

**ABU DHABI SHIP BUILDING PJSC**

**Reports and consolidated  
financial statements for the  
year ended 31 December 2015**

# **ABU DHABI SHIP BUILDING PJSC**

## **Reports and consolidated financial statements for the year ended 31 December 2015**

<b>Contents</b>	<b>Page</b>
<b>Independent auditor's report</b>	<b>1 - 2</b>
<b>Consolidated statement of financial position</b>	<b>3</b>
<b>Consolidated statement of profit or loss</b>	<b>4</b>
<b>Consolidated statement of profit or loss and other comprehensive income</b>	<b>5</b>
<b>Consolidated statement of changes in equity</b>	<b>6</b>
<b>Consolidated statement of cash flows</b>	<b>7</b>
<b>Notes to the consolidated financial statements</b>	<b>8 - 51</b>

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Abu Dhabi Ship Building PJSC  
Abu Dhabi, UAE

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Ship Building PJSC ("the Company") and its subsidiaries (together referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

#### *Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of 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.

#### *Auditor's responsibility*

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

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

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

## INDEPENDENT AUDITOR'S REPORT (continued)

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **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 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;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the report of the Chairman is consistent with the books of account of the Group;
- v) as disclosed in note 1 to the consolidated financial statements, the Group has not purchased or invested in any shares during the financial year ended 31 December 2015;
- vi) note 23 to the consolidated financial statements discloses material related party transactions and balances, 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 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum of Association which would materially affect its activities or its financial position as at 31 December 2015.

Deloitte & Touche (M.E.)



Mohammad Khamees Al Tah  
Registration No. 717  
15 March 2016



**Consolidated statement of financial position  
as at 31 December 2015**

	Notes	2015 AED '000	2014 AED '000 (restated)	2013 AED '000 (restated)
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	6	228,724	250,610	270,466
Intangible assets	7	3,356	9,981	14,046
Investment in a joint venture	8	4,356	7,792	8,493
Advances to suppliers	11	70,212	152,859	33,674
<b>Total non-current assets</b>		<b>306,648</b>	<b>421,242</b>	<b>326,679</b>
<b>Current assets</b>				
Inventories	9	27,038	118,837	113,231
Contract work in progress	10	553,736	621,620	858,762
Trade and other receivables	11	344,089	417,928	347,503
Derivatives	12	-	2,290	-
Time deposit		25,000	-	-
Cash and bank balances	13	109,270	62,256	204,786
<b>Total current assets</b>		<b>1,059,133</b>	<b>1,222,931</b>	<b>1,524,282</b>
<b>Total assets</b>		<b>1,365,781</b>	<b>1,644,173</b>	<b>1,850,961</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Capital and reserves</b>				
Share capital	14	211,992	211,992	211,992
Statutory reserve	15	72,281	63,557	63,557
General reserve	16	-	92,494	92,494
Hedging reserve	12	(7,729)	(11,694)	(23,449)
Retained earnings/(Accumulated losses)		91,308	(79,699)	69,963
<b>Equity attributable to owners of the Company</b>		<b>367,852</b>	<b>276,650</b>	<b>414,557</b>
Non-controlling interests		10,391	11,043	9,144
<b>Total equity</b>		<b>378,243</b>	<b>287,693</b>	<b>423,701</b>
<b>Non-current liabilities</b>				
Provision for end of service benefits	17	21,319	24,711	25,497
Advances from customers	18	170,540	284,994	154,747
Other payables		481	646	-
<b>Total non-current liabilities</b>		<b>192,340</b>	<b>310,351</b>	<b>180,244</b>
<b>Current liabilities</b>				
Trade and other payables	19	494,383	503,682	497,343
Advances from customers	18	265,934	255,040	300,692
Derivatives	12	577	-	7,507
Bank borrowings	20	34,304	287,407	441,474
<b>Total current liabilities</b>		<b>795,198</b>	<b>1,046,129</b>	<b>1,247,016</b>
<b>Total liabilities</b>		<b>987,538</b>	<b>1,356,480</b>	<b>1,427,260</b>
<b>Total equity and liabilities</b>		<b>1,365,781</b>	<b>1,644,173</b>	<b>1,850,961</b>



**Homaïd Abdulla Al Shemmari**  
Chairman of the Board of Directors



**Dr. Khaled Al Mazrouei**  
Chief Executive Officer



**Rizwan Chowdhari**  
Chief Financial Officer

**Consolidated statement of profit or loss  
for the year ended 31 December 2015**

	Notes	2015 AED '000	2014 AED '000 (restated)
<b>Contract revenue</b>		<b>791,337</b>	790,348
Contract costs	21	(561,399)	(707,222)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>229,938</b>	83,126
General and administrative expenses	21	(127,855)	(145,141)
Depreciation and amortisation	6&7	(25,616)	(27,861)
Share of loss from a joint venture	8	(3,436)	(701)
Finance costs		(495)	(4,769)
Other income (net)		8,992	4,744
		<hr/>	<hr/>
<b>Profit/(loss) before gain/(loss) on exchange</b>		<b>81,528</b>	(90,602)
Gain/(loss) on exchange		5,057	(36,965)
		<hr/>	<hr/>
<b>Profit/(loss) for the year</b>		<b>86,585</b>	(127,567)
		<hr/>	<hr/>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		87,237	(128,463)
Non-controlling interests		(652)	896
		<hr/>	<hr/>
		<b>86,585</b>	(127,567)
		<hr/>	<hr/>
<b>Basic and diluted earnings/(loss) per share (fils)</b>	22	<b>41.2</b>	(60.6)
		<hr/>	<hr/>

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

**Consolidated statement of profit or loss and other comprehensive income  
for the year ended 31 December 2015**

	<b>2015</b> <b>AED '000</b>	2014 AED '000 (restated)
<b>Profit/(loss) for the year</b>	<b>86,585</b>	<b>(127,567)</b>
<b>Other comprehensive income/(loss):</b>		
Changes in fair value of cash flow hedges	<b>(2,290)</b>	9,797
Hedging losses reclassified to profit or loss	<b>6,255</b>	1,958
	<hr/>	<hr/>
<b>Total other comprehensive income</b>	<b>3,965</b>	11,755
	<hr/>	<hr/>
<b>Total comprehensive income/(loss) for the year</b>	<b>90,550</b>	<b>(115,812)</b>
	<hr/>	<hr/>
<b>Total comprehensive income/(loss) attributable to:</b>		
Owners of the Company	<b>91,202</b>	(116,708)
Non-controlling interests	<b>(652)</b>	896
	<hr/>	<hr/>
	<b>90,550</b>	<b>(115,812)</b>
	<hr/>	<hr/>

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

# ABU DHABI SHIP BUILDING PJSC

6

## Consolidated statement of changes in equity for the year ended 31 December 2015

	Share capital AED '000	Statutory reserve AED '000	General reserve AED '000	Hedging reserve AED '000	Retained Earnings/ (Accumulated losses) AED '000	Equity attributable to owners of the Company AED '000	Non- controlling interests AED '000	Total AED '000
Balance at 1 January 2014 (as previously reported)	211,992	63,557	92,494	(23,449)	91,756	436,350	9,144	445,494
Prior period adjustment (note 28)	-	-	-	-	(21,793)	(21,793)	-	(21,793)
Balance at 1 January 2014 (restated)	211,992	63,557	92,494	(23,449)	69,963	414,557	9,144	423,701
Loss for the year (restated)	-	-	-	-	(128,463)	(128,463)	896	(127,567)
Other comprehensive income	-	-	-	11,755	-	11,755	-	11,755
Dividends declared (note 27)	-	-	-	-	(21,199)	(21,199)	-	(21,199)
Acquisition of non-controlling interest (notes 5)	-	-	-	-	-	-	1,003	1,003
Balance at 1 January 2015 (restated)	211,992	63,557	92,494	(11,694)	(79,699)	276,650	11,043	287,693
Profit for the year	-	-	-	-	87,237	87,237	(652)	86,585
Other comprehensive income	-	-	-	3,965	-	3,965	-	3,965
Transfer of general reserve to retained earnings (note 16)	-	-	(92,494)	-	92,494	-	-	-
Transfer to statutory reserve	-	8,724	-	-	(8,724)	-	-	-
<b>Balance at 31 December 2015</b>	<b>211,992</b>	<b>72,281</b>	<b>-</b>	<b>(7,729)</b>	<b>91,308</b>	<b>367,852</b>	<b>10,391</b>	<b>378,243</b>

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



**Consolidated statement of cash flows  
for the year ended 31 December 2015**

	2015 AED '000	2014 AED '000 (restated)
<b>Operating activities</b>		
Profit/(loss) for the year	86,585	(127,567)
Adjustments for:		
Depreciation and amortisation	25,616	27,861
Impairment on contract work in progress, net	7,784	10,836
Hedging losses transferred to profit or loss	6,832	1,958
End of service benefits charge	4,458	5,149
Share of loss from a joint venture	3,436	701
Impairment on property, plant and equipment and intangible assets	2,715	-
Allowance for due from related party	1,425	-
Allowance for doubtful accounts	1,153	485
Impairment for obsolete and slow moving inventories, net	655	-
Finance costs	495	4,769
Gain on disposal of property, plant and equipment	(59)	-
Provision for onerous contract	-	75,393
	<b>141,095</b>	<b>(415)</b>
<b>Movements in working capital:</b>		
Inventories	91,144	(5,606)
Contract work in progress	60,100	226,306
Trade and other receivables and advances to suppliers	155,599	(189,092)
Trade and other payables	(9,242)	(72,530)
Other payables	(165)	646
Advances from customers	(103,560)	84,595
	<b>334,971</b>	<b>43,904</b>
<b>Cash generated from operating activities</b>	<b>334,971</b>	<b>43,904</b>
End of service benefits paid	(7,850)	(5,935)
	<b>327,121</b>	<b>37,969</b>
<b>Investing activities</b>		
Payments for property, plant and equipment	(1,556)	(3,893)
Payments for intangible assets	-	(47)
Proceeds from disposal of property, plant and equipment	104	-
Time deposits	(25,000)	-
	<b>(26,452)</b>	<b>(3,940)</b>
<b>Financing activities</b>		
Decrease in bank overdrafts	(204,103)	(155,567)
Loan repayment	(49,000)	(47,500)
Finance costs paid	(495)	(4,769)
Dividends paid	(57)	(17,723)
Loan received	-	49,000
	<b>(253,655)</b>	<b>(176,559)</b>
<b>Net cash used in investing activities</b>	<b>(253,655)</b>	<b>(176,559)</b>
<b>Net increase /(decrease) in cash and cash equivalents</b>	<b>47,014</b>	<b>(142,530)</b>
Cash and cash equivalents at beginning of the year	62,256	204,786
<b>Cash and cash equivalents at end of the year (note 13)</b>	<b>109,270</b>	<b>62,256</b>

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

## Notes to the consolidated financial statements for the year ended 31 December 2015

### 1 General information

Abu Dhabi Ship Building PJSC (“the Company”) was established by Amiri Decree No. 5 of 1995 on 12 July 1995. The Company’s registered office address is P.O. Box 8922, Abu Dhabi, United Arab Emirates.

The Company’s ordinary shares are listed on Abu Dhabi Securities Exchange.

The Company and its subsidiaries (together referred to as “the Group”) are engaged primarily in the construction, maintenance, repair and overhaul of commercial and military ships and vessels.

The Group has not purchased or invested in any shares during the year ended 31 December 2015.

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2015, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRSs 2010 - 2012 Cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.
- Annual Improvements to IFRSs 2011 - 2013 Cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40.
- Amendments to IAS 19 *Employee Benefits* to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

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

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to IAS 1 <i>Presentation of Financial Statements</i> relating to Disclosure initiative	1 January 2016

**Notes to the consolidated financial statements  
for the year ended 31 December 2015**

**2 Application of new and revised International Financial Reporting Standards (IFRS)  
(continued)**

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

<b><u>New and revised IFRSs</u></b>	<b><u>Effective for annual periods beginning on or after</u></b>
Amendments to IFRS 11 <i>Joint arrangements</i> relating to accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 38 <i>Intangible Assets</i> relating to clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to IAS 16 <i>Property, Plant and Equipment</i> and IAS 41 <i>Agriculture</i> relating to bearer plants	1 January 2016
Amendments to IAS 27 <i>Separate Financial Statements</i> relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements	1 January 2016
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> , IFRS 12 <i>Disclosure of Interests in Other Entities</i> and IAS 28 <i>Investment in Associates and Joint Ventures</i> relating to applying the consolidation exception for investment entities	1 January 2016
Annual Improvements to IFRSs 2012 - 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016

**Notes to the consolidated financial statements  
for the year ended 31 December 2015**

**2 Application of new and revised International Financial Reporting Standards (IFRS)  
(continued)**

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018
<p>IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.</p> <p>A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> <li>• <b>Classification and measurement:</b> Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</li> <li>• <b>Impairment:</b> The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised</li> <li>• <b>Hedge accounting:</b> Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.</li> <li>• <b>Derecognition:</b> The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.</li> </ul>	

**Notes to the consolidated financial statements  
for the year ended 31 December 2015**

**2 Application of new and revised International Financial Reporting Standards (IFRS)  
(continued)**

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

**New and revised IFRSs**

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

Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9

When IFRS 9 is first applied

IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9

When IFRS 9 is first applied

IFRS 15 *Revenue from Contracts with Customers*

1 January 2018

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

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

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

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

**Notes to the consolidated financial statements  
for the year ended 31 December 2015**

**2 Application of new and revised International Financial Reporting Standards (IFRS)  
(continued)**

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

**New and revised IFRSs**

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

**IFRS 16 *Leases***

1 January 2019

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

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

Effective date deferred indefinitely

Management anticipates that these new and revised standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the year beginning 1 January 2016 or as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9 and IFRS 15, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

Management anticipates that IFRS 9 and IFRS 15 will be adopted in the Group's consolidated financial statements for the annual year beginning 1 January 2018. The application of IFRS 9 and IFRS 15 may have a significant impact on amounts reported and disclosures made in the Group's consolidated financial statements in respect of revenue from contracts with customers and financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Group performs a detailed review.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies**

**3.1 Statement of compliance**

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards (IFRS).

**3.2 Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The principal accounting policies adopted are set out below.

For the purpose of these consolidated financial statements, UAE Dirhams (AED) is the functional and the presentation currency of the Group.

**3.3 Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns

The Company reassesses 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 listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.3 Basis of consolidation (continued)**

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company 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 bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

<u>Name of subsidiary</u>	<u>Ownership interest</u>	<u>Beneficial interest</u>	<u>Country of incorporation</u>	<u>Principal activity</u>
Abu Dhabi Systems Integration LLC ("ADSI")	57%	57%	UAE	Import and commissioning of integrated electronic systems and computer programs
Gulf Logistics and Naval Support LLC ("GLNS")	100%	100%	UAE	Provision of naval support services
Safwa Marine L.L.C. (i)	100%	100%	UAE	Trading of ships and boats
ADSB Investments Limited	100%	100%	UAE	Holding of investments
Frontiers Industrial Investment LLC (ii)	99%	99%	UAE	System integration and technology development and implementation

- (i) The Company only controlled 70% by virtue of a contractual arrangement, however effective 4 May 2014 this agreement was terminated and the Company now owns 100%.
- (ii) Frontiers was established on 15 May 2014 with 99% of the capital being owned by the Company and remaining 1% by Abu Dhabi Autonomous Systems Investments Co. LLC.



**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.4 Business combinations**

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

**3.5 Goodwill**

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.5 Goodwill (continued)**

Goodwill is not amortised but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**3.6 Investment in joint venture**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. 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 results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in a joint venture is initially recognised and carried in the consolidated statement of financial position at cost and as adjusted thereafter to recognise for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the joint venture.

Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long term interests that, in substance, form part of the Group's net investment in associate or joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Where an entity in the Group transacts with a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.7 Revenue recognition**

Revenue is recognised in the consolidated profit or loss at the fair value of the consideration received or receivable as follows:

Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, based on the survey method, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Changes in estimates used in the determination of the amount of revenue and expenses are recognised in profit or loss in the period in which the change is made.

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Costs of contracts include all direct costs of labour, materials and costs of subcontracted works, plus an appropriate proportion of construction overheads and general and administrative expenses of the year, which are allocated to construction contracts in progress during the year.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Repairs and services

Revenue from fixed price contracts for the repair of ships and vessels is recognised based on the percentage of completion on the basis of total costs incurred to date to estimated total costs.

Revenue from cost plus contracts for the repair of commercial and military ships and vessels is recognised by applying the margin allowed per the respective contracts to the cost incurred to date.

Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and effective interest rate applicable.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.8 Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see Note 3.10 below).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**3.9 Foreign currencies**

For the purpose of these consolidated financial statements UAE Dirhams (AED) is the functional currency and the presentation currency of the Group.

Transactions in currencies other than AED (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.9 Foreign currencies (continued)**

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign subsidiaries are expressed in AED using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, loss of joint control over a jointly controlled entity that includes a foreign operation, or loss of significant influence over an associate that includes a foreign operation), all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

**3.10 Borrowing costs**

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period during which they are incurred.

**3.11 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses are charged to the profit or loss in the period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the assets' cost to their residual values over their estimated useful lives as follows:

Buildings and structures	4 - 40 years
Production and other equipment	3 - 30 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.11 Property, plant and equipment (continued)**

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The 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 the profit or loss.

The depreciation charge for the period is allocated between cost of sales and administrative expenses, depending on the usage of the respective assets.

**3.12 Capital work in progress**

Properties or assets in the course of construction for production, supply or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes all direct costs attributable to the design and construction of the property including related staff costs. When the assets are ready for intended use, the capital work in progress is transferred to the appropriate property, plant and equipment category and is depreciated in accordance with the Group's policies.

**3.13 Intangible assets**

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses, if any. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful lives are reviewed at the end of each annual reporting period, with effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives which is normally a period of four to five years.

**3.14 Inventories**

Inventories comprise general stocks, projects and other operating inventories. Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method and comprises construction/acquisition costs and other charges incurred in bringing inventory to its present location and condition. Net realisable value represents the estimated selling price less all estimated selling and marketing costs to be incurred.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.15 Impairment of tangible and intangible assets other than goodwill**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**3.16 Provisions**

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at the end of the reporting period, using a rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of receivable can be measured reliably.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.16 Provisions (continued)**

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 from the contract.

**3.17 Employees' end of service benefits**

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law, for their period of service up to the end of the year. The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. (2), 2000 for Pension and Social Security. Such contributions are charged to the profit or loss during the employees' period of service.

**3.18 Financial assets**

Financial assets are classified into 'loans and receivables' and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Loans and receivable include cash and bank balances, time deposit and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances held with banks with original maturities of three months or less.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.



**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.18 Financial assets (continued)**

Financial assets at FVTPL

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The provision is determined by reference to previous experience of recoverability for receivables in each market in which the Group operates.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.18 Financial assets (continued)**

Impairment of financial assets (continued)

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when 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 and also recognises a collateralised borrowing for the proceeds received.

**3.19 Financial liabilities and equity instruments**

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.19 Financial liabilities and equity instruments (continued)**

Financial liabilities

Financial liabilities are classified as either financial liabilities at Fair Value Through Profit or Loss 'FVTPL' or 'other financial liabilities'.

Derivatives that are not designated and effective as hedging instruments are classified as financial liabilities and are held at FVTPL. Derivatives held at FVTPL are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period with the resulting gain or loss recognised in profit or loss immediately.

Trade and other payables, bank borrowings and other liabilities are classified as 'other financial liabilities'. Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis, except for short-term payables or when the recognition of interest would be 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.

**3.20 Derivative financial instruments**

The Group enters into a foreign exchange forward contracts to manage its exposure to foreign exchange risk.

Derivative financial instruments are initially measured at fair value at contract date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

Fair values of the derivatives are carried out by independent valuers by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise. Derivative financial instruments that do not qualify for hedge accounting are classified as held for trading derivatives.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**3 Summary of significant accounting policies (continued)**

**3.20 Derivative financial instruments (continued)**

Hedge accounting

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and the effectiveness can be reliably measured. At inception of the hedge, the Group documents its risk management objective and strategy for undertaking various hedge transactions, including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in hedging reserve in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the profit or loss as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**4 Critical accounting judgments and key sources of estimation uncertainty**

**Critical judgments in applying the Group's accounting policies**

While applying the accounting policies as stated in note 3, management of the Group has made certain judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period of the revision in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The significant judgments and estimate made by management are summarised as follows:

Classification of Meya Holdings Inc.

Meya Holdings Inc. is a company whose legal form confers separation between the parties to the joint arrangement and the company itself. Furthermore there is no contractual arrangement or any other facts and circumstances that indicate that the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the joint arrangement. Accordingly, Meya Holdings Inc. is classified as a joint venture of the Group. See note 8 for details.

**Key sources of estimation uncertainty**

Significant judgments made by management that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Estimation of total costs of construction contracts

As described in note 3, when the outcome of a construction contract can be estimated reliably, revenues and costs are recognised by reference to stage of completion of the contract activity at the end of the reporting period. In judging whether the outcome of the construction contract can be estimated reliably, management has considered the detailed criterion for determination of such outcome as set out in IAS 11 *Construction Contracts*. For the purpose of estimating the stage of completion of contract activity, management has considered the forecasts for revenue and costs related to each construction contract. When it is estimated that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. The management has considered the costs to be incurred based on analysis and forecast of construction work to be executed.

Impairment of trade receivables and contract work in progress

An estimate of the collectible amount of trade receivables and contract work in progress is made when collection of the full amount is no longer probable. This determination of whether the receivables are impaired entails Management's evaluation of the specific credit and liquidity position of the customers and related parties and their historical recovery rates, including discussion with the legal department and review of the current economic environment. Management is satisfied that no additional impairment is required on its trade and other receivables and contract work in progress in excess of the amount already provided amounting to AED 3,839 thousand (2014: 2,686 thousand) and AED 56,929 thousand (2014: AED 49,145 thousand), respectively (notes 11 and 10).

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**4 Critical accounting judgments and key sources of estimation uncertainty (continued)**

**Key sources of estimation uncertainty (continued)**

Estimation of net realisable value for inventory

Inventories are stated at lower of cost or net realisable value (NRV). NRV is assessed with reference to sales prices, costs of completion and advances received and market conditions existing at the end of the reporting period. For certain properties, NRV is determined by the Group having taken suitable external advice and in the light of recent market transactions, where available.

Useful lives and residual value of property, plant and equipment and intangible assets

Management reviews the residual values and estimated useful lives of property, plant and equipment and intangible assets at the end of each annual reporting period in accordance with IAS 16 and IAS 38. Management determined that current year expectations do not differ from previous estimates based on its review.

Estimate of penalties levied under contracts

The Company may be liable for late penalties levied in terms of the conditions of the contract with one of their key customers. Based on discussions held with the client and a review of the underlying contractual terms, management has estimated their expected exposure in respect of the late penalties. Refer to Note 24.1 for further details.

**5 Acquisition of non-controlling interest**

In 2014, the Company acquired an additional 30% beneficial ownership interest in its subsidiary, Safwa Marine, from De Birs Yachts PJSC. The Company had 100% ownership in Safwa Marine LLC, however by virtue of a contractual agreement the profit or loss were shared in the ratio of 70:30. This agreement was terminated on 4 May 2014, which resulted in the Company acquiring the remaining 30% beneficial ownership. This has resulted in a change in the Company's beneficial interest without a change in control. Accordingly, the transaction was accounted for as an equity transaction. The share of losses up to the date of the agreement will be recovered from De Birs Yachts PJSC as disclosed and included in due from related parties in note 23. This transaction did not result in any gain or loss.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**6 Property, plant and equipment**

	<b>Buildings and structures AED'000</b>	<b>Production and other equipment AED'000</b>	<b>Assets under construction AED'000</b>	<b>Total AED'000</b>
<b>Cost</b>				
At 1 January 2014	314,585	143,264	3,197	461,046
Additions	-	893	3,000	3,893
Disposal	-	(13)	-	(13)
Transfers	86	2,174	(2,260)	-
Reclassification	3,107	(3,107)	-	-
At 1 January 2015	317,778	143,211	3,937	464,926
Additions	-	9	1,547	1,556
Disposal	-	(924)	-	(924)
Write-off	-	(598)	-	(598)
Transfers	523	908	(1,431)	-
Reclassification	-	-	(1,691)	(1,691)
<b>At 31 December 2015</b>	<b>318,301</b>	<b>142,606</b>	<b>2,362</b>	<b>463,269</b>
<b>Accumulated depreciation</b>				
At 1 January 2014	94,443	96,137	-	190,580
Charge for the year	12,700	11,049	-	23,749
Eliminated on disposal	-	(13)	-	(13)
Reclassification	2,199	(2,199)	-	-
At 1 January 2015	109,342	104,974	-	214,316
Charge for the year	12,231	9,161	-	21,392
Eliminated on disposal	-	(879)	-	(879)
Eliminated on write-off	-	(284)	-	(284)
<b>At 31 December 2015</b>	<b>121,573</b>	<b>112,972</b>	<b>-</b>	<b>234,545</b>
<b>Carrying amount</b>				
<b>At 31 December 2015</b>	<b>196,728</b>	<b>29,634</b>	<b>2,362</b>	<b>228,724</b>
At 31 December 2014	208,436	38,237	3,937	250,610

During 2014, certain assets were reclassified from one asset group to another in relation to the fixed asset management process which was started in 2014 to align the classifications with the asset's functions.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**7 Intangible assets**

	<b>Computer software AED'000</b>
<b>Cost</b>	
At 1 January 2014	21,069
Additions	47
	<hr/>
At 1 January 2015	21,116
Additions	-
	<hr/>
<b>At 31 December 2015</b>	<b>21,116</b>
	<hr/>
<b>Accumulated amortization and impairment</b>	
At 1 January 2014	7,023
Charge for the year	4,112
	<hr/>
At 1 January 2015	11,135
Charge for the year	4,224
Impairment	2,401
	<hr/>
<b>At 31 December 2015</b>	<b>17,760</b>
	<hr/>
<b>Carrying amount</b>	
<b>At 31 December 2015</b>	<b>3,356</b>
	<hr/>
At 31 December 2014	9,981
	<hr/>



**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**8 Investment in a joint venture**

In 2013, the Group together with DeBirs Yachts, a luxury yacht manufacturer, incorporated a joint venture called “Meya Holdings” for the acquisition of a luxury yacht. The Group’s shareholding in the new venture is 70% and DeBirs Yacht’s is 30%. Total amount initially invested by the Group is AED 9,195 thousand. A unanimous decision of the Board of Directors is required for all policy and procedures decisions. As a result, Meya is deemed to be jointly controlled entity.

The movement of investment in joint venture is as follows:

	<b>2015</b> <b>AED’000</b>	2014 AED’000
At 1 January	<b>7,792</b>	8,493
Share in current year’s loss	<b>(3,436)</b>	(701)
	<hr/>	<hr/>
Share in underlying net assets	<b>4,356</b>	7,792
	<hr/>	<hr/>

Latest available financial information in respect of the Group’s joint ventures is summarised below:

	<b>2015</b> <b>AED’000</b>	2014 AED’000
Total assets	<b>8,915</b>	13,158
Total liabilities	<b>(2,693)</b>	(2,027)
	<hr/>	<hr/>
Net assets	<b>6,222</b>	11,131
	<hr/>	<hr/>
Group’s share of net assets of the joint venture	<b>4,356</b>	7,792
	<hr/>	<hr/>
Loss for the year	<b>4,909</b>	1,001
	<hr/>	<hr/>

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**9 Inventories**

	<b>2015 AED'000</b>	<b>2014 AED'000 (restated)</b>	<b>2013 AED'000 (restated)</b>
Goods for sale	<b>1,487</b>	-	-
Work in progress (at cost)	<b>9,588</b>	109,184	102,026
Raw materials and consumables	<b>31,752</b>	13,427	14,979
	<b>42,827</b>	122,611	117,005
Less: Provision for obsolete and slow moving items	<b>(15,789)</b>	(3,774)	(3,774)
	<b>27,038</b>	118,837	113,231

The movement of the provision for obsolete and slow moving items are as follows:

	<b>2015 AED'000</b>	<b>2014 AED'000</b>	<b>2013 AED'000</b>
At 1 January	<b>3,774</b>	3,774	5,199
Additions	<b>12,015</b>	-	(1,425)
<b>At 31 December</b>	<b>15,789</b>	3,774	3,774

**10 Contract work in progress**

	<b>2015 AED'000</b>	<b>2014 AED'000 (restated)</b>	<b>2013 AED'000 (restated)</b>
Value of work executed	<b>6,848,796</b>	6,731,453	5,987,134
Progress billings received and receivable	<b>(6,305,758)</b>	(6,111,394)	(5,228,499)
<b>At 31 December</b>	<b>543,038</b>	620,059	758,635

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**10 Contract work in progress (continued)**

The construction contracts are presented as follows:

	<b>2015</b> <b>AED'000</b>	<b>2014</b> <b>AED'000</b> (restated)	<b>2013</b> <b>AED'000</b> (restated)
Contract work in progress	<b>553,736</b>	621,620	858,762
Billings in excess of value of work in progress (note 19)	<b>(10,698)</b>	(1,561)	(100,127)
<b>At 31 December</b>	<b>543,038</b>	620,059	758,635

Contract work in progress as at 31 December 2015 is stated net of provision for impairment of AED 56,929 thousand (2014: AED 49,145 thousand). The movements on the provision are as follows:

	<b>2015</b> <b>AED'000</b>	<b>2014</b> <b>AED'000</b>
At 1 January	<b>49,145</b>	48,507
Provision for impairment during the year	<b>13,484</b>	10,836
Reversal of provision	<b>(5,700)</b>	-
Write off of provision	-	(10,198)
<b>At 31 December</b>	<b>56,929</b>	49,145

**11 Trade and other receivables**

	<b>2015</b> <b>AED'000</b>	<b>2014</b> <b>AED'000</b>
Trade receivables	<b>216,276</b>	316,533
Less: Provision for impairment	<b>(3,839)</b>	(2,686)
	<b>212,437</b>	313,847
Due from related parties (Note 23)	<b>2,002</b>	3,115
Advances paid to suppliers	<b>191,755</b>	246,348
Prepayments and other receivables	<b>8,107</b>	7,477
	<b>414,301</b>	570,787
Less: Non-current portion of advances paid to suppliers	<b>(70,212)</b>	(152,859)
	<b>344,089</b>	417,928

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**11 Trade and other receivables (continued)**

The average credit period granted to customers is 60-90 days (2014: 60-90 days). Trade receivables are provided for based on the estimated irrecoverable amounts, determined by reference to past default experience. The allowance for doubtful amounts at 31 December 2015 is AED 3,839 thousand (2014: AED 2,686 thousand).

The movement in the allowance for doubtful debts during the year was as follows:

	<b>2015</b> <b>AED'000</b>	2014 AED'000
At 1 January	<b>2,686</b>	3,988
Provision for impairment during the year	<b>1,153</b>	485
Write-off	-	(1,787)
	<hr/>	<hr/>
<b>At 31 December</b>	<b>3,839</b>	2,686
	<hr/>	<hr/>

Before accepting any new customer, the Group assesses the potential credit quality of the customer. Out of the trade receivables balance at the end of year, AED 183 million (2014: AED 249 million) is due from the Group's 2 (2014: 2) major customers. Included in the Group's trade receivable balance are debtors with a carrying amount of AED 167 million (2014: AED 284 million) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing of past due but not impaired:

	<b>2015</b> <b>AED'000</b>	2014 AED'000
Less than 30 days	<b>24,379</b>	134,252
Due for 30 to 60 days	<b>10,404</b>	9,089
Due for 60 to 90 days	<b>18,932</b>	17,250
Due for more than 90 days	<b>112,872</b>	123,676
	<hr/>	<hr/>
	<b>166,587</b>	284,267
	<hr/>	<hr/>

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. Accordingly, management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**12 Derivative financial instruments**

The Group has forward foreign exchange contracts outstanding designated as an effective cash flow hedges to hedge its exposure to foreign currency risk in forecasted transactions and firm commitments. The outstanding forward foreign exchange commitment is approximately AED 76 million (2014: AED 107 million). The terms of the forward foreign exchange contracts have been negotiated to match the terms of the net Euro cash inflows.

At the end of the reporting period, the derivative financial instruments had a negative fair value of AED 0.6 million (2014: positive fair value of AED 2.3 million).

As of 31 December 2009, the Group has discontinued prospectively the hedge accounting of net foreign currency position and future claw back against advances. The cumulative losses on the hedging instruments amounting to AED 33.9 million that were recognised directly in equity up to the date of discontinuing hedge accounting remained separately recognised in equity. During the year, an amount of AED 6,255 thousand (2014: AED 1,958 thousand) was recycled from equity to consolidated profit or loss on occurrence of the forecasted transactions.

The following table shows the remaining terms of the forward foreign exchange contracts at the end of the reporting period:

	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Total AED'000
<b>31 December 2015</b>				
Inflows	-	-	-	-
Outflows	-	(577)	-	(577)
	<hr/>	<hr/>	<hr/>	<hr/>
Net outflow	-	(577)	-	(577)
	<hr/>	<hr/>	<hr/>	<hr/>
Discounted at the applicable interbank rates	-	(577)	-	(577)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 December 2014</b>				
Inflows	-	2,290	-	2,290
Outflows	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net inflow	-	2,290	-	2,290
	<hr/>	<hr/>	<hr/>	<hr/>
Discounted at the applicable interbank rates	-	2,290	-	2,290
	<hr/>	<hr/>	<hr/>	<hr/>

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**13 Cash and cash equivalents**

	<b>2015</b> <b>AED'000</b>	2014 AED'000
Cash on hand	71	59
Bank balances	109,199	62,197
	<hr/>	<hr/>
	<b>109,270</b>	62,256
	<hr/>	<hr/>

**14 Share capital**

	<b>2015</b> <b>AED'000</b>	2014 AED'000
Authorised, issued and fully paid share capital of AED 1 each	211,992	211,992
	<hr/>	<hr/>

**15 Statutory reserve**

In accordance with the Articles of Association of the Company, and in line with the provisions of the UAE Federal Commercial Companies Law No. (2) of 2015, the Company is required to transfer annually to a statutory reserve account an amount equal to 10% of its annual net profit, until such reserve reaches 50% of the share capital of the Company which was attained in the previous years. This reserve is not available for distribution.

**16 General reserve**

The general reserve was established to enhance the capital base of the Group and is available for distribution to the Shareholders at the recommendation of the Board of Directors. During the year, the Board of Directors approved the transfer of AED 92.5 million from general reserve to retained earnings.

**17 Provision for end of service benefits**

The movement in the provision for employees' end of service benefits is as follows:

	<b>2015</b> <b>AED'000</b>	2014 AED'000
At 1 January	24,711	25,497
Charged for the year	4,458	5,149
Payments during the year	(7,850)	(5,935)
	<hr/>	<hr/>
<b>At 31 December</b>	<b>21,319</b>	24,711
	<hr/>	<hr/>

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**18 Advances from customers**

	<b>2015 AED'000</b>	2014 AED'000
Advances from customers	<b>436,474</b>	540,034
Less: current portion	<b>(265,934)</b>	(255,040)
	<u><b>170,540</b></u>	<u>284,994</u>

Advances from customers mainly represent advances received for projects and are applied against billings when raised.

**19 Trade and other payables**

	<b>2015 AED'000</b>	2014 AED'000 (restated)	2013 AED'000 (restated)
Trade payables	<b>40,951</b>	28,917	56,890
Project accruals	<b>333,148</b>	352,558	289,052
Provision for onerous contract (note 24.1)	<b>62,831</b>	69,063	-
Other liabilities	<b>46,369</b>	51,302	51,117
Billings in excess of value of work in progress (note 10)	<b>10,698</b>	1,561	100,127
Other payables	<b>386</b>	281	157
	<u><b>494,383</b></u>	<u>503,682</u>	<u>497,343</u>

The movement in the provision for onerous contracts is as follows:

	<b>2015 AED'000</b>	2014 AED'000
At 1 January	<b>69,063</b>	-
Charged for the year	<b>-</b>	75,393
Utilised during the year	<b>(6,232)</b>	(6,330)
<b>At 31 December</b>	<u><b>62,831</b></u>	<u>69,063</u>

The average credit period on purchases of goods is 60 days (2014: 60 days). No interest is charged on the trade payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**20 Bank borrowings**

The bank borrowings consist of the following:

	<b>2015</b> <b>AED'000</b>	2014 AED'000
Bank overdrafts	<b>34,304</b>	238,407
Short-term loan	-	49,000
	<hr/> <b>34,304</b> <hr/>	<hr/> 287,407 <hr/>

The overdraft facilities were obtained from several commercial banks and carry interest at prevailing market rates.

During the year, the Group obtained a short-term loan from a local bank. The loan was obtained to finance ship building projects and carries an interest rate of 1 month EIBOR plus 1%.

As at 31 December 2015, the Group has AED 579 million (2014: AED 335 million) as available undrawn overdraft facilities.

**21 Contract costs and general and administrative expenses**

	<b>2015</b> <b>AED'000</b>	2014 AED'000 (restated)
Material and subcontract costs	<b>422,312</b>	600,752
Staff costs	<b>173,708</b>	180,220
Other costs	<b>93,234</b>	71,391
	<hr/> <b>689,254</b> <hr/>	<hr/> 852,363 <hr/>

These are presented in the consolidated statement of profit or loss as follows:

	<b>2015</b> <b>AED'000</b>	2014 AED'000 (restated)
Contract costs	<b>561,399</b>	707,222
General and administrative expenses	<b>127,855</b>	145,141
	<hr/> <b>689,254</b> <hr/>	<hr/> 852,363 <hr/>



**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**22 Basic and diluted earnings per share**

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

Diluted earnings per share is calculated by dividing the profit for the year attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of dilutive instruments.

The following reflects the earnings and share data used in the basic earnings per share computations:

	<b>2015</b>	2014 (restated)
Profit/(loss) for the year attributable to equity holders of the parent (AED'000)	<b>87,237</b>	(128,463)
Weighted average number of ordinary shares issued ('000)	<b>211,992</b>	211,992
Basic and diluted earnings/(loss) per share (fils)	<b>41.2</b>	(60.6)

As of 31 December 2015, the Group has not issued any instruments which would have a diluted impact on earnings per share when converted or exercised.

**23 Related party transactions**

Related parties include the Company's major shareholders, Directors and key management personnel, and businesses controlled by them and their families or over which they exercise a significant influence in financial and operating decisions. Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Pricing policies and terms of these transactions are approved by the Group's management.

Significant related party transactions:

	<b>2015 AED'000</b>	2014 AED'000
Acquisition of non-controlling interest (note 5)	-	1,003

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**23 Related party transactions (continued)**

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

	<b>2015</b>	2014
	<b>AED'000</b>	AED'000
<b>Key management compensation:</b>		
Salaries, bonuses and other benefits	<b>7,413</b>	10,865
Post-employment benefits	<b>49</b>	378
	<hr/>	<hr/>
	<b>7,462</b>	11,243
	<hr/>	<hr/>
Directors' remuneration	<b>2,000</b>	-
	<hr/>	<hr/>
<b>Related party balances:</b>		
	<b>2015</b>	2014
	<b>AED'000</b>	AED'000
Amounts due from a joint venture	<b>2,001</b>	1,726
Amounts due from other related parties	<b>1</b>	1,389
	<hr/>	<hr/>
	<b>2,002</b>	3,115
	<hr/>	<hr/>

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**24 Commitments and contingencies**

**24.1 Contingent liabilities**

- (i) The Company is currently in discussion with their key customer to re-baseline the delivery schedule of the contracted ships. If the re-baseline proposal is not accepted by the customer, the Company could be liable for possible late penalties levied in terms of the conditions of the contract. During 2014, based on discussions between the Company and its customer, an amount of AED 75.4 million was recorded as a provision for future services in lieu of any late penalty out of which an amount of AED 12.6 million was utilised and the remaining AED 62.8 million is included in trade and other payables as an onerous contract provision.
- (ii) The Group's bankers have issued, in the normal course of business, letters of guarantee, performance bond and letters of credit from which it is anticipated no material liabilities will arise, limited to AED 2,116 million (2014: AED 2,249 million) in respect of contract performance and advances in connection with the contracts for shipbuilding and overhaul in progress at the year end.

**24.2 Capital commitments**

The authorised capital expenditure contracted at the end of the reporting period but not provided for is AED 78 million (2014: AED 1.0 million).

**25 Financial instruments**

**25.1 Significant accounting policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the consolidated financial statements.

**25.2 Categories of financial instruments**

	<b>2015</b>	2014
	<b>AED'000</b>	AED'000 (restated)
<b>Financial assets</b>		
Loans and receivables (including cash and bank balances)	<b>348,709</b>	379,218
Derivative instruments in designated hedge accounting relationship	-	2,290
<b>Total</b>	<b>348,709</b>	381,508
<b>Financial liabilities</b>		
Financial liabilities measured at cost	<b>465,856</b>	722,026
Derivative instruments in designated hedge accounting relationship	<b>577</b>	-
<b>Total</b>	<b>466,433</b>	722,026

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**25 Financial instruments (continued)**

**25.2 Categories of financial instruments (continued)**

\* Financial assets do not include contract work in progress in relation to work done but not billed amounting to AED 553,736 thousand (2014: AED 621,620 thousand).

**25.3 Financial risk management objectives**

The Group's finance department monitors and manages the financial risks relating to the operations of the Group. These risks include market risk, credit risk and liquidity risk. The Group does not enter into or trade in derivative financial instruments for speculative or risk management purposes.

The Group analyses financial risks under the following captions:

**25.4 Capital risk management**

The Group's primary objective for capital management is to ensure that the capital is enough to continue as a going concern while maximising the return to the Shareholders. This overall strategy remains unchanged from 2014.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity (excluding hedging reserve and non-controlling interests) plus net debt. The calculation of the Group's gearing ratio as follows:

	<b>2015</b> <b>AED'000</b>	2014 AED'000 (restated)
Trade and other payables	<b>431,552</b>	434,619
Bank borrowings	<b>34,304</b>	287,407
Less: cash and cash equivalents	<b>(109,270)</b>	(62,256)
	<hr/>	<hr/>
Net debt	<b>356,586</b>	659,770
	<hr/>	<hr/>
Total equity	<b>375,581</b>	288,344
	<hr/>	<hr/>
Total equity and net debt	<b>732,167</b>	948,114
	<hr/>	<hr/>
Gearing ratio	<b>49%</b>	70%
	<hr/>	<hr/>

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**25 Financial instruments (continued)**

**25.5 Market risk management**

Market risk is the risk that the fair value or future cash flows of a financial asset or liability will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other price risk.

**a) Foreign currency risk management**

The Group's major contracts with customers as well as with some of the major suppliers and subcontractors are denominated in currencies other than AED and therefore, the Group has foreign exchange transaction exposure.

The Group uses forward exchange contracts to hedge a significant element of the risk associated with foreign currency fluctuations related to expected net Euro cash inflows. The forward exchange contracts are in the same currency as the hedged item. At 31 December 2015, the Group has hedged AED 76 million (2014: AED 107 million) of its foreign currency sales. The majority of other foreign currency transactions are in USD. As the UAE dirham is pegged to the USD, balances in USD are not considered to represent significant currency risk. Management is therefore of the opinion that the Group's exposure to the currency risk is limited to Euro.

Foreign currency sensitivity analysis

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	<b>Liabilities</b>		<b>Assets</b>	
	<b>2015</b>	2014	<b>2015</b>	2014
	<b>AED'000</b>	AED'000	<b>AED'000</b>	AED'000
		(restated)		(restated)
Euro	<b>381,109</b>	540,660	<b>411,311</b>	514,361
US Dollar	<b>155,533</b>	129,941	<b>239,160</b>	332,416
Others	<b>383</b>	326	<b>8</b>	14
	<b>537,025</b>	670,927	<b>650,479</b>	846,791

At 31 December 2015, if the exchange rate of the currencies other than the USD had increased/decreased by 10% against the UAE Dirham, with all other variables held constant, the Group's profit for the year would have been higher/lower by AED 3.0 million (2014: higher/lower by AED 2.7 million) mainly as a result of foreign exchange gain or loss on translation of Euro.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**25 Financial instruments (continued)**

**25.5 Market risk management (continued)**

**b) Interest rate risk management**

The Group is exposed to cash flow interest rate risk on its bank borrowings which are subject to floating interest rates.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instrument at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2015 would increase/decrease by AED 0.2 million (2014: decrease/increase in loss by AED 1.4 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has decreased during the year since due to settlement of its short term loan.

**25.6 Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group, and arises principally from the Group's trade and other receivables and bank balances. The Group controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties and assessing creditworthiness of counterparties on a routine and regular basis. The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables.

**Concentration of credit risk**

Concentration of credit risk arises when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Details on concentration of trade receivable balances are disclosed in Note 11.

The Group executes contracts mainly for GHQ-UAE Armed Forces and as at 31 December 2015, contract work in progress, trade receivables and advances received from GHQ-UAE Armed Forces amounted to a net receivable position of AED 319 million (2014: AED 445 million). Management believes that the concentration of credit risk is mitigated by the high credit worthiness and financial stability of its customers.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**25 Financial instruments (continued)**

**25.6 Credit risk management (continued)**

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are reputable local banks closely monitored by the regulatory body. The carrying amount reflected in these consolidated financial statements represents the Group's maximum exposure to credit risk for such loans and receivables.

At 31 December 2015, 100% (2014: 100%) of the deposits were placed with 4 banks (2014: 4 banks). Balances with banks are assessed to have low credit risk of default since these banks are among the major banks operating in the UAE and are highly regulated by the central bank.

Trade and other receivables and balances with banks and derivative financial assets are not secured by any collateral. The amount that best represents maximum credit risk exposure on financial assets at the end of the reporting period, in the event counter parties fail to perform their obligations generally approximates their carrying value.

**25.7 Liquidity risk management**

The responsibility for liquidity risk management rests with the management of the Group, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and committed borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative financial assets and liabilities based on the earliest date on which the Group can be required to pay or collect. The table includes both interest and principal cash flows. Maturity profile of non-derivative financial assets and liabilities at the end of the reporting period is as follows:

	<b>Less than 3 months AED'000</b>	<b>3 to 12 months AED'000</b>	<b>1 to 5 years AED'000</b>	<b>Total AED'000</b>
<b>2015</b>				
Trade and other payables	<b>40,951</b>	<b>390,601</b>	-	<b>431,552</b>
Bank borrowings	<b>34,304</b>	-	-	<b>34,304</b>
	<b>75,255</b>	<b>390,601</b>	-	<b>465,856</b>
<b>2014 (restated)</b>				
Trade and other payables	28,917	405,702	-	434,619
Bank borrowings	238,407	49,000	-	287,407
	267,324	454,702	-	722,026

Except for bank borrowings, all financial liabilities of the Group are non-interest bearing.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**25 Financial instruments (continued)**

**25.8 Fair value of financial instruments**

Management considers that the fair value of financial assets and liabilities approximates their carrying value as stated in the consolidated statement of financial position.

Following the amendment to IFRS 7, all financial instruments that are required to be measured at fair value (subsequent to initial recognition) should be disclosed in a fair value hierarchy or grouping into 3 levels (Levels 1 to 3) based on the degree to which the fair value is observable.

Level 1 fair value is derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are derived from inputs other than quoted prices, and Level 3 are those that are derived from valuation techniques using unobservable inputs.

As at 31 December 2015, the fair values of derivative instruments (classified as Level 2) are determined by independent valuers and are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

There were no transfers between levels during the year.

**26 Segment information**

The Group's internal management reporting and budgeting is based on four reportable segments, as described below, which are the Group's strategic business units. For each of the strategic business units, the management reviews internal reports on at least a quarterly basis.

The following summary describes the operations in each of the Group's reportable segment:

- Naval ship building, includes construction of vessels above thirty meter in length or vessels fitted with combat management system.
- Small boat construction includes construction of vessels less than thirty meter in length and not fitted with combat management system.
- Services, includes upgrades, maintenance, repairs and overhaul (MRO) of military and commercial vessels.
- Combat systems integration, includes import and commissioning of integrated systems and computer programs.

Information regarding the results of each reportable segment is included below. Performance is measured on segment profit as included in the internal management reports that are reviewed by the Board of Directors.



Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)

26 Segment information (continued)

Segment information about the Group's operations is presented below:

Year ended 31 December 2015

	Naval Ship Building AED'000	Small Boat Construction AED'000	Services AED'000	Combat Systems Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Contract revenue	515,490	32,786	224,463	43,151	-	(24,553)	791,337
Contract costs	(415,544)	(20,725)	(111,214)	(38,469)	-	24,553	(561,399)
Gross profit	99,946	12,061	113,249	4,682	-	-	229,938
General and administrative expenses	(58,329)	(9,082)	(51,174)	(9,270)	-	-	(127,855)
Depreciation and amortization	(12,409)	(2,409)	(10,455)	(343)	-	-	(25,616)
Share of loss in a joint venture	-	-	-	-	(3,436)	-	(3,436)
Finance costs, net	(146)	(10)	(298)	(41)	-	-	(495)
Other income	-	-	4,294	-	4,698	-	8,992
Gain/(loss) on exchange	-	-	-	-	5,057	-	5,057
Profit/(loss)	29,062	560	55,616	(4,972)	6,319	-	86,585

Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)

26 Segment information (continued)

Year ended 31 December 2014 (restated)

	Naval Ship Building AED'000	Small Boat Construction AED'000	Services AED'000	Combat Systems Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Contract revenue	518,972	60,450	168,612	60,761	-	(18,447)	790,348
Contract costs	(515,970)	(60,932)	(97,796)	(51,362)	-	18,838	(707,222)
Gross profit	3,002	(482)	70,816	9,399	-	391	83,126
General and administrative expenses	(61,726)	(11,438)	(61,640)	(12,416)	-	2,079	(145,141)
Depreciation and amortization	(13,532)	(2,784)	(11,033)	(512)	-	-	(27,861)
Share of loss in a joint venture	-	-	-	-	(701)	-	(701)
Finance costs, net	(1,535)	(110)	(3,118)	(6)	-	-	(4,769)
Other income	-	-	-	-	7,214	(2,470)	4,744
Gain/(loss) on exchange	-	-	-	-	(36,965)	-	(36,965)
Loss	(73,791)	(14,814)	(4,975)	(3,535)	(30,452)	-	(127,567)

Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)

26 Segment information (continued)

The segment assets and liabilities and capital expenditure for the year then ended are as follows:

	Naval Ship Building AED'000	Small Boat Construction AED'000	Services AED'000	Combat Systems Integration AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
<b>As at 31 December 2015</b>							
Assets	828,794	28,384	269,322	67,679	223,603	(52,001)	1,365,781
Liabilities	789,924	24,460	73,046	52,866	97,141	(49,899)	987,538
Capital expenditure	587	137	569	-	263	-	1,556
<b>As at 31 December 2014</b> <b>(restated)</b>							
Assets	1,103,626	61,373	305,391	79,866	151,094	(57,177)	1,644,173
Liabilities	900,576	27,664	64,281	60,309	358,701	(55,051)	1,356,480
Capital expenditure	1,487	347	1,442	-	664	-	3,940

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**27 Dividends**

The Shareholders approved in their Annual General Meeting held on 13 April 2014 the distribution of 10% cash dividends amounting to AED 21.2 million.

**28 Restatement of comparative information**

The comparative amounts for the year ended 31 December 2014 and 2013 have been restated due to the correction of a prior period error relating to the inaccurate basis of determining percentage of completion on a specific contract, which resulted in understatement of revenues and costs presented in 2014 and overstatement of revenues and costs presented in 2013.

In accordance with the requirements of IAS 1 “*Presentation of Financial Statements*” and IAS 8 “*Accounting Policies, Changes in Accounting Estimates and Errors*”, the above items have been corrected retrospectively and accordingly balances in the consolidated financial statements for the year 2014 and 2013 have been restated as follows:

	<b>As previously reported AED</b>	<b>Restatement AED</b>	<b>As restated AED</b>
<b><i>Consolidated Statement of financial position</i></b>			
<b><i>31 December 2014</i></b>			
Contract work in progress	716,234	(94,614)	621,620
Trade and other payables	(580,639)	76,957	(503,682)
Accumulated losses	62,042	17,657	79,699
<b><i>31 December 2013</i></b>			
Inventories	25,815	87,416	113,231
Contract work in progress	942,618	(83,856)	858,762
Trade and other payables	(471,990)	(25,353)	(497,343)
Retained earnings	(91,756)	21,793	(69,963)

**Notes to the consolidated financial statements  
for the year ended 31 December 2015 (continued)**

**28 Restatement of comparative information (continued)**

	<b>As previously reported AED</b>	<b>Restatement AED</b>	<b>As restated AED</b>
<i>Consolidated statement of profit or loss and other comprehensive income</i>			
<i>31 December 2014</i>			
Contract revenue	700,980	89,368	790,348
Contract costs	(621,990)	(85,232)	(707,222)

**29 Approval of consolidated financial statements**

The consolidated financial statements were approved by the Board of Directors on 15 March 2016.