

ABU DHABI SHIP BUILDING PJSC

**Reports and consolidated
financial statements for the
year ended 31 December 2017**

ABU DHABI SHIP BUILDING PJSC

Reports and consolidated financial statements for the year ended 31 December 2017

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INDEPENDENT AUDITOR'S REPORT

The Shareholders
Abu Dhabi Ship Building PJSC
Abu Dhabi
United Arab Emirates

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the 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 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Key audit matters are selected from the matters communicated with those charged with governance, but are not intended to represent all matters that were discussed with them. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (continued)

Key Audit Matters (continued)

Key audit matter	How the matter was addressed in our audit
<p>Recognition of revenue and profits on long-term contracts</p> <p>A significant portion of the Group's revenues and profits are derived from long-term contracts. Each of the Group's projects earns revenues on the basis of a specific contract with the relevant counterparty.</p> <p>These contracts include technical and commercial risks and often specify performance milestones to be achieved throughout the contract period, which can last many years. The estimates and assumptions are subject to a high degree of uncertainty in particular those been made to:</p> <ul style="list-style-type: none"> – assess the proportion of revenues to recognise in line with contract activity completion; – forecast the estimated actual costs to complete on each contract, taking into account any technical/commercial risks, potential claims, penalties and variation orders that could impact the expected profit margin; and – appropriately identify, value and provide for loss making contracts. <p>Management has detailed procedures and processes in place to manage and monitor the commercial and technical aspects of the Group's long term contracts over their lifecycle. This process includes a monthly preparation of a Contract Status Review report (CSR), which includes key accounting and forecast information and commercial and technical risks for the relevant contract.</p> <p>The risk of misstatement is that the accounting for the Group's significant contracts does not accurately reflect the progress made, profit margins, status of the relevant contract at the reporting date and profit/loss on the contract.</p>	<p>As part of our audit work on the recognition of contract revenue and profits for long-term contracts we have:</p> <p>Considered the design and tested the effective operation of the key controls over the recognition of contract revenue and profits to determine whether these controls were operating effectively throughout the year.</p> <p>Selected a sample of contracts using a variety of quantitative and qualitative factors in order to assess and challenge the most significant and more complex contract positions and performed the following procedures:</p> <ul style="list-style-type: none"> • inspected the contracts for key clauses and considered their impact on the completeness and existence of the amounts recognised in the financial statements; • obtained an understanding of the performance and status of the contract through discussions with contract project teams, the Group finance team as well as through attendance at the project team's contract review meetings; • verified the costs to complete by agreeing to evidence of committed spend, budgeted rates or actual costs incurred to date; • challenged the Group's positions through examination of externally available evidence such as customer and sub-contractor correspondence such as contract amendments, variation orders, milestone acceptances; • verified the consistency of information presented in the year-end CSRs to underlying accounting records, as well as other financial information received and knowledge gained through the above procedures; • assessed the reliability of management estimates through consideration of the historical accuracy of prior period management estimates; • reviewed post-balance sheet contract performance to support year end judgements; and • used our cumulative knowledge of contract issues to challenge the appropriateness of the contract positions reflected in the financial statements at the year end.

INDEPENDENT AUDITOR'S REPORT (continued)**Key Audit Matters (continued)**

Key audit matter	How the matter was addressed in our audit
<p>Recoverability of trade receivables and contract work in progress</p> <p>The recoverability of trade receivables and contract work in progress has been assessed as a key audit matter. As disclosed in Note 4, an amount of AED 12,844 thousand (2016: AED 3,839 thousand) and AED 23,107 thousand (2016: AED 37,812 thousand) has been recognised as a provision for impairment against trade receivables and contract work in progress, respectively.</p> <p>We identified management's assessment of debtor recoverability and the subsequent provisioning levels to be the key judgment areas surrounding these balances. 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.</p>	<p>We assessed management's evaluation as to whether the outstanding trade receivables and contract work in progress remain recoverable at year end.</p> <p>Our audit procedures included testing the Group's credit control procedures including the controls around extending credit and reviewing the payment history and financial information pertaining to the customers.</p> <p>We verified billings post year and ensured that these were in line with contractual terms where applicable as they related to unbilled work in progress at the reporting date.</p> <p>We obtained an understanding of significant counterparty financial arrangements between the Group and its customers through review of letter of credits and further correspondence with customers.</p> <p>We tested the receipt of cash after the year end relating to 31 December 2017 balances and tested the adequacy of the Group's impairment provisions against trade receivables by assessing the judgments made and the historical trading experience with the relevant customers.</p>

Other Information

The Board of Directors are responsible for the other information. The other information comprises the Corporate Governance report, CEO Report, Chairman's Message (which we obtained prior to the date of this auditors' report), and Annual report 2017 which is expected to be made available to us after that date.

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Other Information (continued)

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

When we read the Annual Report 2017 if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

INDEPENDENT AUDITOR'S REPORT (continued)

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)**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 of the Group 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 CEO's Report and Chairman's Message is consistent with the Group's books of account;
- v) note 3.3 to the consolidated financial statements of the Group discloses that the Group has acquired shares during the financial year ended 31 December 2017;
- vi) note 22 to the consolidated financial statements of the Group discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests; 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 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017.


Deloitte & Touche (M.E.)



Signed by:
Mohammad Khamees Al Tah
Registration No. 717
15 February 2018
Abu Dhabi
United Arab Emirates

**Consolidated statement of financial position
as at 31 December 2017**

	Notes	2017 AED '000	2016 AED '000
ASSETS			
Non-current assets			
Property, plant and equipment	6	286,952	300,673
Intangible assets	7	2,663	1,830
Investment in a joint venture	8	-	91
Advances to suppliers	11	24,107	14,912
Total non-current assets		313,722	317,506
Current assets			
Inventories	9	65,025	46,891
Contract work in progress	10	410,035	442,437
Trade and other receivables	11	342,482	350,056
Cash and bank balances	13	28,565	103,999
Total current assets		846,107	943,383
Total assets		1,159,829	1,260,889
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	211,992	211,992
Statutory reserve	15	88,718	78,360
Hedging reserve	12	-	(2,442)
Retained earnings		201,097	124,817
Equity attributable to owners of the Company		501,807	412,727
Non-controlling interests		(131)	10,921
Total equity		501,676	423,648
Non-current liabilities			
Provision for end of service benefits	16	27,421	23,726
Advances from customers	17	50,799	49,041
Other payables		85	284
Total non-current liabilities		78,305	73,051
Current liabilities			
Trade and other payables	18	379,355	573,350
Advances from customers	17	97,016	190,840
Bank borrowings	19	103,477	-
Total current liabilities		579,848	764,190
Total liabilities		658,153	837,241
Total equity and liabilities		1,159,829	1,260,889


Homaid Abdulla Al Shimmari
Chairman of the Board of Directors


Dr. Khaled Al Mazrouei
Chief Executive Officer


Rizwan Chowdhari
Chief Financial Officer

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

**Consolidated statement of profit or loss
for the year ended 31 December 2017**

	Notes	2017 AED '000	2016 AED '000
Contract revenue		712,137	927,835
Contract costs	20	(435,022)	(671,732)
		<hr/>	<hr/>
Gross profit		277,115	256,103
General and administrative expenses	20	(171,311)	(161,530)
Depreciation and amortisation	6, 7	(23,261)	(24,619)
Share of loss from a joint venture	8	(91)	(4,265)
Finance costs		(400)	(737)
Other income (net)		6,881	6,013
		<hr/>	<hr/>
Profit before gain on exchange		88,933	70,965
Gain/(loss) on exchange		15,861	(9,648)
		<hr/>	<hr/>
Profit for the year		104,794	61,317
		<hr/>	<hr/>
Profit attributable to:			
Owners of the Company		103,584	60,787
Non-controlling interests		1,210	530
		<hr/>	<hr/>
		104,794	61,317
		<hr/>	<hr/>
Basic and diluted earnings per share (fils)	21	48.9	28.7
		<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 2017**

	Note	2017 AED '000	2016 AED '000
Profit for the year		104,794	61,317
Other comprehensive income:			
Hedging losses reclassified to profit or loss	12	2,442	5,287
Total other comprehensive income		2,442	5,287
Total comprehensive income for the year		107,236	66,604
Total comprehensive income attributable to:			
Owners of the Company		106,026	66,074
Non-controlling interests		1,210	530
		107,236	66,604

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

**Consolidated statement of changes in equity
for the year ended 31 December 2017**

	Share capital AED '000	Statutory reserve AED '000	Hedging reserve AED '000	Retained Earnings AED '000	Equity attributable to owners of the Company AED '000	Non- controlling interests AED '000	Total AED '000
Balance at 1 January 2016	211,992	72,281	(7,729)	91,308	367,852	10,391	378,243
Profit for the year	-	-	-	60,787	60,787	530	61,317
Other comprehensive income	-	-	5,287	-	5,287	-	5,287
Dividends (note 26)	-	-	-	(21,199)	(21,199)	-	(21,199)
Transfer to statutory reserve	-	6,079	-	(6,079)	-	-	-
Balance at 1 January 2017	211,992	78,360	(2,442)	124,817	412,727	10,921	423,648
Profit for the year	-	-	-	103,584	103,584	1,210	104,794
Other comprehensive income	-	-	2,442	-	2,442	-	2,442
Acquisition of non-controlling interest (note 5)	-	-	-	4,253	4,253	(12,262)	(8,009)
Dividends (note 26)	-	-	-	(21,199)	(21,199)	-	(21,199)
Transfer to statutory reserve	-	10,358	-	(10,358)	-	-	-
Balance at 31 December 2017	211,992	88,718	-	201,097	501,807	(131)	501,676

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

**Consolidated statement of cash flows
for the year ended 31 December 2017**

	2017 AED '000	2016 AED '000
Operating activities		
Profit for the year	104,794	61,317
Adjustments for:		
Depreciation and amortisation	23,261	24,619
Impairment on contract work in progress, net	3,152	8,879
Hedging losses transferred to profit or loss	2,442	5,287
End of service benefits charge	6,591	4,787
Share of loss from a joint venture	91	4,265
Impairment for obsolete and slow moving inventories, net	1,435	5,047
Finance costs	400	737
Fair value gain on derivative instruments	-	(577)
Gain on disposal of property, plant and equipment	(1,127)	(190)
	<u>141,039</u>	<u>114,171</u>
Movements in working capital:		
Inventories	(19,569)	(24,900)
Contract work in progress	29,250	102,420
Trade and other receivables and advances to suppliers	(1,621)	49,333
Trade and other payables	(193,381)	89,191
Other payables	(199)	(197)
Advances from customers	(92,066)	(196,593)
	<u>(136,547)</u>	<u>133,425</u>
Cash generated from operating activities	<u>(136,547)</u>	<u>133,425</u>
End of service benefits paid	(2,896)	(2,380)
	<u>(139,443)</u>	<u>131,045</u>
Net cash (used in)/generated from operating activities	<u>(139,443)</u>	<u>131,045</u>
Investing activities		
Payments for property, plant and equipment	(8,496)	(93,827)
Payments for intangible assets	(1,877)	(1,215)
Payments for non-controlling interest	(8,009)	-
Proceeds from disposal of property, plant and equipment	1,127	190
Time deposits	-	25,000
	<u>(17,255)</u>	<u>(69,852)</u>
Net cash used in investing activities	<u>(17,255)</u>	<u>(69,852)</u>
Financing activities		
Increase (decrease) in bank overdrafts	103,477	(34,304)
Finance costs paid	(400)	(737)
Dividends paid	(21,813)	(31,423)
	<u>81,264</u>	<u>(66,464)</u>
Net cash generated from/(used in) financing activities	<u>81,264</u>	<u>(66,464)</u>
Net decrease in cash and cash equivalents	<u>(75,434)</u>	<u>(5,271)</u>
Cash and cash equivalents at beginning of the year	103,999	109,270
Cash and cash equivalents at end of the year (note 13)	<u>28,565</u>	<u>103,999</u>

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

**Notes to the consolidated financial statements
for the year ended 31 December 2017****1 General information**

Abu Dhabi Ship Building PJSC (“the Company”) was established by Emiri 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.

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 2017, 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.

Amendments to IAS 12 Income Taxes Recognition of Deferred Tax Assets for Unrealised Losses

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group’s consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group’s liabilities arising from financing activities consist of borrowings (note 19). A reconciliation between the opening and closing balances of these items is provided in note 27. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 27, the application of these amendments has had no impact on the Group’s consolidated financial statements.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

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

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

Annual Improvements to IFRS Standards 2014–2016 Cycle – Amendments to IFRS 12

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014–2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see note 2.2).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements as none of the Group's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

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>
Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015–2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 22 <i>Foreign Currency Transactions and Advance Consideration</i>	1 January 2018

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**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**

IFRIC 23 *Uncertainty over Income Tax Treatments*

1 January 2019

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- whether tax treatments should be considered collectively;
- assumptions for taxation authorities' examinations;
- the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- the effect of changes in facts and circumstances.

Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions

1 January 2018

Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.

1 January 2018

Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.

1 January 2018

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**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 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014) (a)

1 January 2018

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement*. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**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 9 *Financial Instruments*: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

1 January 2019

Impact assessment of IFRS 9 *Financial Instruments*

Based on an analysis of the Group's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Group have assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

Classification and measurement:

All other financial assets and financial liabilities will continue to be measured on the same bases as is currently adopted under IAS 39.

Impairment:

Financial assets measured at amortised cost (note 11), and amounts due from customers under construction contracts (note 10) will be subject to the impairment provisions of IFRS 9.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables and amounts due from customers under construction contracts as required or permitted by IFRS 9.

In general, the directors anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier recognition of credit losses for the respective items and will increase the amount of loss allowance recognised for these items.

Hedge accounting

The Company does not have any open hedges as of 31 December 2017. This however will be assessed on a go forward basis, if required.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**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 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 2017 (continued)**

**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**

**Impact assessment of IFRS 15 Revenue from Contracts with
Customers**

1 January 2018

The application of IFRS 15 from the annual period beginning 1 January 2018 will have an impact on the Group's consolidated financial statements in respect of revenue from contracts with customers. Based on the analysis of the Group's revenues from contracts with customers as at 31 December 2017, management of the Group has assessed the impact of IFRS 15 to the Group's consolidated financial statements as follows:

Management has preliminarily assessed that rendering of services in relation to its construction contracts and repairs and services represents single performance obligations and accordingly, revenue will be recognised for the performance obligation when control over the corresponding services is transferred to the customer. The transaction price will be allocated to the performance obligation on a relative stand-alone selling price basis. The timing of revenue recognition for the performance obligation will be over the period the services are performed.

Management has assessed the construction contracts and considered IFRS 15's guidance on contract combinations, contract modifications arising from variation orders, variable consideration, and the assessment of whether there is a significant financing component in the contracts, particularly taking into account the reason for the difference in timing between the transfer of control of goods and services to the customer and the timing of the related payments. Management has assessed that revenue from these construction contracts should be recognised over time and the output method currently used to measure the progress towards complete satisfaction of these performance obligations will continue to be appropriate under IFRS 15.

The expected cumulative impact on the opening retained earnings on the group's consolidated financial statements will be in the range of AED 15-30 million in 2018.

Management intends to use the modified transition approach of transition to IFRS 15.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

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

1 January 2018

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.

Impact assessment of IFRS 16 *Leases*

A preliminary assessment indicates that the current leasing arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements and the directors are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

**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 IAS 28 *Investment in Associates and Joint Ventures*: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 *Financial Instruments* to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

1 January 2019

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 17 *Insurance Contracts*

1 January 2021

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

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. Adoption is still permitted.

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

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2019.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

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") (i)	100%	100%	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.	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
High Speed Craft Company LLC (iii)	100%	100%	UAE	Marine machine and equipments repairing and maintenance

- (i) On 14 November 2017, the Company acquired an additional 43% interest in ADSI.
- (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.
- (iii) On 25 December 2017, the Company acquired shares of High Speed Craft Company LLC.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.4 Business combinations (continued)

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.7 Revenue recognition (continued)

Costs of contracts include all direct costs of labour, materials, costs of subcontracted works and other direct costs.

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.

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).

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.8 Leasing (continued)

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

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.

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.18 Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.19 Financial liabilities and equity instruments (continued)

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.

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 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

3 Summary of significant accounting policies (continued)

3.20 Derivative financial instruments (continued)

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.

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 2017 (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 12,844 thousand (2016: AED 3,839 thousand) and AED 23,107 thousand (2016: AED 37,812 thousand), respectively (notes 11 and 10).

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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, where applicable.

5 Acquisition of non-controlling interest

On 14 November 2017, the Company acquired an additional 43% interest in its subsidiary, ADSI, from Leonardo SPA (formerly Selex Sistemi Integrati SPA), which increased the Company's ownership to 100%. This has resulted in a change in the Company's interest without a change in control. Accordingly, the transaction was accounted for as an equity transaction. This transaction resulted in an increase in equity.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

6 Property, plant and equipment

	Buildings and structures AED'000	Production and other equipment AED'000	Assets under construction AED'000	Total AED'000
Cost				
At 1 January 2016	318,301	142,606	2,362	463,269
Additions	-	104	93,723	93,827
Disposal	-	(940)	-	(940)
Transfers	3,717	72,832	(76,549)	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2017	322,018	214,602	19,536	556,156
Additions	-	-	8,496	8,496
Disposal	-	(5,857)	-	(5,857)
Transfers	3,390	20,757	(24,147)	-
Reclassification (note 7)	(7,653)	7,043	-	(610)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017	317,755	236,545	3,885	558,185
	<hr/>	<hr/>	<hr/>	<hr/>
Accumulated depreciation				
At 1 January 2016	121,573	112,972	-	234,545
Charge for the year	12,220	9,658	-	21,878
Eliminated on disposal	-	(940)	-	(940)
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2017	133,793	121,690	-	255,483
Charge for the year	11,630	10,448	-	22,078
Eliminated on disposal	-	(5,857)	-	(5,857)
Reclassification (note 7)	(6,692)	6,221	-	(471)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017	138,731	132,502	-	271,233
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount				
At 31 December 2017	179,024	104,043	3,885	286,952
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2016	188,225	92,912	19,536	300,673
	<hr/>	<hr/>	<hr/>	<hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

7 Intangible assets

	Computer software AED'000
Cost	
At 1 January 2016	21,116
Additions	1,215
	<hr/>
At 1 January 2017	22,331
Additions	1,877
Reclassification (note 6)	610
	<hr/>
At 31 December 2017	24,818
	<hr/>
Accumulated amortisation and impairment	
At 1 January 2016	17,760
Charge for the year	2,741
	<hr/>
At 1 January 2017	20,501
Charge for the year	1,183
Reclassification (note 6)	471
	<hr/>
At 31 December 2017	22,155
	<hr/>
Carrying amount	
At 31 December 2017	2,663
	<hr/>
At 31 December 2016	1,830
	<hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (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:

	2017 AED’000	2016 AED’000
At 1 January	91	4,356
Share in current year’s loss	(91)	(4,265)
	<hr/>	<hr/>
Share in underlying net assets	-	91
	<hr/>	<hr/>

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

	2017 AED’000	2016 AED’000
Total assets	-	3,500
Total liabilities	-	(3,370)
	<hr/>	<hr/>
Net assets	-	130
	<hr/>	<hr/>
Group’s share of net assets of the joint venture	-	91
	<hr/>	<hr/>
Loss for the year	130	6,093
	<hr/>	<hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

9 Inventories

	2017 AED'000	2016 AED'000
Goods for sale	3,128	3,128
Work in progress (at cost)	53,968	33,123
Raw materials and consumables	23,600	30,689
	<hr/>	<hr/>
	80,696	66,940
Less: provision for obsolete and slow moving items	(15,671)	(20,049)
	<hr/>	<hr/>
	65,025	46,891
	<hr/>	<hr/>

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

	2017 AED'000	2016 AED'000
At 1 January	20,049	15,789
Additions	1,629	5,890
Reversals	(194)	(843)
Write-off	(5,813)	(787)
	<hr/>	<hr/>
At 31 December	15,671	20,049
	<hr/>	<hr/>

10 Contract work in progress

	2017 AED'000	2016 AED'000
Value of work executed	8,452,985	7,730,005
Progress billings received and receivable	(8,094,544)	(7,350,575)
	<hr/>	<hr/>
At 31 December	358,441	379,430
	<hr/>	<hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

10 Contract work in progress (continued)

The contract work in progress is presented as follows:

	2017 AED'000	2016 AED'000
Contract work in progress	410,035	442,437
Billings in excess of value of work in progress (note 18)	(51,594)	(63,007)
	<hr/>	<hr/>
At 31 December	358,441	379,430
	<hr/>	<hr/>

Contract work in progress as at 31 December 2017 is stated net of provision for impairment of AED 23,107 thousand (2016: AED 37,812 thousand). The movements on the provision are as follows:

	2017 AED'000	2016 AED'000
At 1 January	37,812	56,929
Provision for impairment during the year	3,152	8,879
Transfer of provision to trade receivables (note 11)	(9,005)	-
Write off of provision	(8,852)	(27,996)
	<hr/>	<hr/>
At 31 December	23,107	37,812
	<hr/>	<hr/>

11 Trade and other receivables

	2017 AED'000	2016 AED'000
Trade receivables	309,049	238,307
Less: Provision for impairment	(12,844)	(3,839)
	<hr/>	<hr/>
	296,205	234,468
Due from related parties (note 22)	1	3,286
Advances paid to suppliers	59,546	115,517
Prepayments and other receivables	10,837	11,697
	<hr/>	<hr/>
	366,589	364,968
Less: Non-current portion of advances paid to suppliers	(24,107)	(14,912)
	<hr/>	<hr/>
	342,482	350,056
	<hr/>	<hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

11 Trade and other receivables (continued)

The average credit period granted to customers is 60-90 days (2016: 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 2017 is AED 12,844 thousand (2016: AED 3,839 thousand).

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

	2017 AED'000	2016 AED'000
At 1 January	3,839	3,839
Transfer of provision from contract work in progress (note 10)	9,005	-
	<hr/>	<hr/>
At 31 December	12,844	3,839
	<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 262 million (2016: AED 203 million) is due from 3 (2016: 2) major customers. Included in the Group's trade receivable balance are debtors with a carrying amount of AED 242 million (2016: AED 214 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:

	2017 AED'000	2016 AED'000
Less than 30 days	14,231	58,376
Due for 30 to 60 days	18,485	2,000
Due for 60 to 90 days	27,350	4,282
Due for more than 90 days	181,525	149,368
	<hr/>	<hr/>
	241,591	214,026
	<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 2017 (continued)**

12 Derivative financial instruments

The Group does not have any outstanding foreign exchange contract as of 31 December 2017.

As of 31 December 2009, the Group has discontinued prospectively the hedge accounting of their 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 2,442 thousand (2016: AED 5,287 thousand) was recycled from equity to consolidated profit or loss on occurrence of the forecasted transactions.

13 Cash and cash equivalents

	2017	2016
	AED'000	AED'000
Cash on hand	63	27
Bank balances	28,502	103,972
	<hr/>	<hr/>
	28,565	103,999
	<hr/>	<hr/>

14 Share capital

	2017	2016
	AED'000	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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

16 Provision for end of service benefits

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

	2017 AED'000	2016 AED'000
At 1 January	23,726	21,319
Charged for the year	6,591	4,787
Payments during the year	(2,896)	(2,380)
	<hr/>	<hr/>
At 31 December	27,421	23,726
	<hr/>	<hr/>

17 Advances from customers

	2017 AED'000	2016 AED'000
Advances from customers	147,815	239,881
Less: current portion	(97,016)	(190,840)
	<hr/>	<hr/>
	50,799	49,041
	<hr/>	<hr/>

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

18 Trade and other payables

	2017 AED'000	2016 AED'000
Trade payables	49,373	43,435
Project accruals	131,992	346,943
Provision for onerous contract (i)	45,501	58,795
Other liabilities	99,813	59,822
Billings in excess of value of work in progress (note 10)	51,594	63,007
Other payables	1,082	1,348
	<hr/>	<hr/>
	379,355	573,350
	<hr/>	<hr/>

- (i) In April 2016, the Company and its key customer signed an agreement to re-baseline the delivery schedule of the contracted ships. As part of the agreement, the Company has agreed to provide certain additional services as compensation in lieu of extension of vessels' delivery schedule. The cost for these future services have been provided for as an onerous contract. At 31 December 2017, the remaining unutilised amount is AED 45 million.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

18 Trade and other payables (continued)

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

	2017 AED'000	2016 AED'000
At 1 January	58,795	62,831
Utilised during the year	(13,294)	(4,036)
	<hr/>	<hr/>
At 31 December	45,501	58,795
	<hr/>	<hr/>

The average credit period on purchases of goods is 60 days (2016: 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.

19 Bank borrowings

The bank borrowings consist of the following:

	2017 AED'000	2016 AED'000
Bank overdrafts	103,477	-
	<hr/>	<hr/>

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

As at 31 December 2017, the Group has AED 250 million (2016: AED 413 million) as available undrawn overdraft facilities.

20 Contract costs and general and administrative expenses

	2017 AED'000	2016 AED'000
Material and subcontract costs	232,859	481,905
Staff costs	201,510	199,798
Other costs	171,964	151,559
	<hr/>	<hr/>
	606,333	833,262
	<hr/>	<hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

20 Contract costs and general and administrative expenses (continued)

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

	2017 AED'000	2016 AED'000
Contract costs	435,022	671,732
General and administrative expenses	171,311	161,530
	<u>606,333</u>	<u>833,262</u>

21 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:

	2017	2016
Profit for the year attributable to equity holders of the parent (AED'000)	103,584	60,787
Weighted average number of ordinary shares issued ('000)	211,992	211,992
Basic and diluted earnings per share (fils)	48.9	28.7

As of 31 December 2017, the Group has not issued any instruments which would have a diluted impact on earnings per share when converted or exercised.

22 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

22 Related party transactions (continued)

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

	2017 AED'000	2016 AED'000
Key management compensation:		
Salaries, bonuses and other benefits	15,575	10,674
Post-employment benefits	452	70
	<u>16,027</u>	<u>10,744</u>
Directors' remuneration	<u>2,520</u>	<u>2,000</u>
Related party balances:		
	2017 AED'000	2016 AED'000
Amounts due from a joint venture	-	3,285
Amounts due from other related parties	1	1
	<u>1</u>	<u>3,286</u>

23 Commitments and contingencies

23.1 Contingent liabilities

The Group's bankers have issued, in the normal course of business, letters of guarantee, performance bond and letters of credit amounting to AED 1,520 million (2016: AED 1,760 million) in respect of contract performance and advances in connection with the contracts for shipbuilding and overhaul in progress at the year end.

23.2 Capital commitments

The authorised capital expenditure contracted at the end of the reporting period but not provided for is AED 16 million (2016: AED 10 million).

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

24 Financial instruments

24.1 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.

24.2 Categories of financial instruments

	2017	2016
	AED'000	AED'000
Financial assets		
Loans and receivables (including cash and bank balances)	324,771	341,753
Financial liabilities		
Financial liabilities measured at cost	437,331	514,555

* Financial assets do not include contract work in progress in relation to work done but not billed amounting to AED 410,035 thousand (2016: AED 442,437 thousand).

24.3 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:

24.4 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 2016.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

24 Financial instruments (continued)

24.4 Capital risk management (continued)

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:

	2017 AED'000	2016 AED'000
Trade and other payables	333,854	514,555
Bank borrowings	103,477	-
Less: cash and cash equivalents	(28,565)	(103,999)
	<hr/>	<hr/>
Net debt	408,766	410,556
	<hr/>	<hr/>
Total equity	501,807	415,169
	<hr/>	<hr/>
Total equity and net debt	910,573	825,725
	<hr/>	<hr/>
Gearing ratio	45%	50%
	<hr/>	<hr/>

24.5 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.

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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

24 Financial instruments (continued)

24.5 Market risk management (continued)

a) Foreign currency risk management (continued)

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:

	Liabilities		Assets	
	2017	2016	2017	2016
	AED'000	AED'000	AED'000	AED'000
Euro	166,512	188,126	258,515	232,180
US Dollar	120,392	341,574	127,548	282,857
Others	3,865	486	8	7
	290,769	530,186	386,071	515,044

At 31 December 2017, 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 8.8 million (2016: higher/lower by AED 4.4 million) mainly as a result of foreign exchange gain or loss on translation of Euro.

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 would decrease/increase by AED 0.5 million (2016: AED nil). 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

24 Financial instruments (continued)

24.6 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 2017, contract work in progress, trade receivables and advances received from GHQ-UAE Armed Forces amounted to a net receivable position of AED 436 million (2016: AED 310 million). Management believes that the concentration of credit risk is mitigated by the high credit worthiness and financial stability of its customers.

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 2017, 100% (2016: 100%) of the deposits were placed with 3 banks (2016: 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.

24.7 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

24 Financial instruments (continued)

24.7 Liquidity risk management (continued)

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:

	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Total AED'000
2017				
Trade and other payables	49,373	284,481	-	333,854
Bank borrowings	103,477	-	-	103,477
	<hr/>	<hr/>	<hr/>	<hr/>
	152,850	284,481	-	437,331
	<hr/>	<hr/>	<hr/>	<hr/>
2016				
Trade and other payables	43,435	471,120	-	514,555
	<hr/>	<hr/>	<hr/>	<hr/>

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

24.8 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 2017, there are no derivative instruments as they have been settled during the year.

There were no transfers between levels during the year.

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

25 Segment information

The Group has internal management reporting and budgeting based on two 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 segments:

- Ship building, includes construction of vessels and combat systems integration which includes import and commissioning of integrated systems and computer programs
- Services, includes upgrades, maintenance, repairs and overhaul (MRO) of military and commercial vessels, and integrated support services

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.

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

<u>Year ended 31 December 2017</u>	Ship Building AED'000	Services AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Contract revenue	368,550	370,593	-	(27,006)	712,137
Contract costs	(208,066)	(253,962)	-	27,006	(435,022)
Gross profit	160,484	116,631	-	-	277,115
General and administrative expenses	(19,949)	(80,039)	(71,323)	-	(171,311)
Depreciation and amortisation	(2,167)	(6,827)	(14,267)	-	(23,261)
Share of loss in a joint venture	-	-	(91)	-	(91)
Finance costs, net	-	(52)	(348)	-	(400)
Other income	1,902	1,159	3,820	-	6,881
Loss on exchange	-	-	15,861	-	15,861
Segment profit/(loss)	140,270	30,872	(66,348)	-	104,794

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

25 Segment information (continued)

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

<u>Year ended 31 December 2016</u>	Ship Building AED'000	Services AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
Contract revenue	613,614	326,887	-	(12,666)	927,835
Contract costs	(454,111)	(230,287)	-	12,666	(671,732)
Gross profit	159,503	96,600	-	-	256,103
General and administrative expenses	(46,203)	(83,374)	(32,074)	121	(161,530)
Depreciation and amortisation	(8,405)	(9,976)	(6,238)	-	(24,619)
Share of loss in a joint venture	-	-	(4,265)	-	(4,265)
Finance costs, net	(95)	(442)	(200)	-	(737)
Other income	-	-	6,013	-	6,013
Loss on exchange	-	-	(9,648)	-	(9,648)
Segment profit/(loss)	104,800	2,808	(46,412)	121	61,317

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

	Ship Building AED'000	Services AED'000	Unallocated AED'000	Eliminations AED'000	Group AED'000
<u>As at 31 December 2017</u>					
Assets	507,511	469,141	297,994	(114,817)	1,159,829
Liabilities	407,016	134,308	222,661	(105,832)	658,153
Capital expenditure	966	3,044	6,363	-	10,373
<u>As at 31 December 2016</u>					
Assets	666,221	440,104	234,048	(79,484)	1,260,889
Liabilities	682,683	119,197	113,865	(78,504)	837,241
Capital expenditure	8,156	79,794	7,092	-	95,042

**Notes to the consolidated financial statements
for the year ended 31 December 2017 (continued)**

25 Segment information (continued)

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

During the year certain reallocations were made with respect to the overhead allocations between the ship building and services operating segments to more appropriately reflect the operating profit per segment, which has also been appropriately reflected in the comparative information.

26 Dividends

On 20 April 2017, the Shareholders approved during the Annual General Meeting the distribution of 10% cash dividends amounting to AED 21.2 million.

27 Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities. Liabilities arising from financing activities are those which cash flows were, or future cash flows will be, classified in the Group's consolidated financial statements of cash flows as cash flows from financing activities.

	2017 AED '000
At 1 January	-
Financing cash flows (i)	103,477
	<hr/>
	103,477
	<hr/>

(i) The cash flows from bank loans and repayments of borrowings in the statement of cash flows.

28 Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors on 15 February 2018.