is the carrying amount as disclosed in note 12 to the consolidated financial statements.

With respect to credit risk arising from the other financial assets of the Group, including cash and cash equivalents, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group manages its credit risk with respect to banks by only dealing with reputable banks.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Liquidity risk

The Group seeks to limit its liquidity risk by ensuring bank facilities are available. As at 31 December 2018, the Group has AED 500,000 thousand of utilised credit facilities from banks which is revolving facility.

The table below summarises the maturities of the Group's undiscounted financial liabilities at 31 December, based on contractual payment dates and current market interest rates:

	On demand AED '000	*Less than 3 months AED '000*	*3 to 12 months AED '000*	*1 to 5 years AED '000*	*> 5 years AED '000*	*Total AED '000*
At 31 December 2018						
Trade payables	**-**	**632,067**	**-**	**-**	**-**	**632,067**
Bank overdrafts	**328,660**	**-**	**-**	**-**	**-**	**328,660**
Total	**328,660**	**632,067**	**-**	**-**	**-**	**960,727**
At 31 December 2017						
Trade payables	-	448,462	-	-	-	448,462
Bank overdrafts	131,586	-	-	-	-	131,586
Total	131,586	448,462	-	-	-	580,048

Foreign currency risk

Foreign currency risk is the risk that financial instrument will fluctuate due to change in foreign exchange rates. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Management believes that there is a minimal risk of significant loss due to exchange rate fluctuations and consequently the Group does not hedge its foreign currency exposure.

	2018		*2017*	
	Liabilities AED'000	***Assets AED'000***	*Liabilities AED'000*	*Assets AED'000*
Egyptian Pound (EGP)	**29,464**	**385,081**	6,882	22,888
Bahraini Dinar (BHD)	**53,777**	**918**	26,286	29,692
Euro	**6,525**	**19**	-	6,427
Indian Rupees (INR)	**3,890**	**60,184**	21,912	125,264
Others	**263**	**-**	13	754
	93,919	**446,202**	55,093	185,025

The Group's major transactions in foreign currencies are in Egyptian Pound (EGP), Bahraini Dinar (BHD), Euro and Indian Rupees (INR).

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include bank deposits and equity investments.

27 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Capital management
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 31 December 2017. Capital comprises share capital, share premium, reserves, retained earnings, and proposed dividend is measured at AED 3,433,941 thousand as at 31 December 2018 (2017: AED 3,380,935 thousand).

28 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement recognized in the consolidated statement of financial position
The fair values of the Group's financial assets and liabilities as at 31 December 2018 are not materially different from their carrying values at the reporting date.

The following table provides the fair value measurement hierarchy of the Group's financial assets which are measured at fair value as at 31 December 2018 and 31 December 2017:

		Fair value measurement		
	Total AED'000	*Quoted prices in Active markets (Level 1) AED'000*	*Significant observable inputs (Level 2) AED'000*	*Significant unobservable inputs (Level 3) AED'000*
As at 31 December 2018				
Financial assets at fair value through other comprehensive income (FVTOCI)	**46,645**	**46,645**	-	-
Financial assets at fair value through profit or loss (FVTPL)	**26,000**	**25,057**	-	**943**
As at 31 December 2017				
Financial assets at fair value through other comprehensive income (FVTOCI)	58,429	58,429	-	-
Financial assets at fair value through profit or loss (FVTPL)	26,664	25,721	-	943

29 SEGMENT INFORMATION

Geographical segment information
The Group has aggregated its geographical segments into UAE and International. UAE segment includes projects in the UAE, while International segment includes operations in Egypt, Bahrain, India, Maldives and East Africa.

The following table shows the Group's geographical segment analysis:

	31 December 2018		
	UAE ***AED'000***	***International*** ***AED'000***	***Group*** ***AED'000***
Segment revenue	**953,421**	**888,189**	**1,841,610**
Intersegment revenue	**-**	**-**	**(309,541)**
Revenue			**1,532,609**
Segment gross profit	**116,770**	**112,109**	**228,879**
Share of profit of a joint venture			**14,713**
General and administrative expenses			**(126,426)**
Foreign currency exchange loss			**(1,024)**
Fair value loss on financial assets at fair value through profit or loss			**(664)**
Finance costs			**(9,844)**
Finance income			**5,681**
Other income			**20,712**
Profit before tax			**132,027**
Total assets	3,709,393	1,031,998	4,741,391
Total liabilities	323,987	983,463	1,307,450

	31 December 2017		
	UAE *AED'000*	*International* *AED'000*	*Group* *AED'000*
Segment revenue	861,046	691,562	1,552,608
Intersegment revenue	-	-	(134,498)
Revenue			1,418,110
Segment gross profit	93,517	103,673	197,190
General and administrative expenses			(98,122)
Foreign currency exchange loss			(3,740)
Fair value loss on financial assets at fair value through profit or loss			(4,467)
Finance costs			(2,400)
Finance income			1,263
Other income			11,408
Profit before tax			101,132
Total assets	3,307,110	923,540	4,230,650
Total liabilities	404,057	445,658	849,715

30 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period presentation. Such reclassifications have no effect on the previously reported profit or equity of the Group.

31 APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 31 March 2019.